

Presentation Material

for the Three Months Ended June 30, 2020

August 11, 2020

Tokyo Stock Exchange First Section: Code 3676

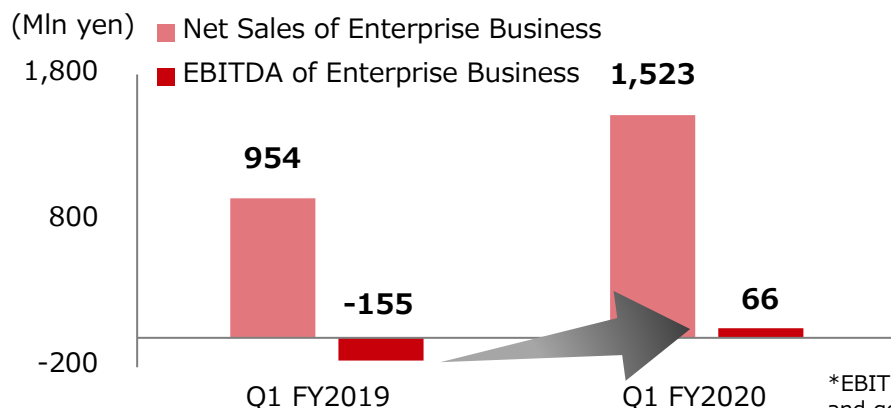
<https://www.digitalhearts-hd.com/>

Q1 FY2020 Financial Results

(The three months ended June 30, 2020)

Point of Q1 Financial Result

The Enterprise Business shows significant improvement in net sales and profitability as YoY base.



- Sales of Enterprise Business grew significantly due to the growth of existing operations and the contribution of LogiGear acquired in the previous fiscal year.
- Existing Enterprise Business improved its profitability significantly due to better gross margin and more efficient operations.

*EBITDA = Operating (Segment) income + Depreciation + Amortization of trademarks, software, and goodwill + Asset retirement related expenses

Full-year Financial Forecast

Despite the impact of COVID-19 in 1H, aim to shift to an upward trend in sales and profits from 2H

Net sales
(Forecast)

23,080 Mln yen
(YoY 109.2%)

Operating income
(Forecast)

1,600 Mln yen
(YoY 114.8%)

- The impact of COVID-19 in the game industry is limited, and stable earnings are expected to continue in Entertainment Business.
- Enterprise Business aims to achieve full year profitability by accelerating its growth.
- Focusing on “With COVID-19” era, we are promoting new services related to “WFH” or “Remote work”.

Summary of Financial Results for the Three Months Ended June 30, 2020



DIGITAL HEARTS HLDGS.

EBITDA increased due to improved profitability in Enterprise Business, while operating income decreased due to the impact of lower sales in Entertainment Business.

(Mln Yen)	FY2019 Q1	FY2020 Q1	YoY Change	
Net sales	4,988	5,093	104	102.1%
Cost of sales	3,772	3,819	47	101.3%
Cost of sales (%)	75.6%	75.0%		-0.6points
Gross profit	1,215	1,273	57	104.7%
SG&A	1,026	1,115	88	108.7%
Operating income	189	158	-31	83.6%
Operating income margin	3.8%	3.1%		-0.7points
Ordinary income	189	194	4	102.5%
Profit attributable to owners of parent	112	99	-13	88.2%
EBITDA	275	283	8	102.9%

Analysis of Changes in Operating income

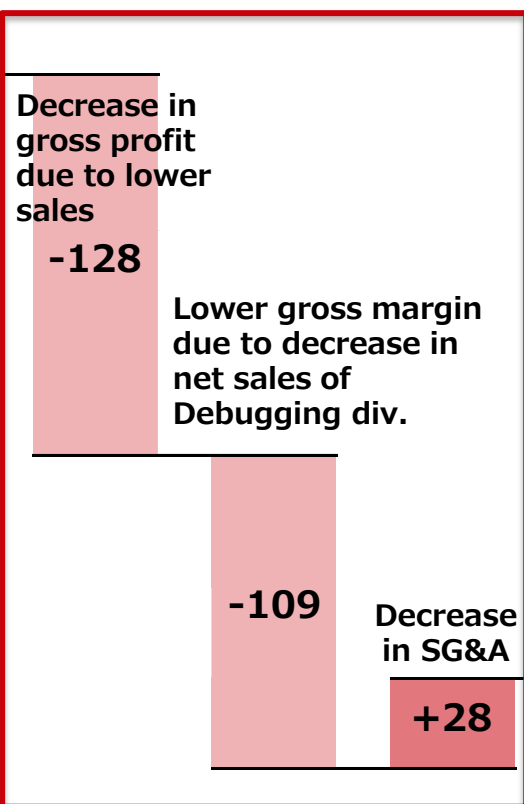


DIGITAL HEARTS HLDGS.

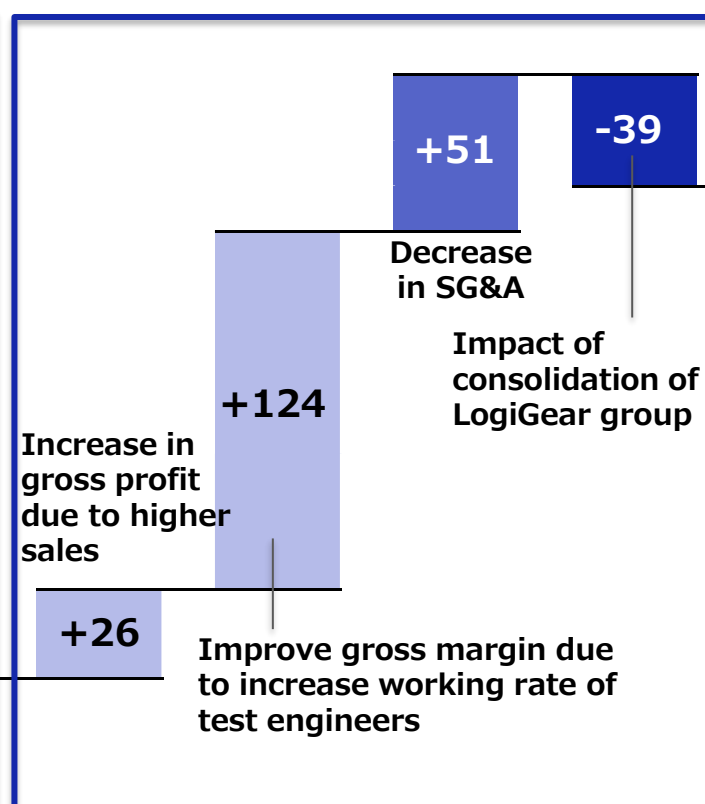
Sales and gross profit margin of Debugging div. declined due to the impact of COVID-19. On the other hand, Enterprise Business, which is focusing on business expansion, achieved a substantial improvement in profitability.

Q1 FY2019
Operating
Income

189



Entertainment Business



Enterprise Business

(Mln Yen)

Q1 FY2020
Operating
Income

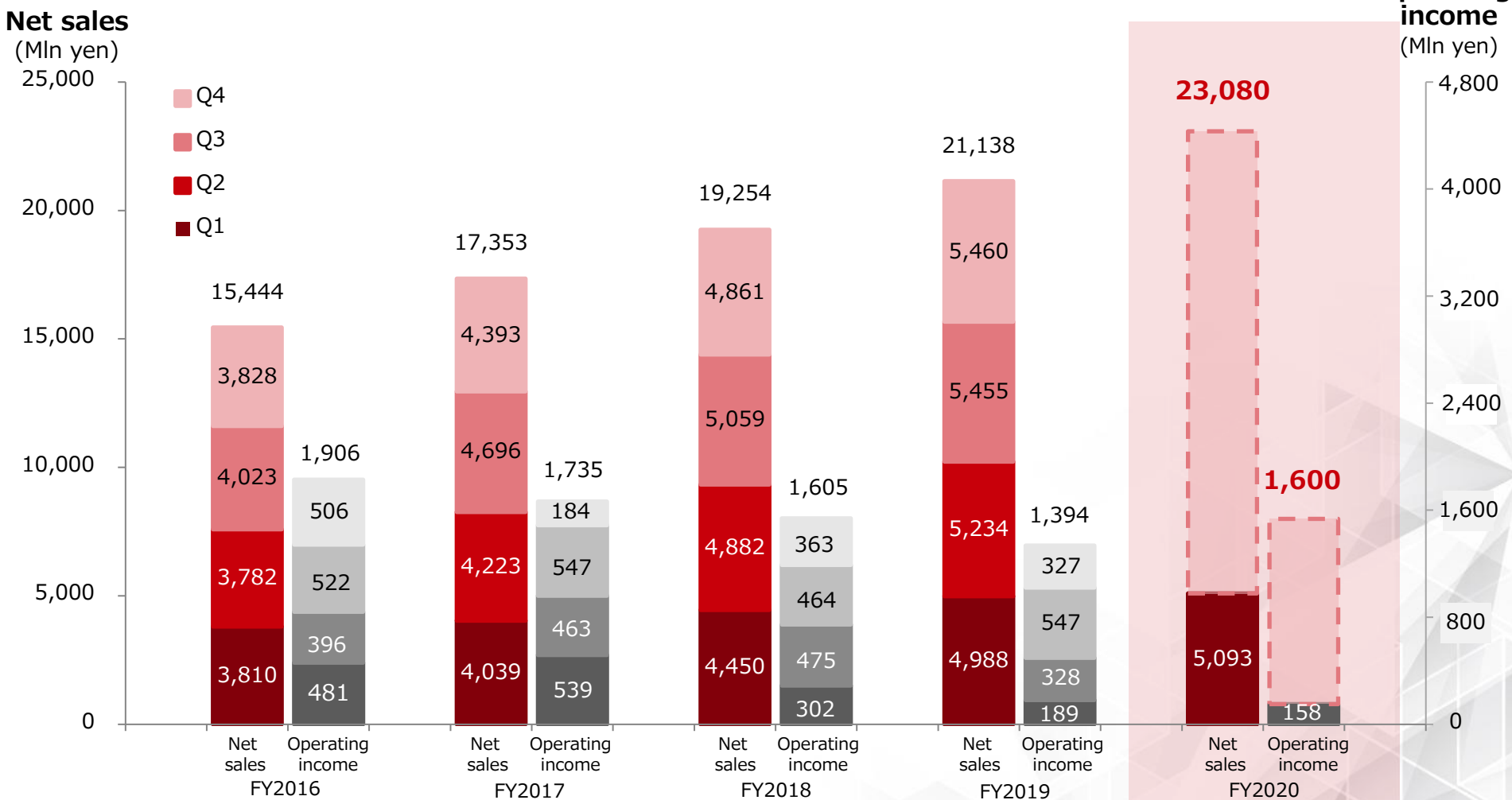
+15

Company-wide
common cost

158

Trend in net sales and operating income

Aim to increase in both sales and profits as full year, by making full year profit of Enterprise Business with rapid sales growth and recovering the trend of Entertainment Business in the second half.



Consolidated Balance Sheets



DIGITAL HEARTS HLDGS.

(Mln Yen)	Q4 FY2019 (As of March 31, 2020)	Q1 FY2020 (As of June 30, 2020)	YoY Change
Total assets	10,637	9,854	-782
Current assets	7,453	6,648	-804
Cash and deposits	3,739	3,027	-711
Notes and accounts receivable-trade	2,985	2,889	-95
Noncurrent assets	3,183	3,205	21
Property, plant and equipment	579	560	-19
Intangible assets	1,379	1,445	66
Investments and other assets	1,225	1,199	-25
Total liabilities	5,198	4,513	-685
Current liabilities	5,134	4,450	-684
Short-term loans	2,546	2,546	0
Noncurrent liabilities	63	62	-0
Total net assets	5,438	5,340	-97
Shareholders' equity	4,898	4,841	-56
Accumulated other comprehensive income	24	20	-3
Subscription rights to shares	13	13	—
Non-controlling interests	502	465	-37
Total liabilities and net assets	10,637	9,854	-782

Q1 FY2020 Financial results by Segment and Full year Forecast of FY2020

【Notice regarding Earnings by Segment】

- Net sales by segment include inter-segment sales or transfers.
Segment income is based on operating income.

Summary of Financial Results by Segment

(Mln Yen)		Q1 FY2019	Q1 FY2020	YoY Change
Net sales		4,988	5,093	102.1%
	Entertainment	4,033	3,569	88.5%
	Enterprise	954	1,523	159.6%
	Adjustments	—	—	—
Operating income		189	158	83.6%
	Entertainment	727	517	71.1%
	Enterprise	-184	-21	—
	Adjustments	-352	-337	—
EBITDA		275	283	102.9%
	Entertainment	775	547	70.6%
	Enterprise	-155	66	—

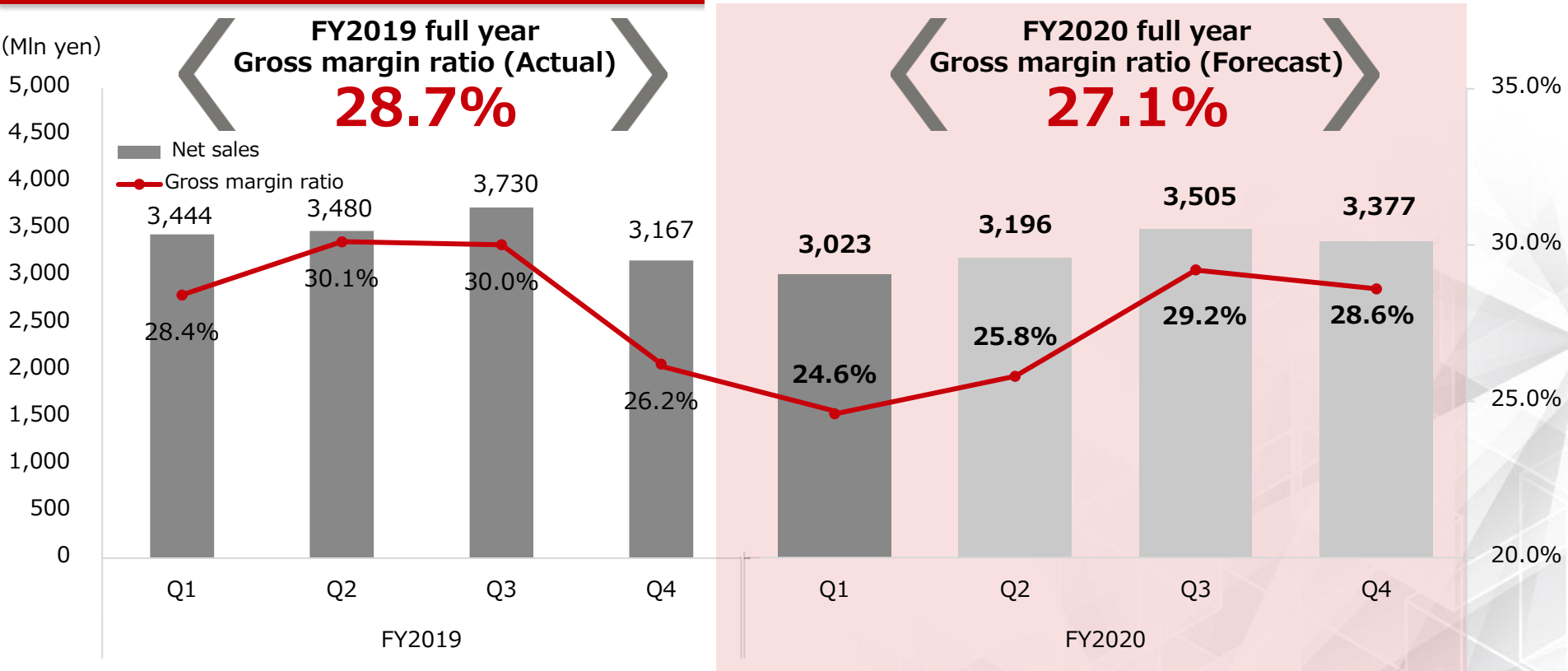


- As the impact of COVID-19, sales and profits decreased due to some delays in game title development and a decline in demand from overseas clients.
- Strengthening cost control by launching of remote debugging service and restructuring the domestic Lab. network including the closure of a Lab.

(Mln Yen)	Q1 FY2019	Q1 FY2020	YoY Change
Net sales	4,033	3,569	88.5%
Debugging	3,444	3,023	87.8%
Game Console (GC)	1,186	1,023	86.3%
Mobile Solutions (MS)	2,013	1,819	90.4%
Amusement (AM)	245	179	73.1%
Creative	350	311	88.8%
Media and others	238	234	98.5%
Segment income	727	517	71.1%
EBITDA	775	547	70.6%

- Weaker Gross margin with lower working rate at Lab. caused by COVID-19.
- Demand for Debugging will recover gradually toward the year-end sales season.
- Gross margin ratio is expected to improve to nearly 30% in 2H due to the strengthening of cost-control measures and others.

Quarterly results of Debugging div.



■ Game Console dept. (GC)

Revenue fell sharply from the previous Q1 when we recorded higher sales with some large-scale title projects.

■ Mobile Solutions dept. (MS)

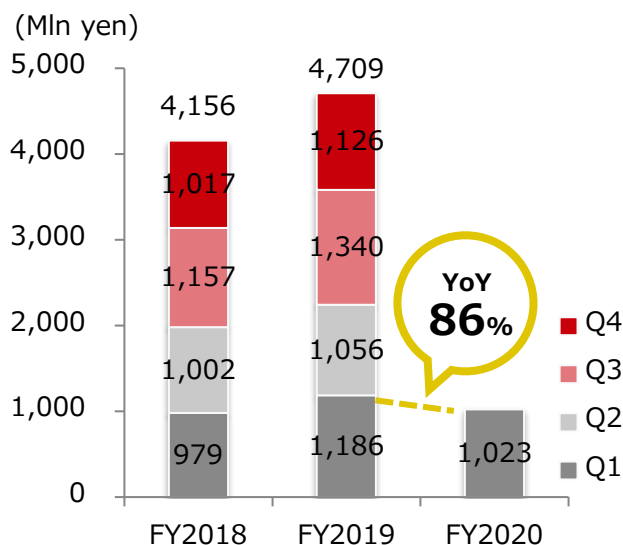
Demand shrank temporarily due to the impact of COVID-19 and other factors.

■ Amusement dept. (AM)

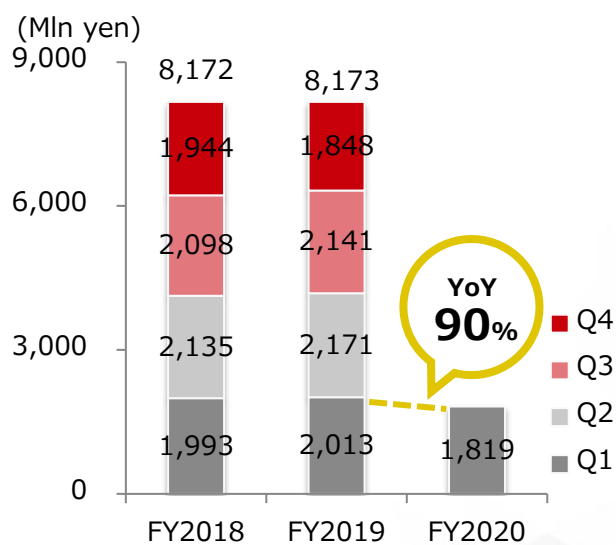
Market conditions remain challenging, and regulatory and client trends need to be watched closely.

Quarterly sales

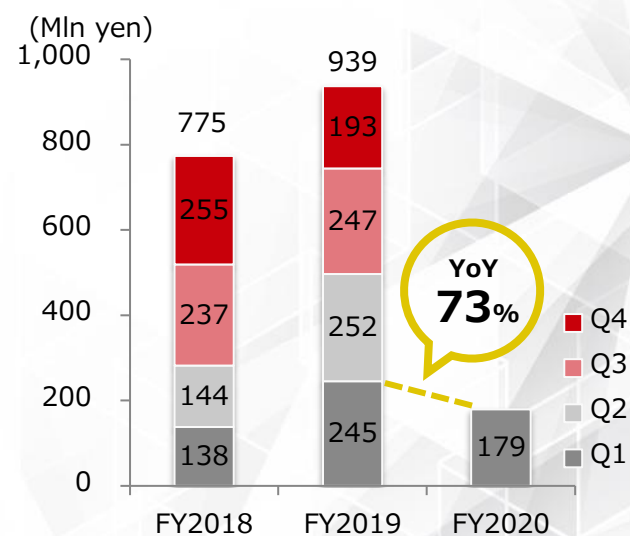
Game Console dept. (GC)



Mobile Solutions dept. (MS)



Amusement dept. (AM)





■ Creative div.

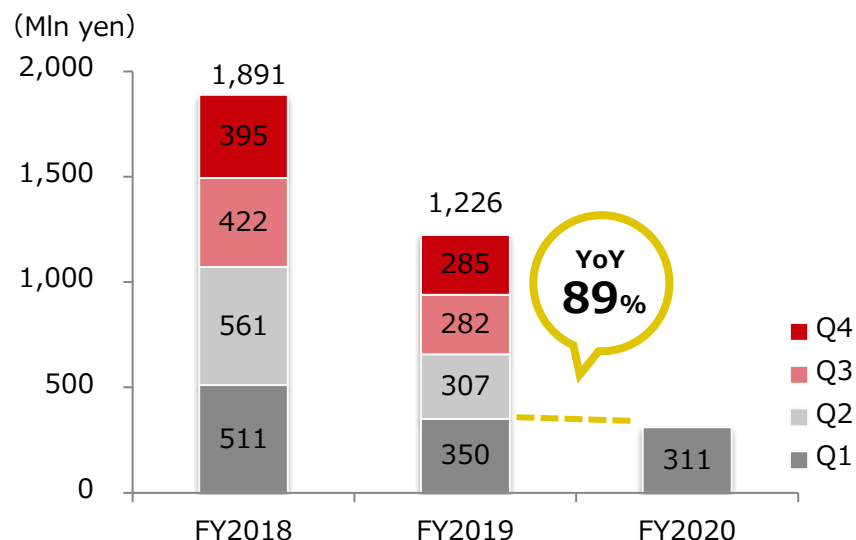
Revenues continued to decline due to the impact of the market environment for mobile games, but profits increased by strengthening of cost control.

■ Media and others div.

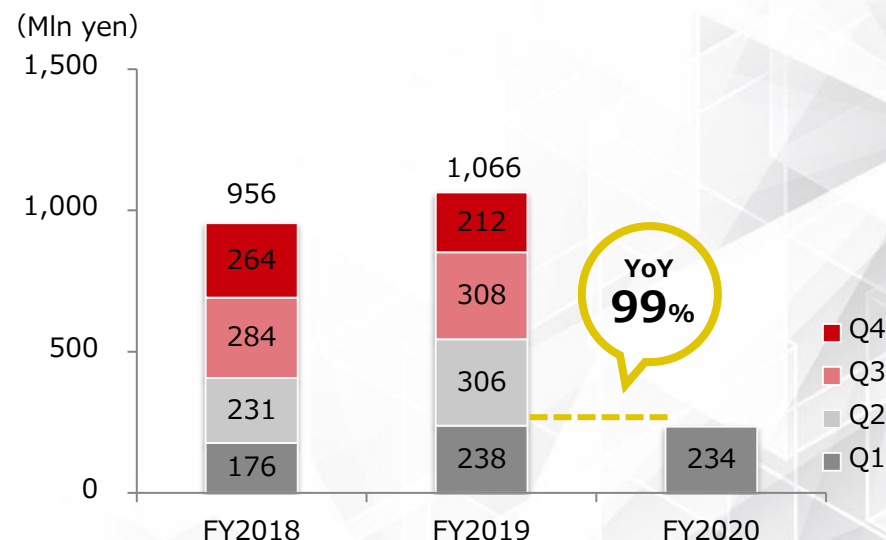
While advertising revenue from foreign companies declined at 4Gamer.net, customer support services and other services performed well.

Quarterly sales

Creative div.



Media and others div.



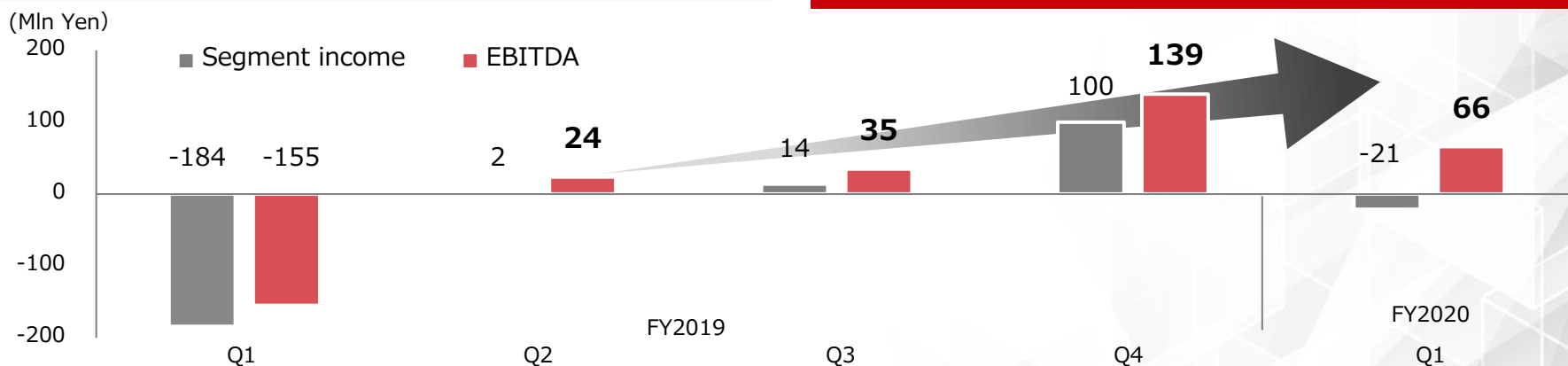
Financial Result of Enterprise Business

- Segment income of Q1 improved significantly as year-on-year base. EBITDA has remained positive since Q2 of FY2019.

(Mln Yen)	Q1 FY2019	Q1 FY2020	YoY Change
Net sales	954	1,523	159.6%
System Testing	430	788	183.1%
IT service / Security	523	735	140.4%
Segment loss	-184	-21	—
EBITDA	-155	66	—

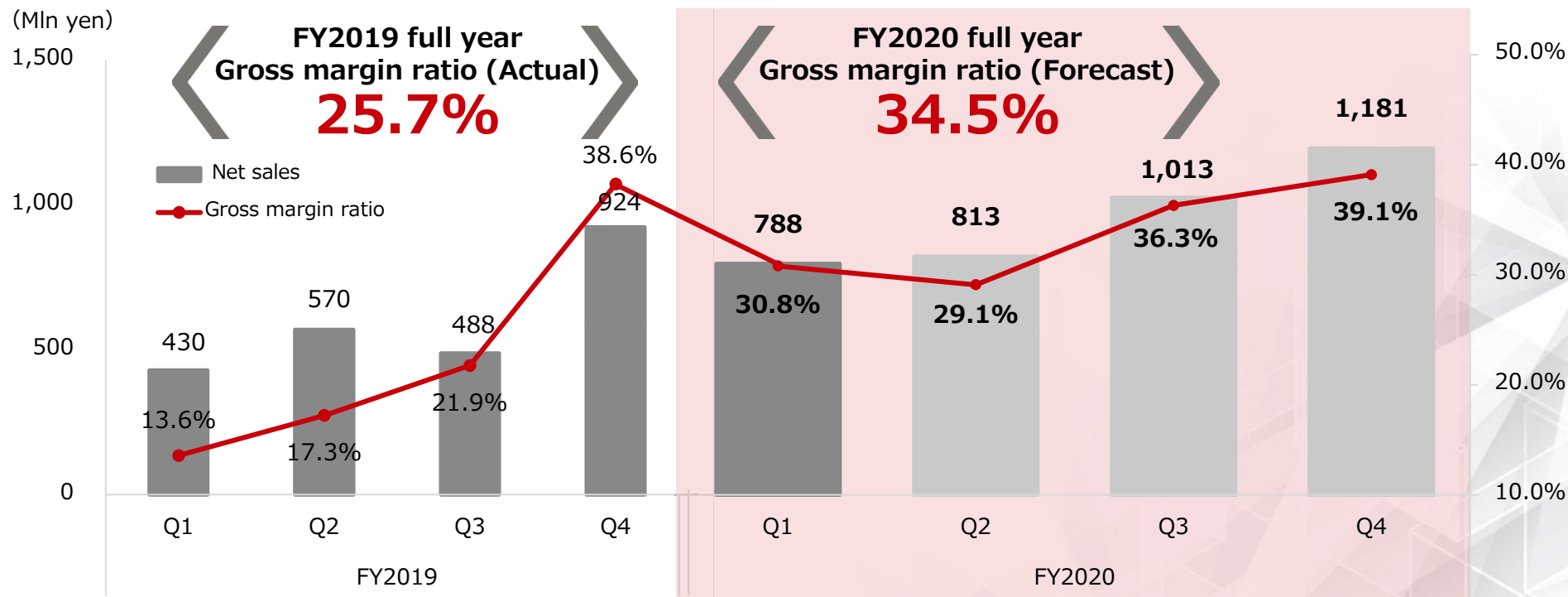
Quarterly results of Enterprise Biz

Significant EBITDA growth thanks to the positive impact of investing



- Net sales and Gross margin improved significantly year on year due to growth of existing business and contribution from LogiGear which has been consolidated since Q4 FY2019.
- Weaker Q1 sales compared to Q4 FY2019 due to seasonality of this service and Q2 and later sales are expected to recover to grow steadily.
- Gross profit is expected to improve in 2H due to higher sales, with aiming to make full year Gross margin 34.5%.

Quarterly results of System Testing div.



■ System Testing div.

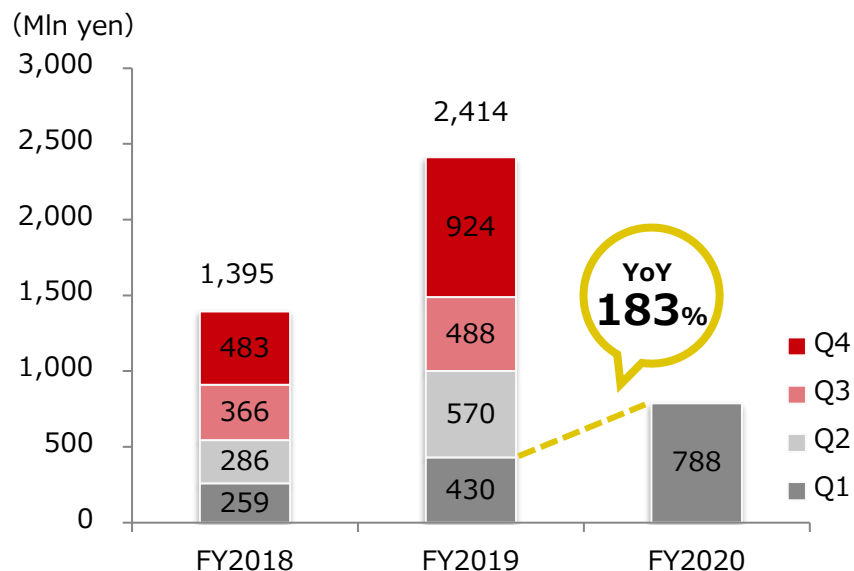
Despite stagnant economic activities due to the impact of COVID-19, we have steadily captured demand by providing services with ensuring safety of operations.

■ IT service / Security div.

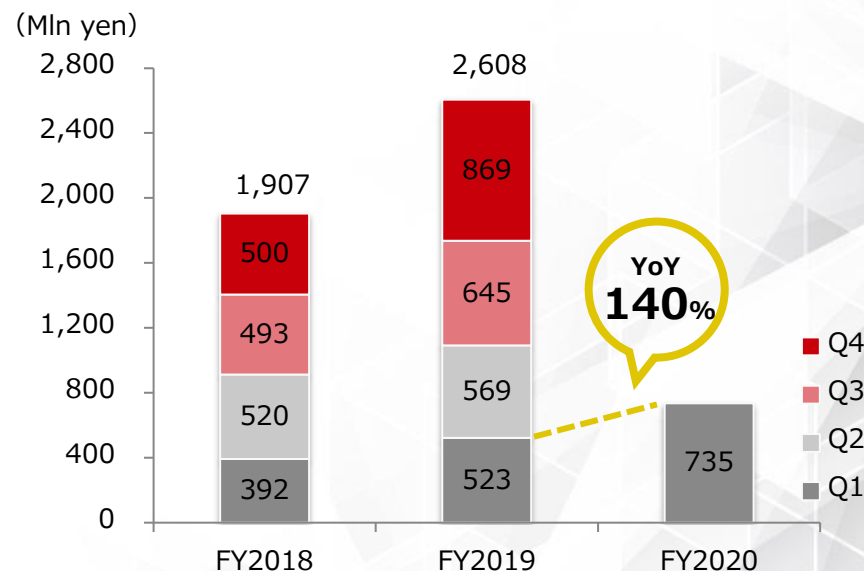
Increased revenues from various services such as systems development, maintenance, operation support, and security services.

Quarterly sales

System Testing div.



IT service / Security div.



FY2020 Consolidated Financial Forecast



DIGITAL HEARTS HLDGS.

- Aiming to increase sales and profits due to growth in Enterprise Business.
- Despite the impact of COVID-19, Entertainment Business remained at the same sales level as FY2019.

(Mln Yen)	Full year FY2019 (Actual)	Full year FY2020 (Forecast)	YoY Change
Net sales	21,138	23,080	109.2%
Entertainment	16,115	15,885	98.6%
Enterprise	5,022	7,195	143.3%
Operating income	1,394	1,600	114.8%
Operating income margin	6.6%	6.9%	+0.3points
Ordinary income	1,372	1,600	116.6%
Profit attributable to owners of parent	792	1,100	138.9%
EBITDA	1,732	1,927	111.2%

1H/2H in FY2020

Consolidated Financial Forecast

The First Half : Increase in sales but decrease in profits

The Second Half : Increase in both sales and profits

■ 1H Forecast

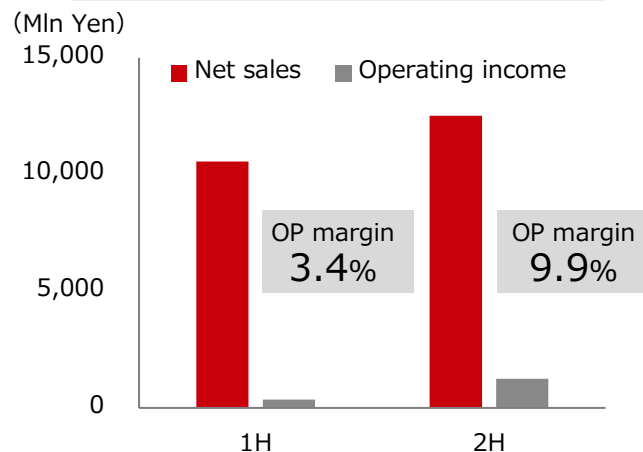
- Sales are expected to increase due to the high growth in Enterprise Business, but profits are expected to decline mainly due to the decrease in sales in Entertainment Business due to the impact of COVID-19.
- In the U.S. heavily affected by the COVID-19, LogiGear started cost-cutting efforts.
- Creating corporate system that can provide services remotely in anticipation of "With COVID-19" era.

■ 2H Forecast

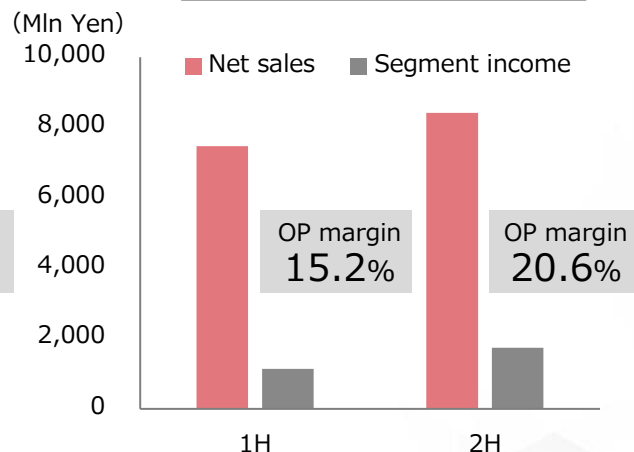
- The impact of COVID-19 is expected to settle down and revenue and profit growth trends will recover.
- In Entertainment Business, segment profit margin is expected to recover to 20% due to the busy period in the Debugging div.
- In Enterprise Business, aiming to make profits as a full-year base by continuing to expand its sales.

Image of FY2020

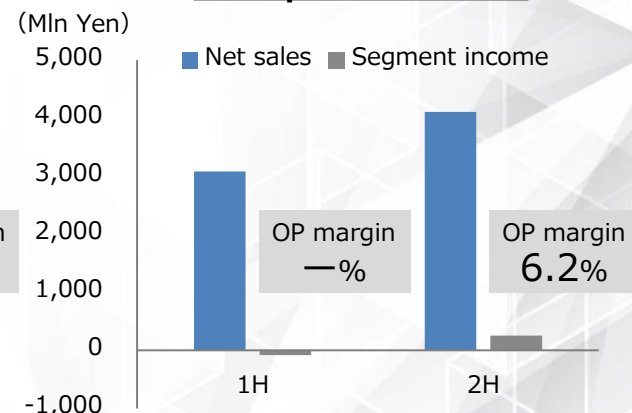
Consolidated Financial Forecast



Entertainment Business



Enterprise Business

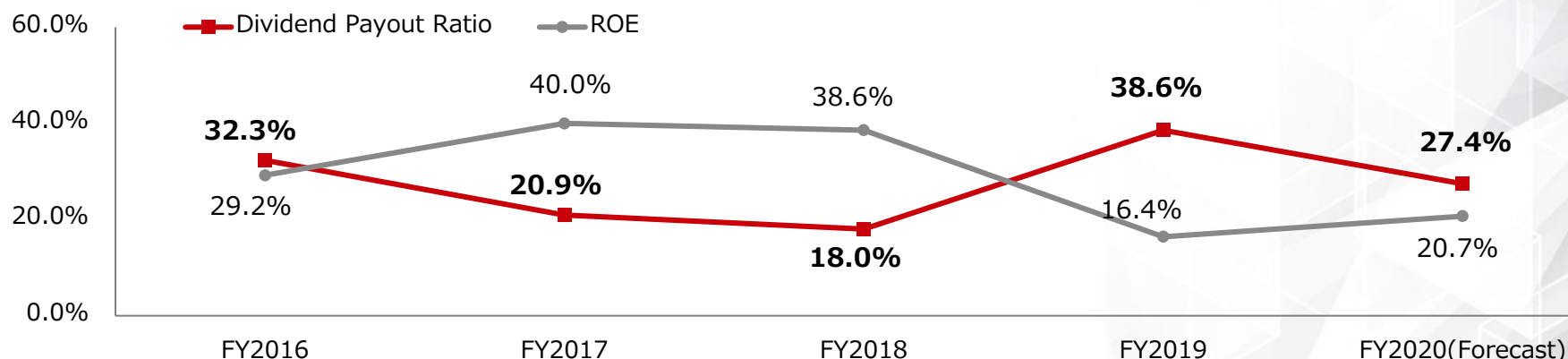


**Annual dividend per share is expected to be ¥14.0,
unchanged from the previous fiscal year**

Basic Policy to Return Profits to Shareholder

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

(yen)	FY2016	FY2017	FY2018	FY2019	FY2020 (Forecast)
Annual dividends	11.5	11.5	13.0	14.0	14.0
(Interim dividends)	5.5	5.5	6.5	7.0	7.0
(Year-end dividends)	6.0	6.0	6.5	7.0	7.0



*As the company conducted a 2-for-1 common stock split, effective on October 1, 2016, dividends before the interim dividends for FY2016 are accordingly adjusted retroactively to reflect the share splits impact.

Actions in 'Second Founding' Period

To be the Asia's No.1 Comprehensive Testing Solution Provider

Human Capital × Technology



Progress of the 'Second Founding' Period

Strengthen human capital, services, and business foundations since the start of the 'Second Founding' Period

Began increasing the number of management members and engineers



Started the collaboration with a U.S. security venture

Launched educational programs to train testers to become engineers

Started development of talent management system

Started structural reforms of Lab.

Established "DH-SOC"



Acquired ANET Corporation specializing in system testing



Number of certified software test technicians exceeded 300



LogiGear, which has strengths in test automation, become a subsidiary



Orgosoft, which conduct translation and localization in Korea, became a subsidiary



Established JV with LAC Co., Ltd.

Started new service for SAP's integrated ERP system in collaboration with Pasona Tech, Inc.

Launched new "Remote Debugging"

Started to restructure the network of Lab. including the closure of Lab.

Cyber Security

System Testing

Debugging

2017
the 'Second Founding' Period

2020

Foundation Building phase

Expansion phase

Leaping phase

Themes of Debugging for FY2020

Maximizing cash generation capacity

Launched new service, "Remote Debugging"

Number of active employees

Number of projects



160people



31projects

(As of June 30, 2020)

Promoting the restructuring the network of "Lab." (test centers)

- Completed closure of Shinjuku Lab.
- Considering floor reductions at other sites by promoting Remote Debugging

Themes of System Testing for FY2020

Developing supply systems in response to rising demand

Launched "DH-Tech", a new service utilizing external resources



DH-Tech

Number of active employees of external resources

158people

(As of June 30, 2020)

To increase orders for SAP-related projects

Examples of client



Global cosmetics company



Automobile-parts supplier

※Including PoC

Themes of Cyber Security for FY2020

Challenging to develop the 3rd pillar of our business

To lead the market of monitoring devices by "DH-SOC"

Number of monitoring devices

As of June 2020

As of October 2020 (Est.)

Appx.

160,000
vehicles

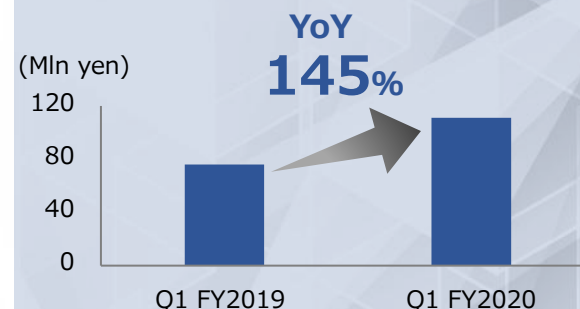


Appx.

200,000
vehicles

Leading the market in Japan

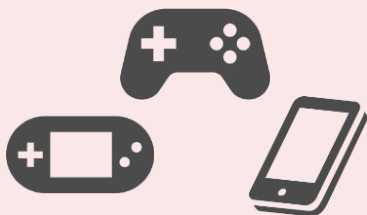
Continued double-digit sales growth



Debugging

Outlook of markets

Stable development of titles
thanks to the launch of new
hardware and expansion of 5G.



- Continued strong outsourcing demand

System Testing

Increasing corporate IT investment
due to progress in IoT and DX.



- Shortage of IT human resources and expansion of outsourcing demand

Cyber Security

The importance of security increases
by promoting of remote work.



- Needs for cyber security measure in all kinds of companies and expansion of cyber security demand

Outlook of our business

Maintaining the leading position in
Japan and developing the
overseas markets.

**Keep its stable
cash generation**



Providing testing services with
high efficiency and accuracy by
leveraging our expertise and
automation technologies as a
specialist testing company.

**Make profit and
keep high growth**

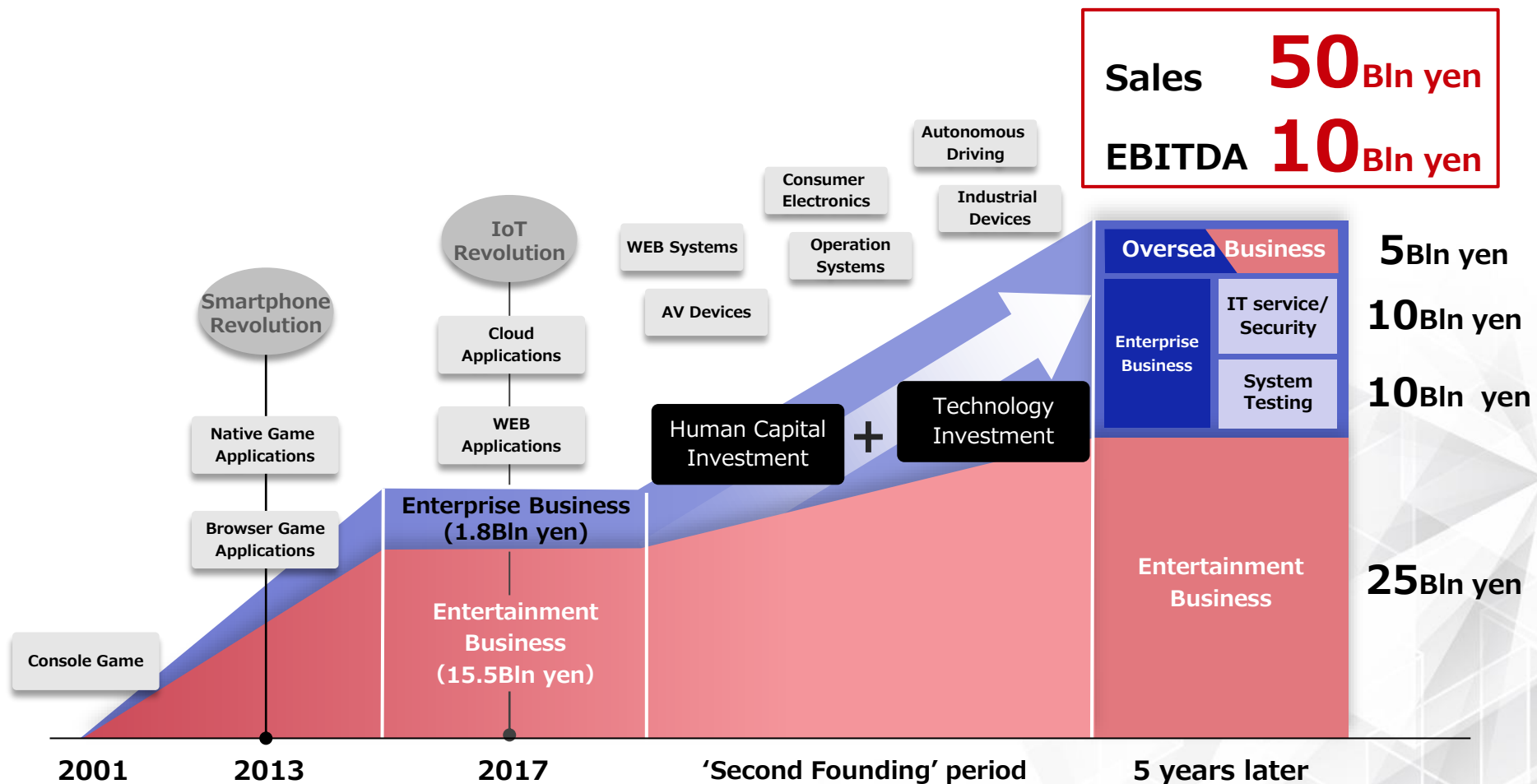


Establishing the system to
provide diverse security services
from entrance to exit
management for both SMEs and
large corporations.

**Expand the size of
business**



To achieve net sales of 50 billion yen and EBITDA of 10 billion yen.



Appendix

Why Invest in DIGITAL HEARTS

Employment creation
for more than
8,000 testers



Ratio of
external officers of
40.0%



One of the few
testing focusing companies
in Japan



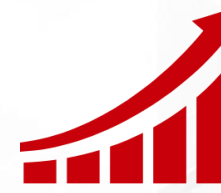
Business that supports
Digital security



Foreign staff
members of more
than
20 nationalities



High market growth rate* with
CAGR at 12%



*Data on the growth rate of the market of software testing services for 2019 to 2023
(References) Websites related to "Global Software Testing Services Market 2019-2023"

Market environment

Growth of game console market

Growth of mobile game market

Expansion of IoT

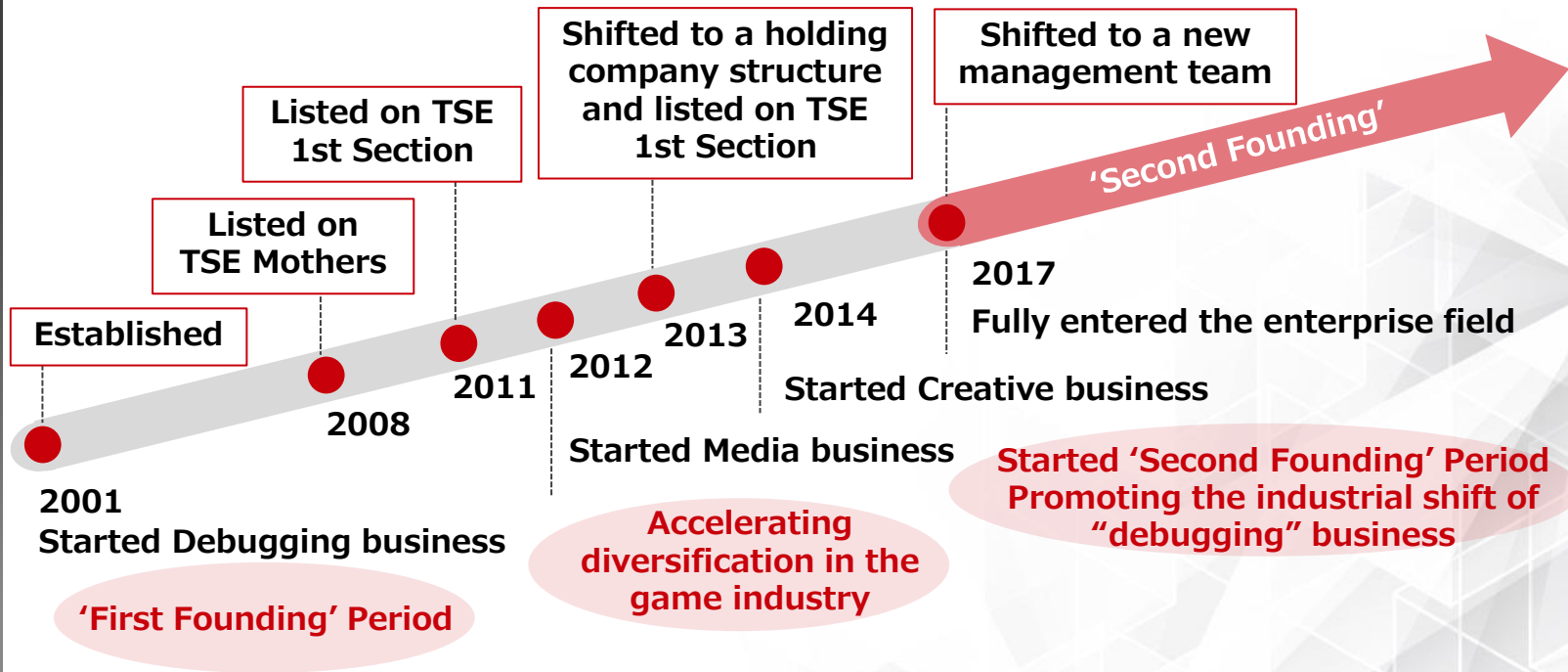
Shift to 5G

Our vision

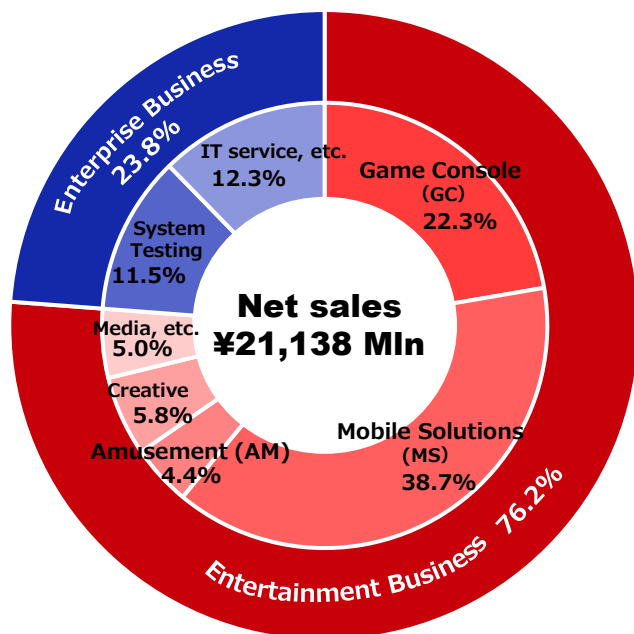
To be the Japanese No.1 Game Debugging Provider

To be the Asia's No.1 Comprehensive Testing Solution Provider

History



Debugging and System Testing are our core business



Sales breakdown by segment (FY2019)

※Sales of each segment and unit include inter-company sales and/or transfers.

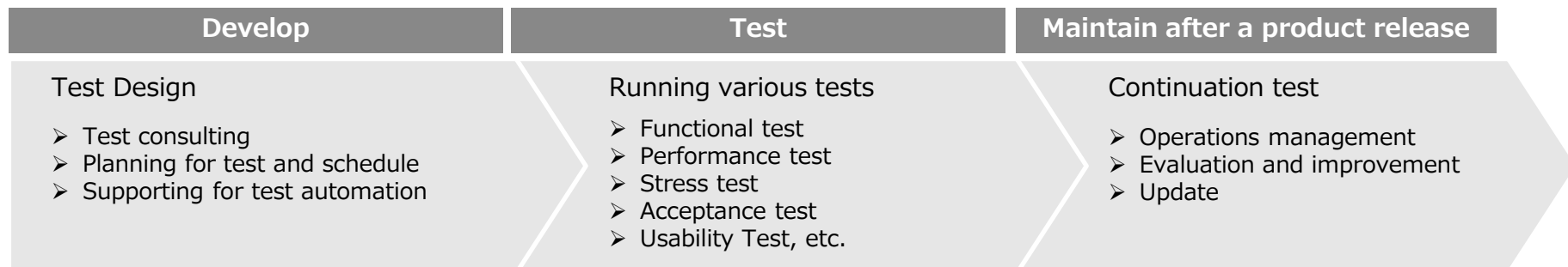
Entertainment Business	Debugging	22.3%	Game Console (GC) Debugging for console games, online games, and arcade games
		38.7%	Mobile Solutions (MS) Debugging for mobile games
		4.4%	Amusement (AM) Debugging for pachinko/slot machines
		5.8%	Game development and CG content development
	Media and others	5.0%	Managing one of Japan's largest game information site "4Gamer.net", customer support, etc.
Enterprise Business	System Testing	11.5%	Testing for enterprise system and Automobile driving test
	IT service / Security	12.3%	System development, IT support, Customer support, Security, etc.

Outline of Debugging and System Testing



DIGITAL HEARTS HLDGS.

Our Services



Outline of Services

Service	Description	Main client	Barriers to entry	Outsourced Projects Ratio
Debugging	Detection of bugs in games from a player's perspective.	– Game makers	High ↑ A license for purchasing dedicated equipment for debugging is required. ↑ Knowledge and expertise on human resource management to accommodate changeable development schedules are required.	High
System Testing	Detection of bugs in enterprise systems from a test-engineers' knowledge.	– SIers – Development vendors – Core system enterprises	Middle ↑ Human resource shortage in IT Industry	Low

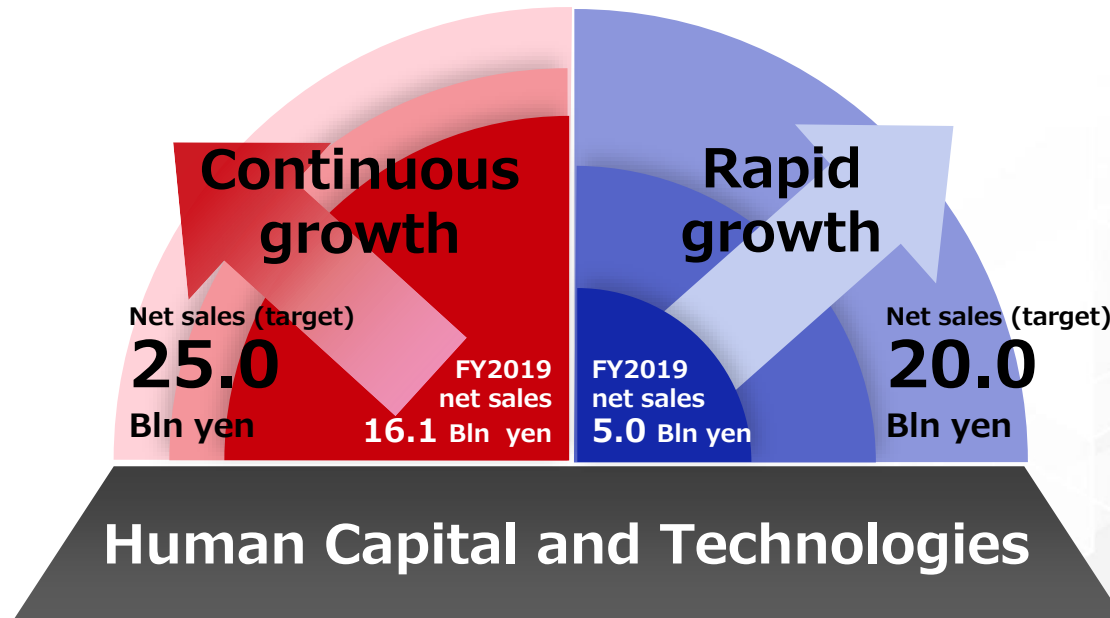
Pursue the growth of the mainstay Entertainment Business and make the Enterprise Business another primary source of revenue

Entertainment Business

- The game market is growing steadily
- ◆ Strengthen collaboration within the Group to provide comprehensive support for game development, including not only debugging but also the development of outsourced services and localization
- ◆ Continue expanding the business, targeting net sales of 25.0 billion yen

Enterprise Business

- The outsourcing of test processes is accelerated, due in part to the serious human resources shortage in the IT industry
- ◆ Accelerate investment in human capital and technologies for business expansion
- ◆ Position this field as the growth driver and aim for net sales of 20.0 billion yen





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
- Focusing on 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
- Securing human resources strategically by using overseas offices as well

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

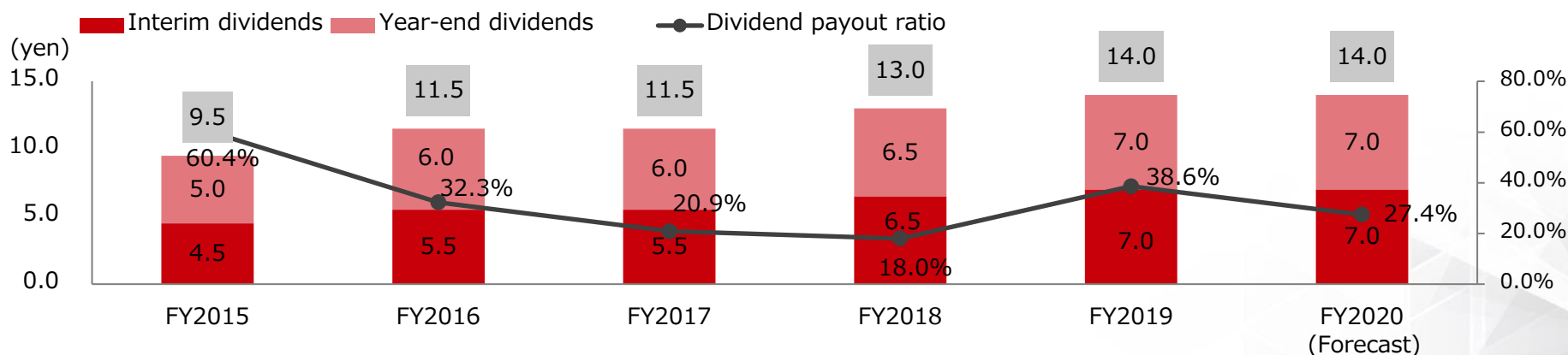
Summary of Earnings by Segment

(MIn yen)		FY2015	FY2016	FY2017	FY2018	FY2019
Entertainment Business	Net sales	12,696	13,544	15,568	15,951	16,115
	Segment income	2,379	2,453	2,966	3,086	2,964
	Debugging					
	Game Console (GC)					
	Mobile Solutions (MS)					
	Amusement (AM)					
	Creative					
	Media and others					
Enterprise Business	Net sales	2,382	1,952	1,892	3,302	5,022
	Segment income	71	203	-14	-226	-67
	System Testing					
	IT service / Security					
	Inter-segments adjustments					
	Net sales	-70	-52	-108	-0	—
	Segment income	-486	-750	-1,215	-1,254	-1,503
	Consolidated total					
	Net sales	15,011	15,444	17,353	19,254	21,138
	Operating income	1,963	1,906	1,735	1,605	1,394

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



Recent treasury stock acquisition

We acquire treasury shares flexibly by considering the necessity in light of our capital policy, the impact on our financial strength, and other factors, after securing funds for investment in growth.

Acquisition period	Acquired shares	Total Purchase Amount
November 12, 2019 - February 6, 2020	474,700 shares	499 Mln yen
February 20, 2017 – April 28, 2017	664,500 shares	999 Mln yen

(As of June 30, 2020)

DIGITAL HEARTS Co., Ltd.

Entertainment Business

Enterprise Business

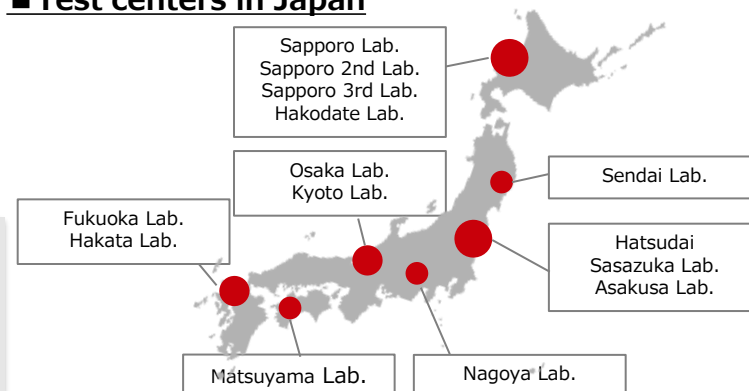


Business Activities : Game debugging, Localization, System testing, System development, Security, etc.

[Strengths]

- **Over 8,000** registered testers
- **Over 2.0 million** bug data
- **14** test centers (Lab.)
- **Over 4,000** equipment for testing

■ Test centers in Japan



DIGITAL HEARTS (Shanghai) Co., Ltd.

Entertainment Business



Business Activities : Game debugging, Localization, etc.

Orgosoft Co., Ltd.

Entertainment Business



Business Activities : Game debugging, Localization, etc.

ANET Corporation

Enterprise Business



Business Activities : System testing, System development, etc.

LOGIGEAR CORPORATION

Enterprise Business



Business Activities : System Testing, Test Automation Support

LOGIGEAR VIETNAM CO., LTD.

Enterprise Business



Business Activities : System Testing, Test Automation Support

FLAME Hearts Co., Ltd.

Entertainment Business



Business Activities : Game development and CG content development

Aetas, Inc.

Entertainment Business



Business Activities : Operation of a game information site, "4Gamer.net", etc.

Red Team Technologies Co., Ltd.

Enterprise Business



Business Activities : White hacker service and technical support

ZEG Inc.

(Affiliated company)

Enterprise Business



Business Activities : Driving test and data collection for the automotive industry



DIGITAL HEARTS HLDGS.

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