

Presentation Material

for the Nine Months Ended December 31, 2020

February 9, 2021

Tokyo Stock Exchange First Section : Code 3676
<https://www.digitalhearts-hd.com/>

Q3 FY2020 Financial Results

(The nine months ended December 31, 2020)

01

YoY growth both in sales and profits despite the impact of COVID-19

FY2020 Q3 nine months net sales

16,313 Mln yen (YoY **104.1%**)

FY2020 Q3 nine months operating income

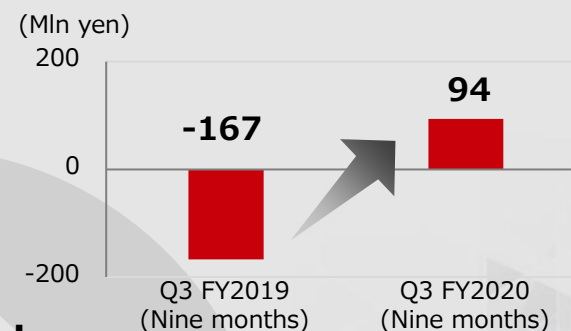
1,183 Mln yen (YoY **111.0%**)

The developing Enterprise Business achieved significant increases in both sales and profits

02

The Enterprise Business went into the black for the first time during the 'Second Founding' period

Segment income of Enterprise Biz in Japan (*)



03

Record-high quarterly operating income

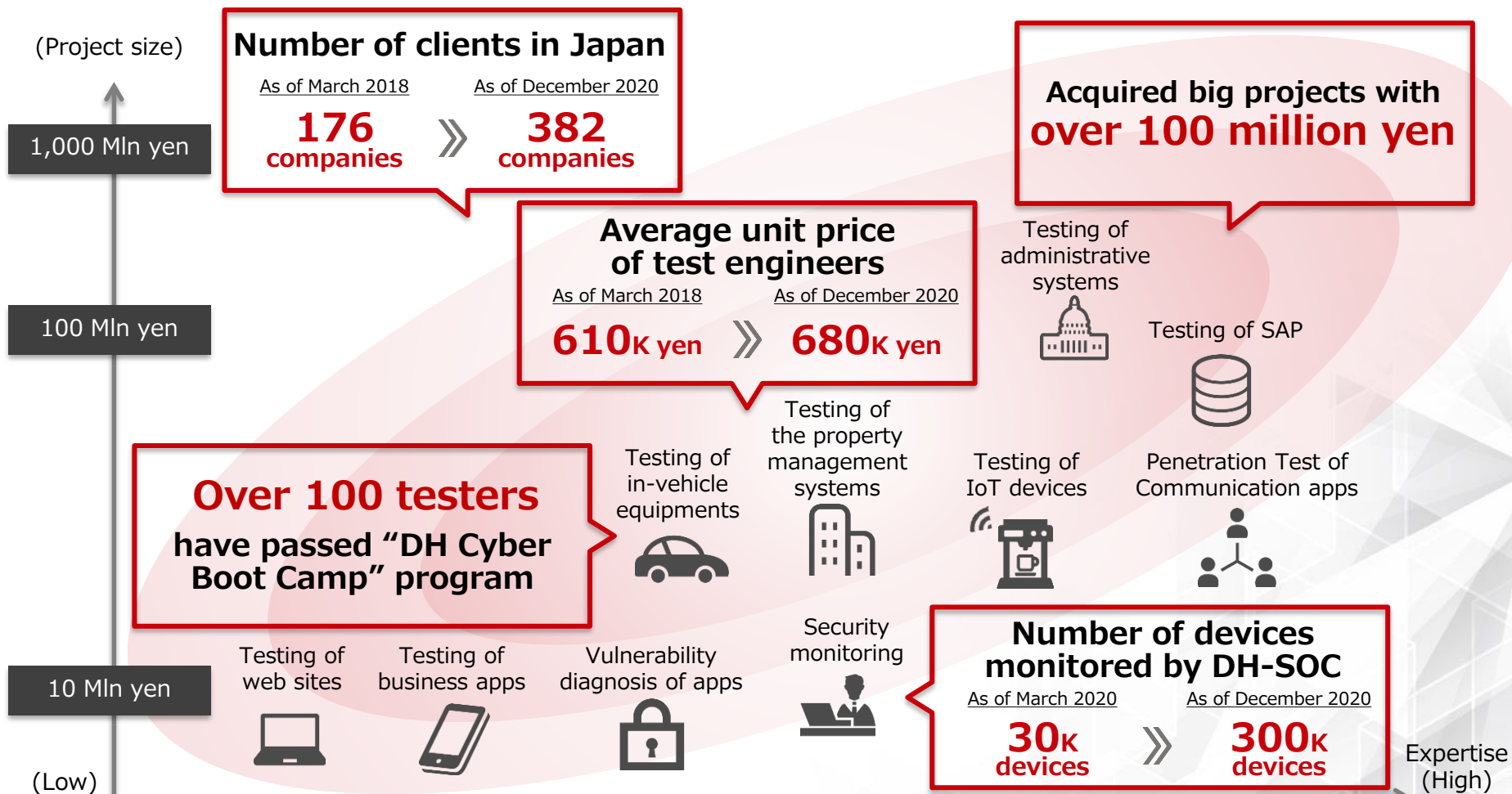
FY2020 Q3 quarterly operating income

655 Mln yen

YoY 119.7%

Become to acquire larger size projects with higher expertise during the 'Second Founding' period since FY2017.

Aiming to achieve **sales of 10 billion yen** in the Enterprise Biz.



Summary of Financial Results for the Nine Months Ended December 31, 2020



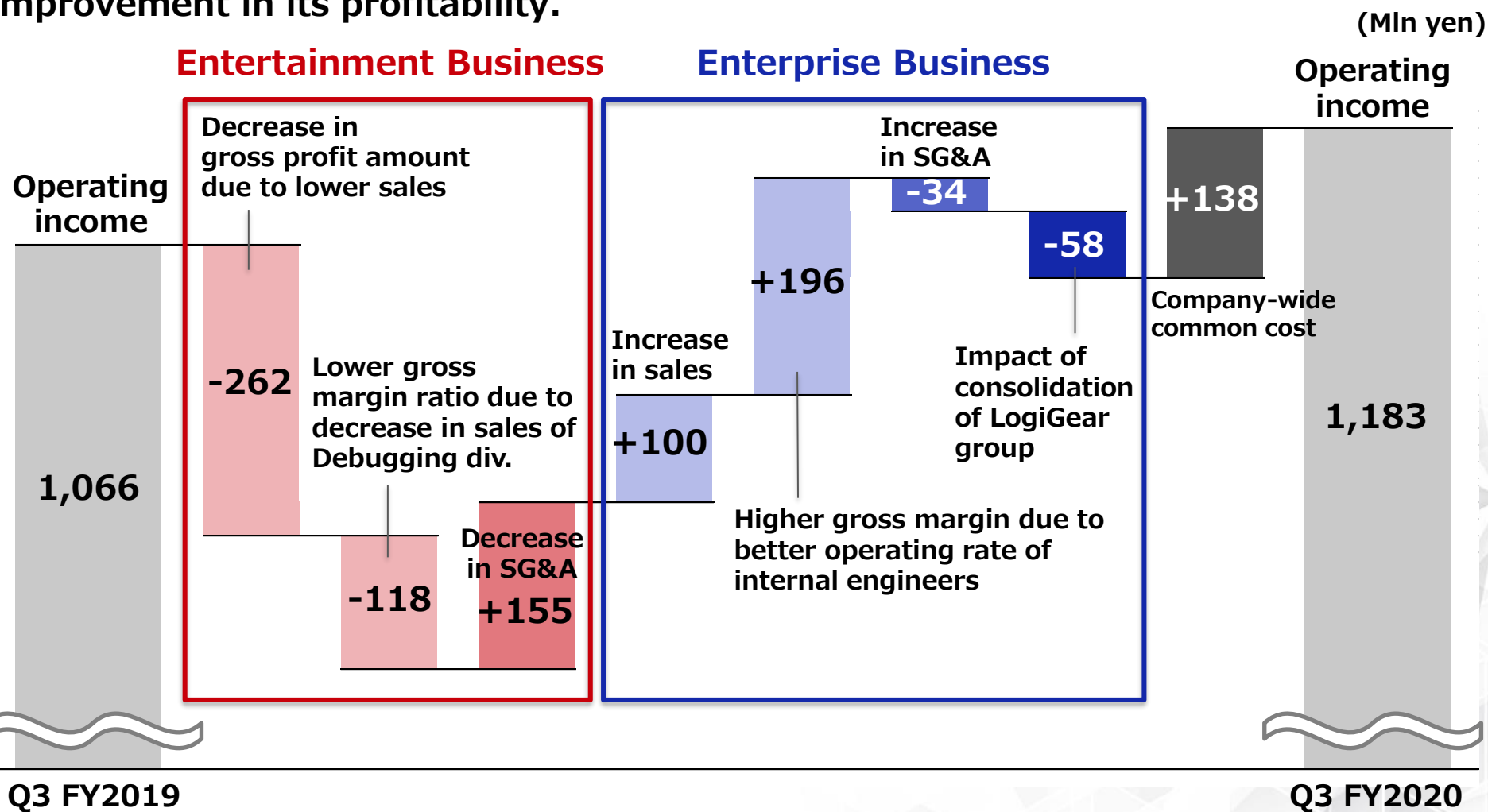
DIGITAL HEARTS HLDGS.

Despite the impact of COVID-19 mainly in 1H, achieved higher sales and profits than the previous year as 9 months of Q3, with expanding sales and recovering profit of our developing Enterprise Business.

(Mln Yen)	Q3 FY2019	Q3 FY2020	YoY Change	
Net sales	15,677	16,313	636	104.1%
Cost of sales	11,552	11,821	269	102.3%
Cost of sales (%)	73.7%	72.5%		-1.2points
Gross profit	4,125	4,491	366	108.9%
SG&A	3,059	3,308	249	108.2%
Operating income	1,066	1,183	116	111.0%
Operating income margin	6.8%	7.3%		+0.5points
Ordinary income	1,055	1,245	189	118.0%
Profit attributable to owners of parent	652	794	141	121.7%
EBITDA	1,318	1,513	194	114.8%

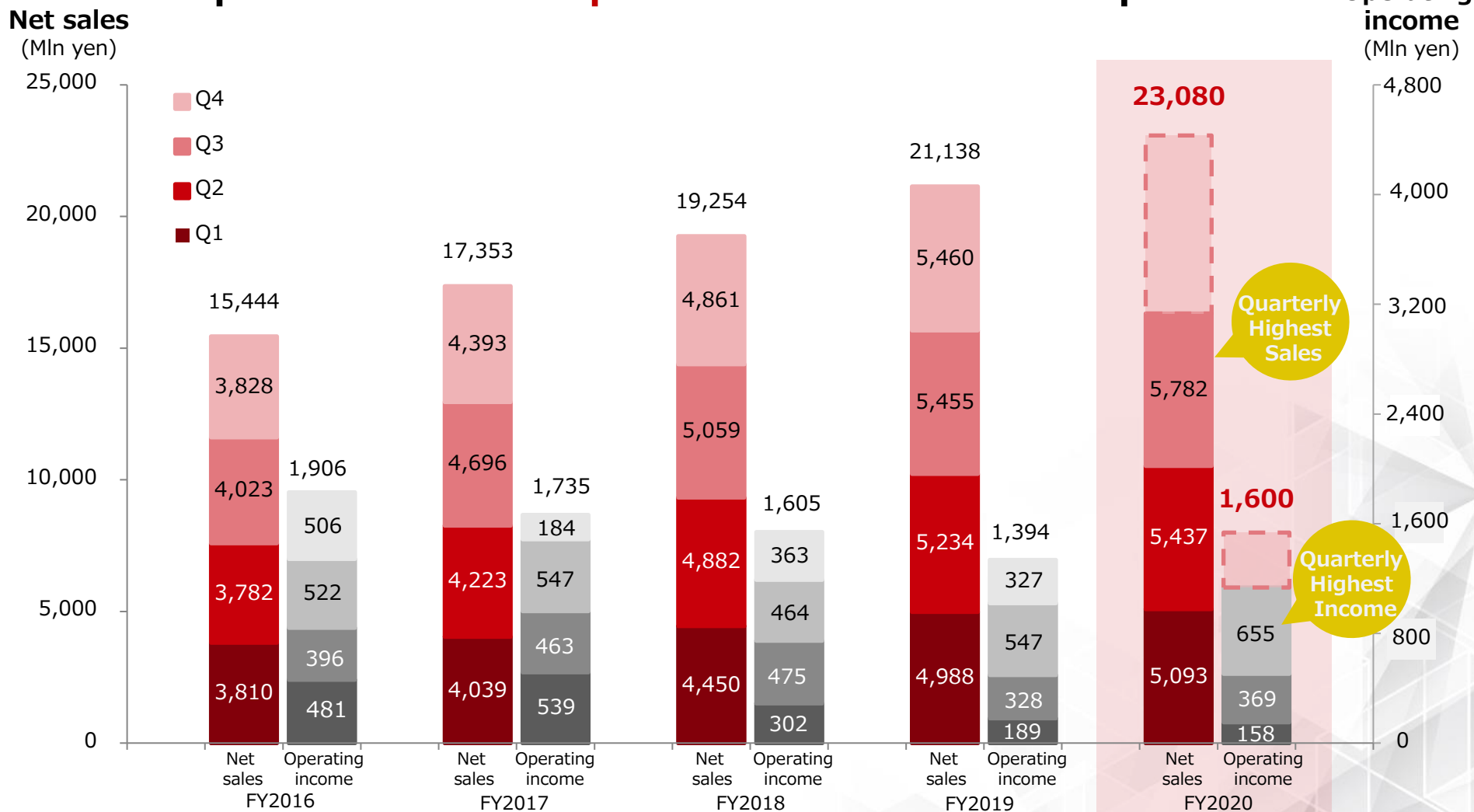
Analysis of Changes in Operating Income

Despite a sharp decline in profits in Debugging div. of the Entertainment Business due to the impact of COVID-19, the Enterprise Business achieved a significant improvement in its profitability.



Trend in Net Sales and Operating Income

Achieved the quarterly record high net sales and profit.
Expects to shift an upward trend in sales and profits.



Consolidated Balance Sheets

(Mln Yen)	Q4 FY2019 (As of March 31, 2020)	Q3 FY2020 (As of December 31, 2020)	YoY Change
Total assets	10,637	11,177	540
Current assets	7,453	8,017	564
Cash and deposits	3,739	4,085	346
Notes and accounts receivable-trade	2,985	3,201	215
Noncurrent assets	3,183	3,160	-23
Property, plant and equipment	579	565	-13
Intangible assets	1,379	1,432	53
Investments and other assets	1,225	1,161	-63
Total liabilities	5,198	5,196	-1
Current liabilities	5,134	5,061	-73
Short-term loans	2,546	2,552	6
Noncurrent liabilities	63	135	72
Total net assets	5,438	5,980	541
Shareholders' equity	4,898	5,460	562
Accumulated other comprehensive income	24	19	-4
Subscription rights to shares	13	13	—
Non-controlling interests	502	487	-15
Total liabilities and net assets	10,637	11,177	540

Q3 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



DIGITAL HEARTS HLDGS.

(Mln Yen)	Q3 FY2019	Q3 FY2020	YoY Change
Net sales	15,677	16,313	104.1%
Entertainment	12,449	11,538	92.7%
Enterprise	3,228	4,775	147.9%
Adjustments	—	—	—
Operating income	1,066	1,183	111.0%
Entertainment	2,379	2,153	90.5%
Enterprise	-167	36	—
Adjustments	-1,145	-1,006	—
EBITDA	1,318	1,513	114.8%
Entertainment	2,531	2,252	89.0%
Enterprise	-96	246	—

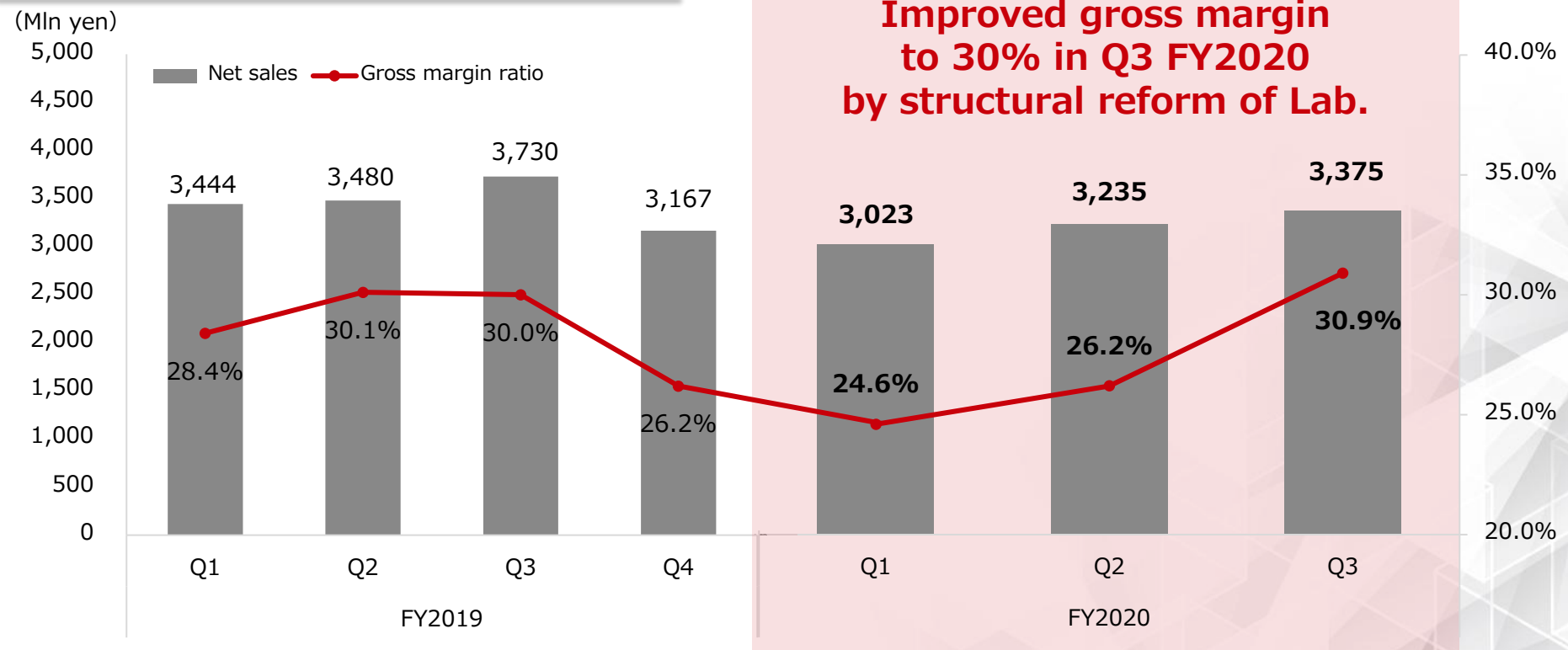


- Debugging sales and profits declined due to some delays and postponements in clients' title development affected by COVID-19.
- Creative, Media and others recovering in sales and increasing in profits.

(Mln Yen)	Q3 FY2019	Q3 FY2020	YoY Change
Net sales	12,449	11,538	92.7%
Debugging	10,655	9,633	90.4%
Game Console (GC)	3,583	3,428	95.7%
Mobile Solutions (MS)	6,325	5,783	91.4%
Amusement (AM)	746	420	56.4%
Creative	940	1,051	111.8%
Media and others	853	853	100.0%
Segment income	2,379	2,153	90.5%
EBITDA	2,531	2,252	89.0%

- Higher sales and cost reduction including consolidation of Lab. (test centers) made **gross margin improved significantly in Q3** from previous some quarters with weaker operating rate of Lab. and lower gross margin due to the impact of COVID-19.
- Aiming to achieve **around 30% full-year gross margin in FY2020**, almost same level as in FY2019

Quarterly results of Debugging div.



■ Game Console dept. (GC)

- Maintained sales at almost the same level as the previous fiscal year when we achieved good sales due to some large-scale title projects.

■ Mobile Solutions dept. (MS)

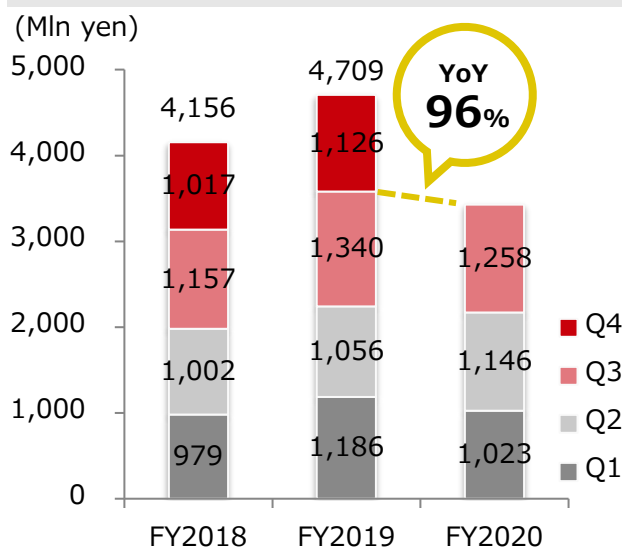
- Debugging demand shrank due to the impact of COVID-19 and changes in the business environment.

■ Amusement dept. (AM)

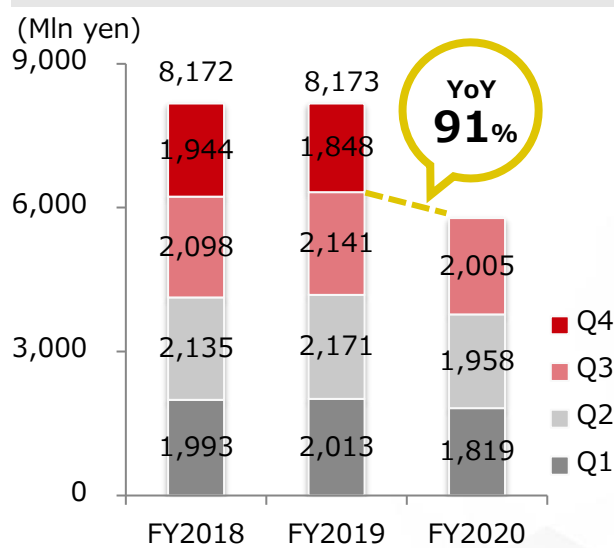
- The market environment continues to be harsh, and regulatory and customer trends require close monitoring.

Quarterly sales

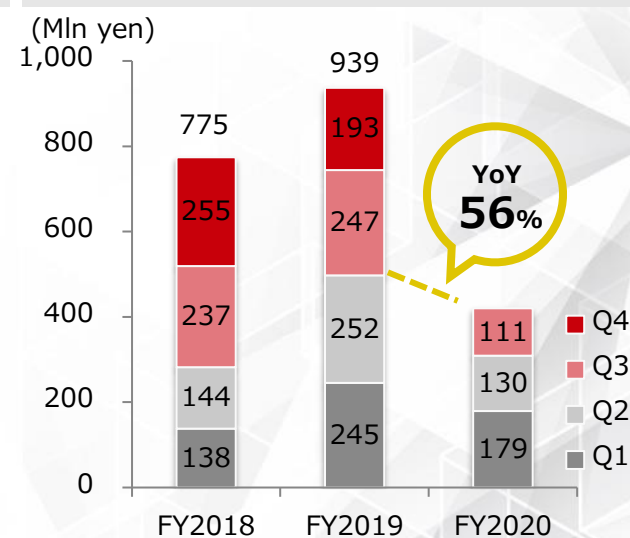
Game Console dept. (GC)



Mobile Solutions dept. (MS)



Amusement dept. (AM)





■ Creative div.

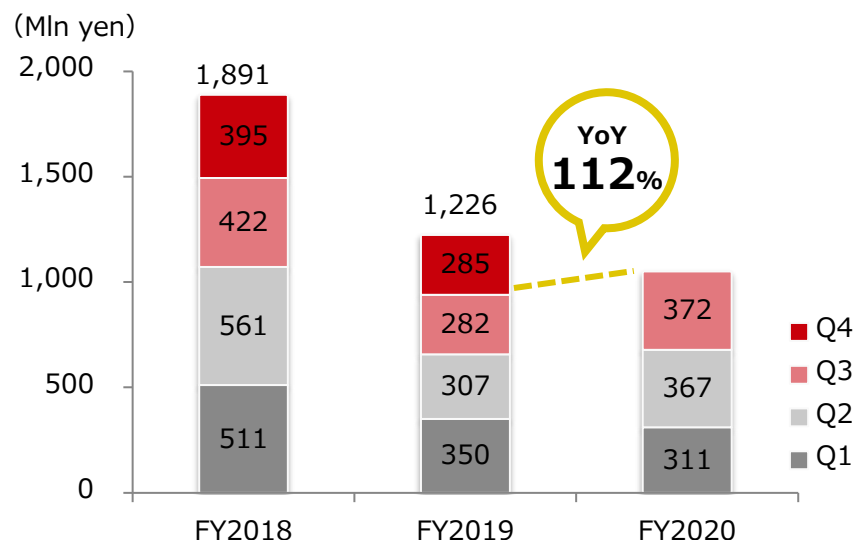
- Achieved higher sales and profits than previous year by acquiring new projects for game development and strengthening cost control.

■ Media and others div.

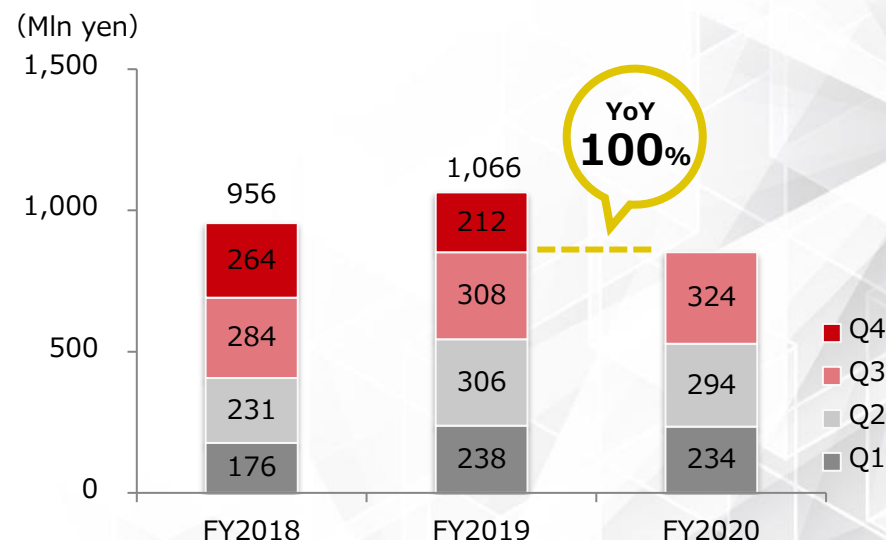
- Although advertising on “4Gamer.net” declined in 1H due to the impact of the COVID-19, it is recovering from Q3. Customer support services acquired new projects steadily .

Quarterly sales

Creative div.



Media and others div.

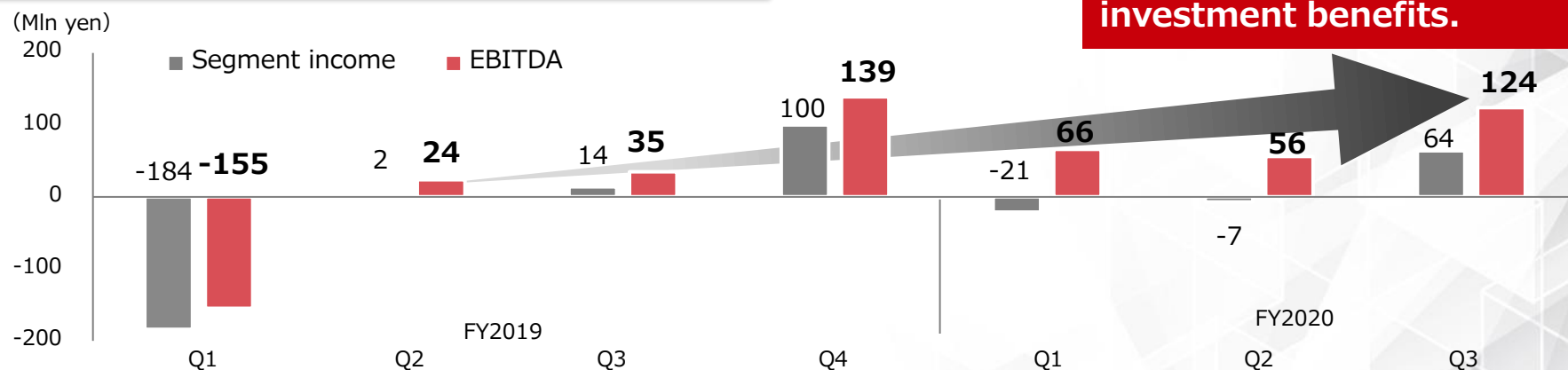


Financial Result of Enterprise Business

- Enterprise Business went into the black as Q3 nine months for the first time since the 'Second Founding' period started in FY2017.

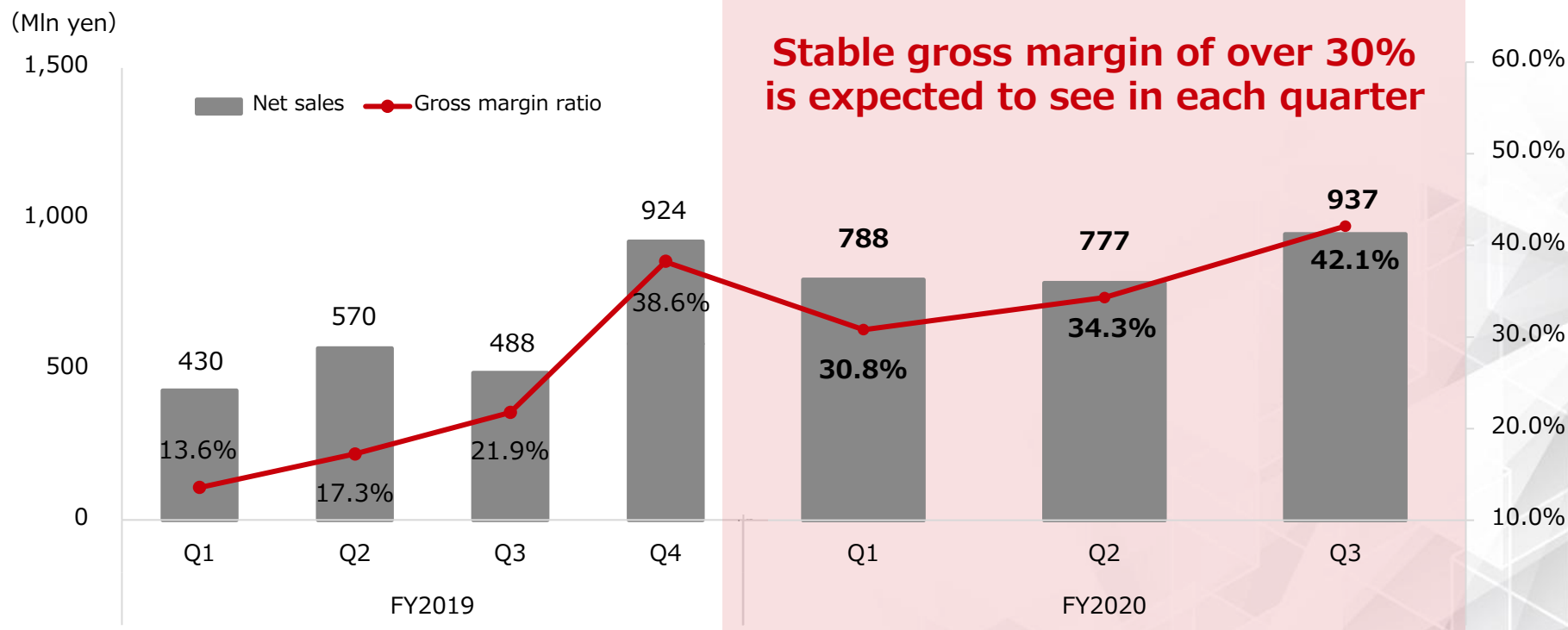
(Mln Yen)	Q3 FY2019	Q3 FY2020	YoY Change
Net sales	3,228	4,775	147.9%
System Testing	1,489	2,503	168.0%
IT service / Security	1,738	2,272	130.7%
Segment income	-167	36	—
EBITDA	-96	246	—

Quarterly results of Enterprise Biz.



- **Net sales and gross margin grew significantly** YoY due to contributions from LogiGear group, which began to be consolidated from FY2019 Q4, and the sales growth of existing testing businesses.
- **Quarterly highest sales and gross margin** in this Q3.
- As the busiest quarter, it is expected to see high sales and gross margin in Q4.

Quarterly results of System Testing div.



■ System Testing div.

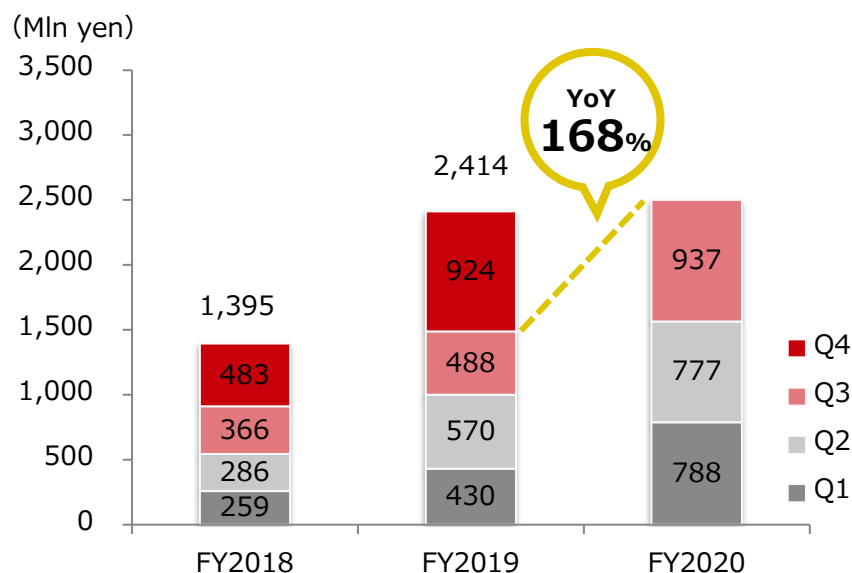
- Achieved a significant increase in sales due to progress in acquiring large-scale projects, realizing the benefits of upfront investment implemented since the 'Second Founding' period.

■ IT service / Security div.

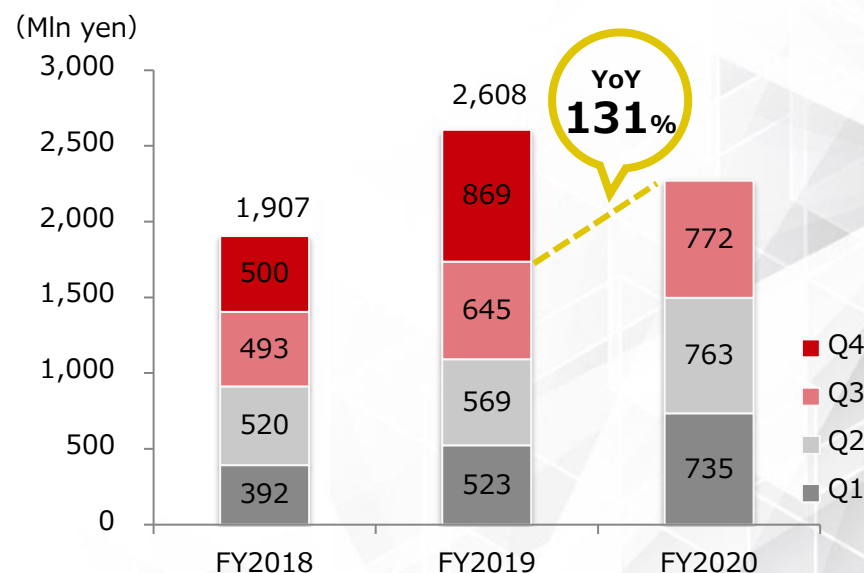
- Achieved higher sales in all categories such as system development, maintenance and operation, and cyber security services.

Quarterly sales

System Testing div.



IT service / Security div.



FY2020 Consolidated Financial Forecast



DIGITAL HEARTS HLDGS.

- Planning higher sales and profits due to growth in the Enterprise Business.
- Despite the impact of COVID-19, the Entertainment Business will maintain almost the same level sales as the previous fiscal year.

(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%

Initiatives in the 'Second Founding' Period

Toward the Next Stage of Growth.

Completed building a foundation for the Enterprise Business's growth.

Challenging to capture new demand with Digital transformation (DX) and various changes in the market.

Acceleration of DX



Popularization of agile type development



New Challenge

Developing solutions to improve comprehensively quality and security of our client's business itself.

Next Stage of Growth
of the 'Second Founding' period

Done

Established the foundation of business in the enterprise domain, such as System Testing and Cyber Security services.

Starting
of the 'Second Founding' period

Shortage of IT human resources



Expansion of IoT



Growth of console game market



Growth of mobile game market



Developed business for the entertainment industry, focusing on game debugging.

'First Founding' Period

June 2017

October 2020

What we achieved in the first three year of 'Second Founding' period.
Built a solid foundation for growth in the Enterprise Business.

Human Resource

Number of test engineers in Japan

approx. **Three times**

As of March 2018

49
people



As of December 2020

139
people

Service

Sales in Enterprise Biz

**Ready to challenge to
achieve 10.0 bln yen**

FY2017 full year
(Actual)

1.8
bln yen



FY2020 full year
(Forecast)

7.1
bln yen

Client Base

Number of domestic clients

**Increased by
over 200 companies**

As of March 2018

176
companies



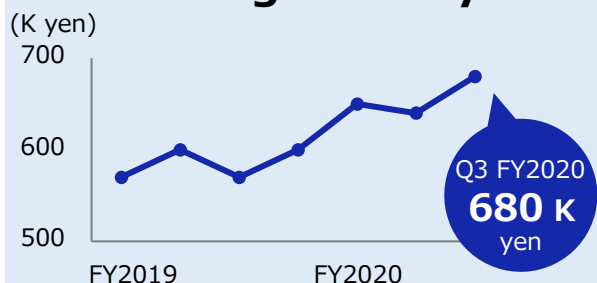
As of December 2020

382
companies

Service

Monthly unit price of test engineers

Rising steadily



Service

Expansion of services

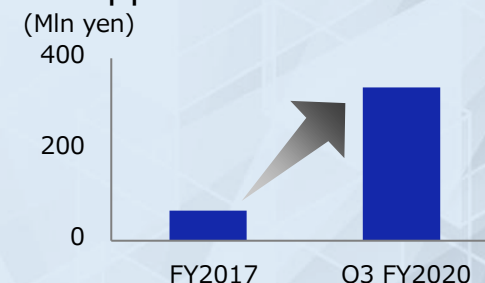
Advanced technologies



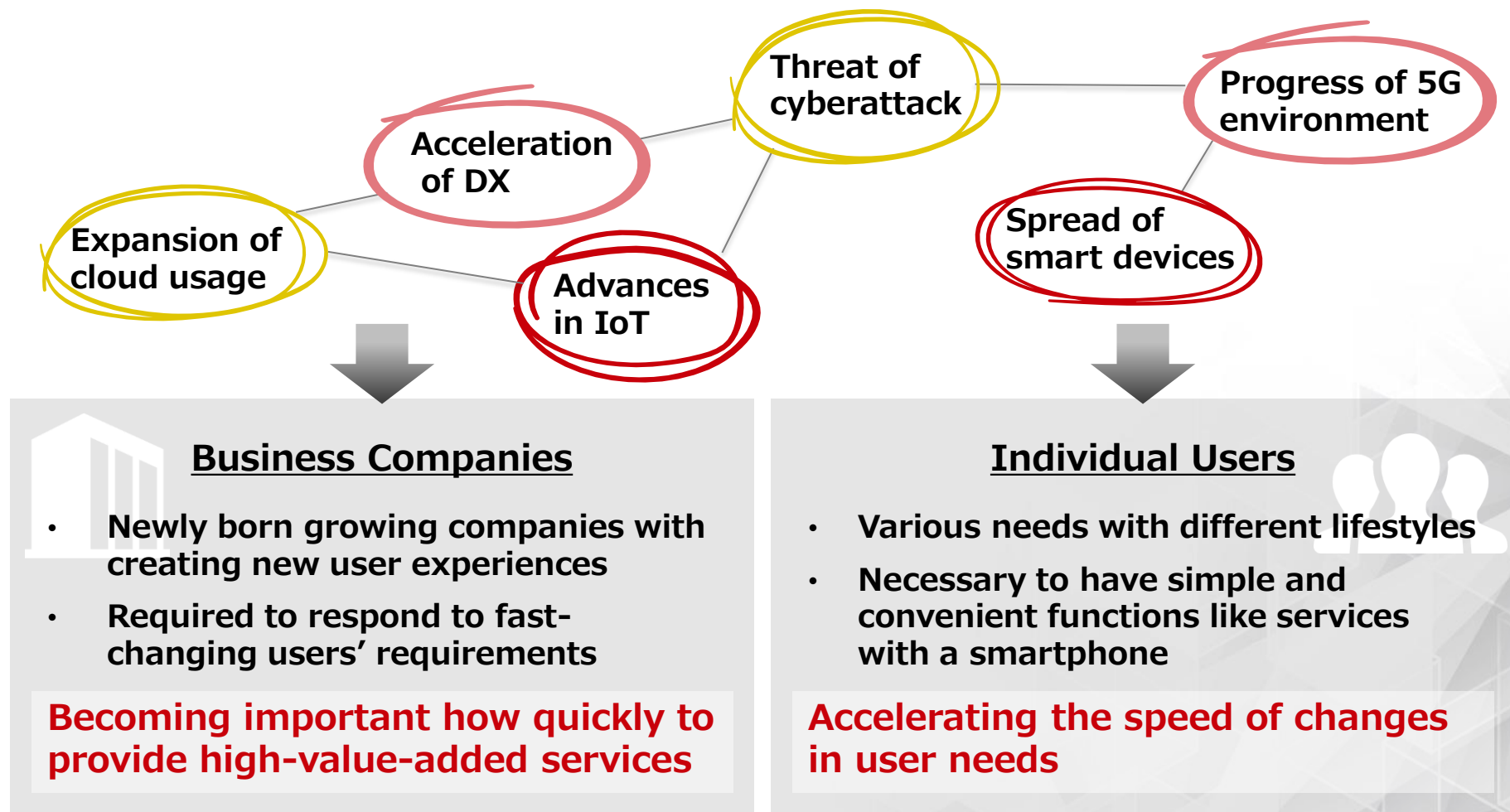
Service

Sales in Cyber Security business

approx. **Five times**



In order to survive the digitization era, "agility" is more critical than ever. Not only the quality and security of service/products but also the flexibility to respond to the rapidly changing needs of users in the market.



Three Values to Provide in the Next Stage

In the next stage of the 'Second Founding' period,
to be a provider of three values of **Quality, Security, and Agility**



To support our clients in any stages of any industries
to develop their services with the most advanced IT technology

Our services and products

QA consulting

Test automation

Penetration test

Manual testing

Load testing /
reliability testing

Vulnerability testing

Server monitoring

Cloud environment
construction support

CI / CD environment
construction support

Target 1

**Companies moving to
agile developments**

Target 2

**Companies shifted to
agile developments**

Already shifted, but with
less experience/knowledge
and less enough engineers.

Target 3

**Companies with the
most advanced IT tech**

- Companies with innovative services utilizing IT.
- Already having enough number of engineers with advanced technologies.

Establishing the **CTO office** to realize new providing values and to improve human resources and technological capabilities

Leaders of new organization



CTO Kazutaka JOKURA
(Chief Technology Officer)

A former CTO in DMM.com LLC. Worked on expanding and training the company's engineers for 7 years.



CTSO Juichi TAKAHASHI
(Chief Testing Solution Officer)

A former Distinguished Engineer in Sony Corporation. Hold a Ph.D. in software testing and many authored works.

CEO, LOGIGEAR JAPAN CORPORATION

Mission of CTO office

1. Human Resource

- Aggressive recruitment of tech lead personnel
- To revamp the corporate branding

2. Advanced Technology

- Sharing knowledge internally through study sessions
- Evaluation of the latest technologies

3. Engineering Service

- Cross-sectional support for technical issues
- R&D for use of new technologies

Topics

1

Become an SAP service partner and to provide full-scale integration test solution service for SAP

Service features

Utilizing the automation tools to realize the efficiency and cost reduction of projects

Panaya

Recommended by SAP

- Impact analysis during system upgrades can be done in only 48 hours
- Administration function for system testing processes

WORKSOFT

- Executions of test automation
- High compatibility with Panaya

Providing high-quality services by SAP specialist engineers

Human resources in Vietnam

- Train engineers at our base in Vietnam to be specialized SAP personnel

Business alliances

- Collaborate with alliance partners which has strengths in SAP integration

SAP project cases



Major cosmetics manufacturer



Industrial machinery manufacturer



Auto parts manufacturer



Precious metal products manufacturer



Energy supply company



Industrial apparel products maker

Topics 2

Business alliance with **Red Journey inc.** to strengthening the support system for DX promotion at clients



RED JOURNEY



DIGITAL HEARTS

DX Support

In the DX-related initiatives of client companies, moving along with organizational reform frontlines, from organizational approaches to business development and product development transformation.

Details of support

- Consulting/Mentoring
- Business development support
- Product development support
- Human resource development
- Training/Workshop

Execution of QA services

Supporting strategies and systems for ensuring quality, one of the most important user experiences, while maintaining agility in processes.

Details of support

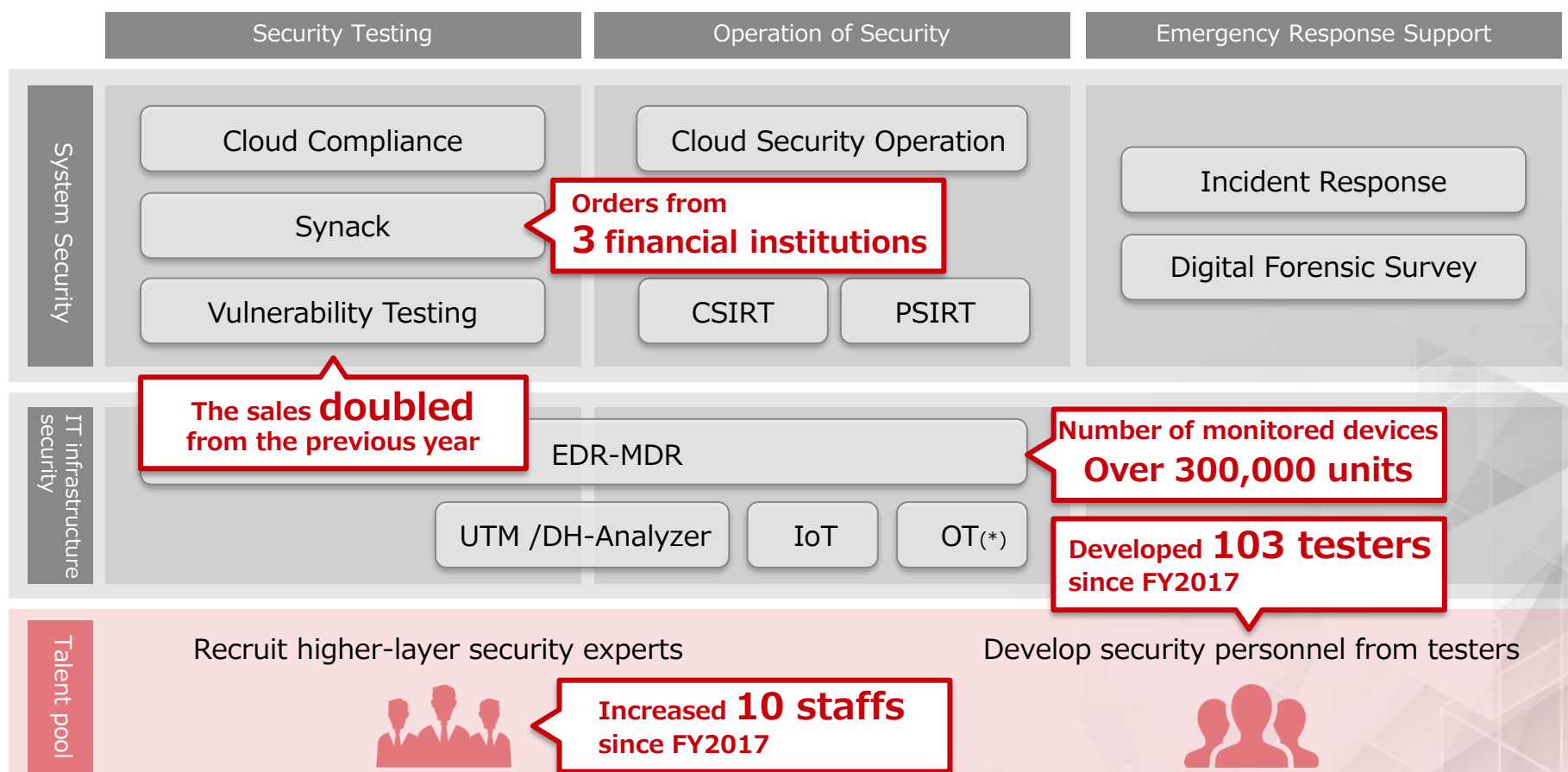
- QA consulting
- Test strategic/planning
- Test scenario creation
- Execution of tests
- Agile testing support
- Vulnerability testing
- Load testing

etc...

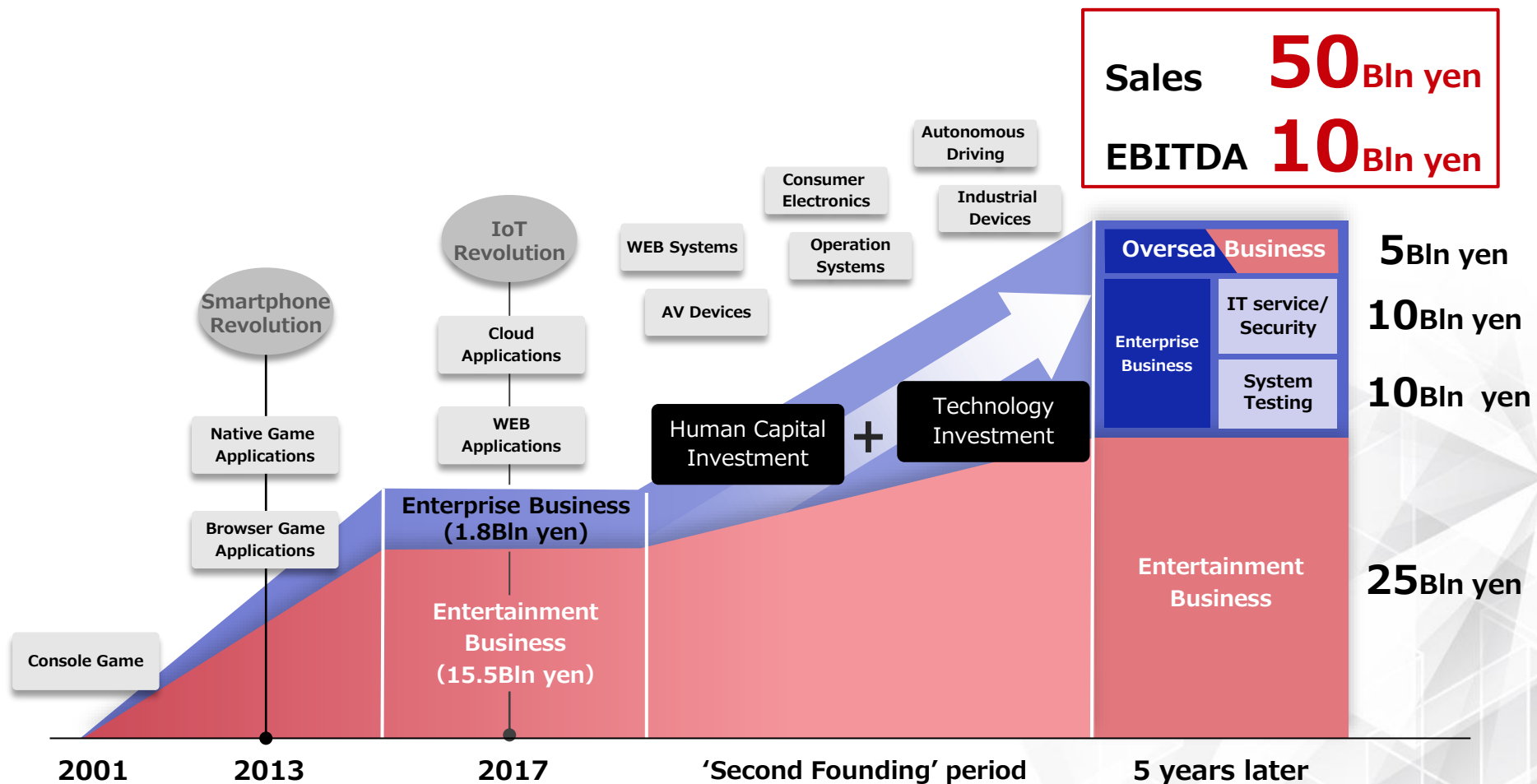
Topics 3

Comprehensive cyber security services in response to growing clients' needs

Security services of our group



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



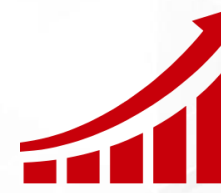
Business that supports
Digital security



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 2020 to 2024
(References) Websites related to "Global Software Testing Services Market 2020-2024"

Market environment

Growth of game console market

Growth of mobile game market

Expansion of IoT

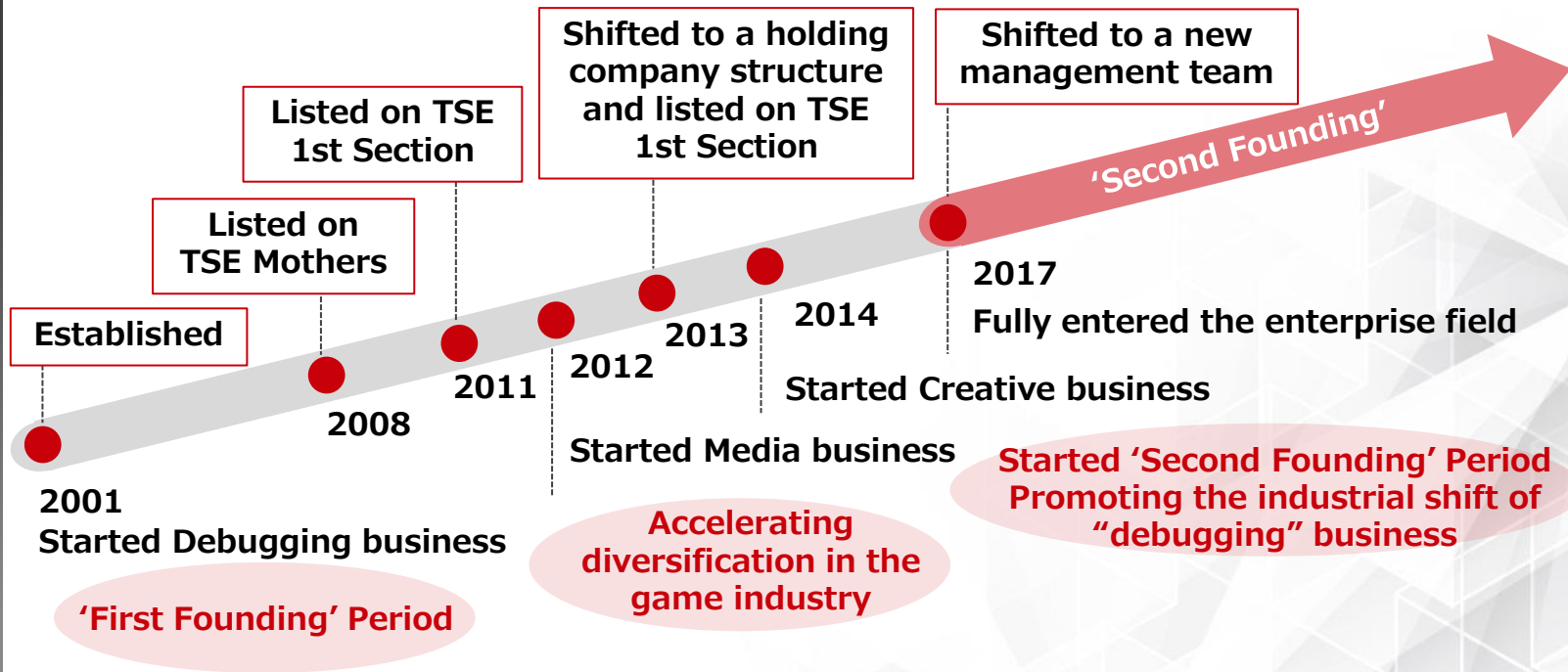
Shift to 5G

Our vision

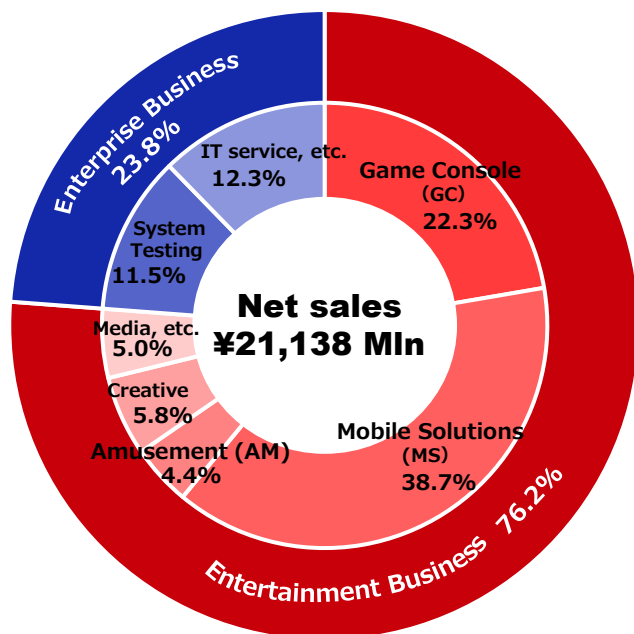
To be the Japanese No.1 Game Debugging Provider

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

History



Debugging and System Testing are our core business



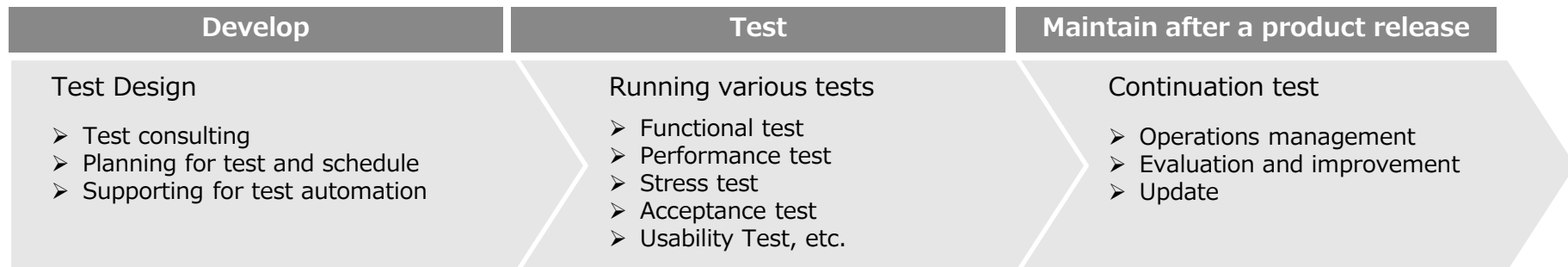
Sales breakdown by segment (FY2019)

※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

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

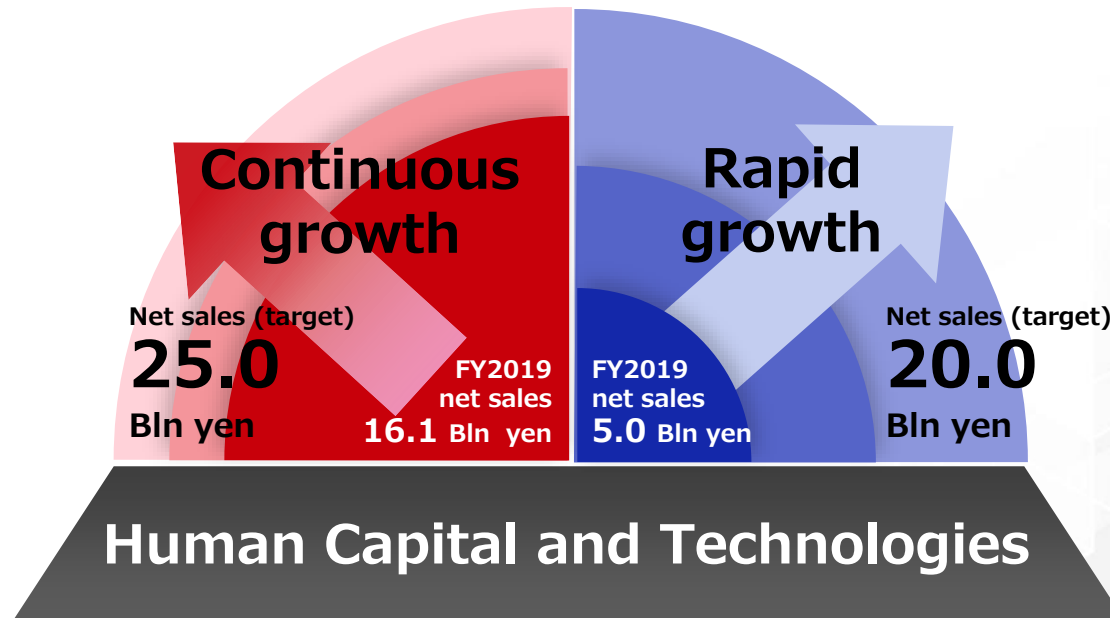
Pursue the growth of the mainstay Entertainment Business and make the Enterprise Business another primary source of revenue

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



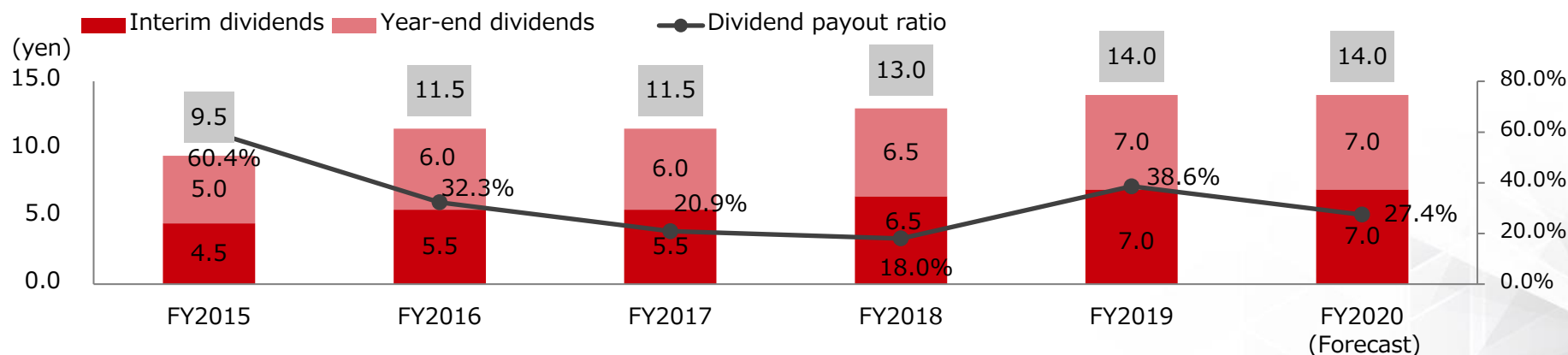
Summary of Earnings by Segment

(Mln 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



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

(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

- In-house support system for all employees (incl. part-timers) to acquire the test engineer's qualification "JSTQB".
- Ethical hacker training courses and engineer training programs for employees.
- Opened a free school for engineers in collaboration with WORKPORT, inc.
- Project to discover and foster potential ethical hacker candidates among high school students in collaboration with HASSYADAI.social.



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.
- Employ foreign nationalities of more than 20 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

- Contribute to improve quality of various kinds of software through game debugging, system testing, and other services.
- Preservation of information assets in the net society through cyber security services.
- Challenges for technological innovation through research and development on test automation and AI utilization.



Communities

To revitalize local community and resolve IT disparities

- Create jobs through out nationwide test centers (Lab.) and promote teleworking/work-from-home style by Remote Debugging service.
- Implemented "Cyber Security Support Team for SMEs in Tohoku region" as one of projects of Information-technology Promotion Agency, Japan (IPA)



(As of December 31, 2020)

DIGITAL HEARTS Co., Ltd.

Entertainment Business

Enterprise Business

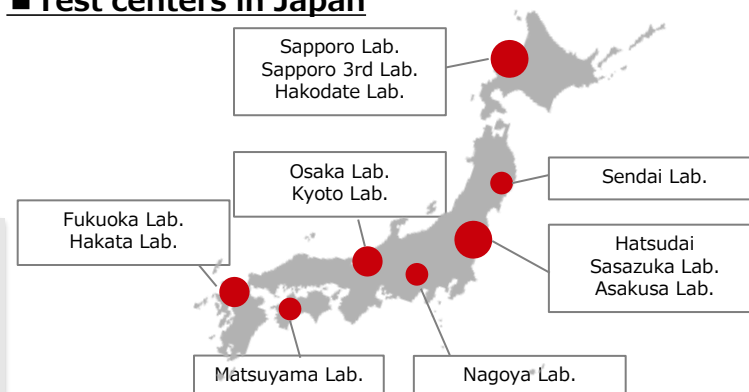


Business Activities : Game debugging, Localization, System testing, System development, Security, etc.

[Strengths]

- **Over 8,000** registered testers
- **Over 2.0 million** bug data
- **13** 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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