

# **Presentation Material**

## **for the First Half of Fiscal Year Ending March 31, 2015**

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**Hearts United Group Co., Ltd.**

**Tokyo Stock Exchange First Section : Code 3676**

**URL : <http://www.heartsunitedgroup.co.jp/en/>**



# Explanation of the business results for the First Half of FY2014







## 1.Explanation of the business results

Hearts United Group Co., Ltd. (HUG) was established as a 100% parent company of DIGITAL Hearts Co., Ltd. by sole-share transfer on October 1, 2013. As there are no substantial changes in the scope of consolidation, the consolidated results of DIGITAL Hearts Co., Ltd. are presented as the financial results prior to the Company's establishment and used as comparative figures where applicable.

## 2.Explanation of Segment

"Creative Businesses" has become a new segment from 1Q of FY2014. "Development Outsourcing Project" and "Video Production Project," which were previously classified as "Others," are consolidated as "Creative business." In order to assess segment earnings properly, we also have changed expenses allocation, etc. from 1Q of FY2014. Those changes have applied retroactively to segment results of FY2012 and FY2013, and thus segment results of FY2012 have not been audited by auditor.

### 【Segment details】

Segment	Business Unit	Services
Debugging	Debugging Service is a service which tests for bugs in software before its release and reports to clients	
	Consumer Games (CS) 	Mainly Debugging service for consumer games and online games. Including service for overseas consumer games.
	Digital Solutions (DS) 	Mainly Debugging service for mobile games devices such as social games and smartphone applications. Including system verification and services for overseas mobiles.
	Amusement (AM) 	Mainly Debugging service for Pachinko and Pachislot.
Media	Media Business 	Operates Japan's largest game portal "4Gamer.net"
Creative	• 3DCG Contents Development Project • Development Outsourcing Project • Video Production Project 	• Develops contents based on technology of original 3D graphics engine "Chidori" • Receives orders for outsourcing of development process. • Provides total service of image processing technology.
Others	• System Development Project • Fuguai.com Project • DIGITAL Hearts Creators Network Project 	Develops variety of systems including contents program and core system. Manages a bug information portal site "Fuguai.com" Operates user participating games which supports creators' growth.

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# Contents

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<b>1. Summary of Business Results for the First Half of FY2014</b>	<b>P4</b>
<b>2. Earnings by Segment and Outlook for the Second Half of FY2014</b>	<b>P13</b>
<b>3. Future Development and The Medium-term Management plan</b>	<b>P24</b>

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# **1. Summary of Business Results for the First Half of FY2014**

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# The First Half of FY2014 Results Summary

(¥ Million)	FY2013 2Q	FY2014 2Q YoY Change	FY2014 Forecast Achievement rate	Summary
<b>Net Sales</b>	4,659	6,199 +1,540 133.1%	15,002 (41.3%)	● Increased due to additional 2 consolidated subsidiaries acquired through M&A and expansion of debugging business
Debugging Business	4,163	4,530 +366 108.8%	-	
Media Business	259	235 -24 90.7%	-	
Creative Business	237	810 +572 340.8%	-	● Contributed by Premium Agency Inc.: ¥594 million
Other Businesses	17	639 +622 3650.4%	-	● Contributed by NetWork21 Co., Ltd.: ¥612 million
Inter-segment adjustments	-19	-17 +2 -	-	
<b>Operating Income</b>	858	723 -135 84.2%	2,223 (32.5%)	● Decreased due to consolidating temporary loss of subsidiaries and an increase in SG&A
Debugging Business	1,081	1,116 +35 103.2%	-	
Media Business	26	0 -26 0.4%	-	
Creative Business	-22	-206 -183 -	-	● Net loss of Premium Agency Inc.: ¥182 million (including goodwill amortization of ¥35 million)
Other Businesses	-22	24 +46 -	-	
Adjustments*	-205	-212 -6 -	-	
<b>Operating Income Margin</b>	18.4%	11.7% -6.8Point	14.8%	● Decreased due to consolidating 2 subsidiaries with high cost rate and an increase in SG&A
<b>Ordinary Income</b>	859	719 -139 83.7%	2,201 (32.7%)	
<b>Net Income</b>	502	341 -161 68.0%	1,210 (28.2%)	● Decreased due to an increase in effective tax rate mainly caused by goodwill amortization in consolidated subsidiaries.

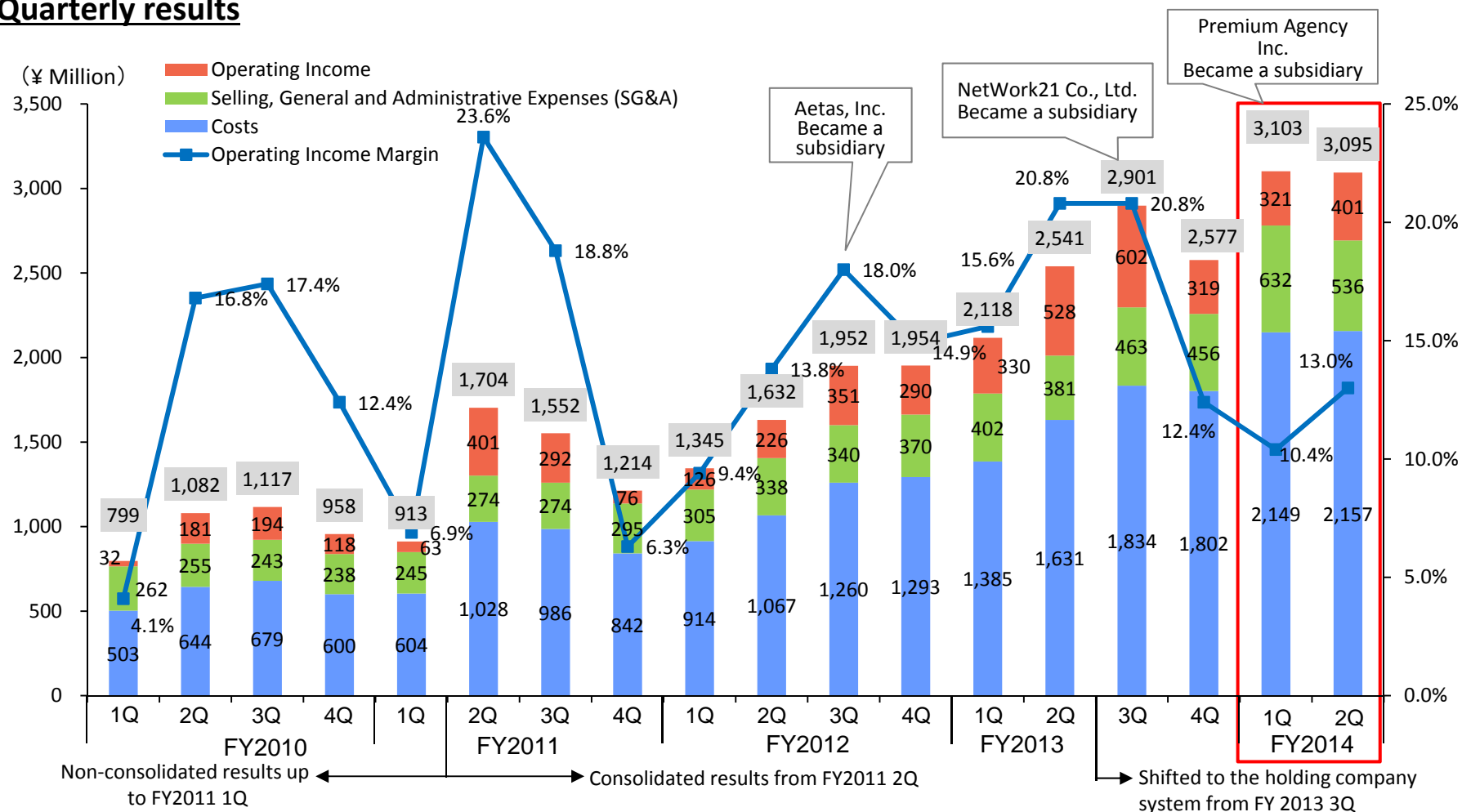
• Net sales by segment include inter-segment sales or transfers. Segment income is based on operating income.  
• Adjustments represent corporate expense including general and administrative expenses not attributable to any reportable segment.



## Trend in Consolidated Sales/Operating Income (Quarterly)

➤ While sales increased due to an increase of two consolidated subsidiaries, cost of sales and SG&A increased

### Quarterly results



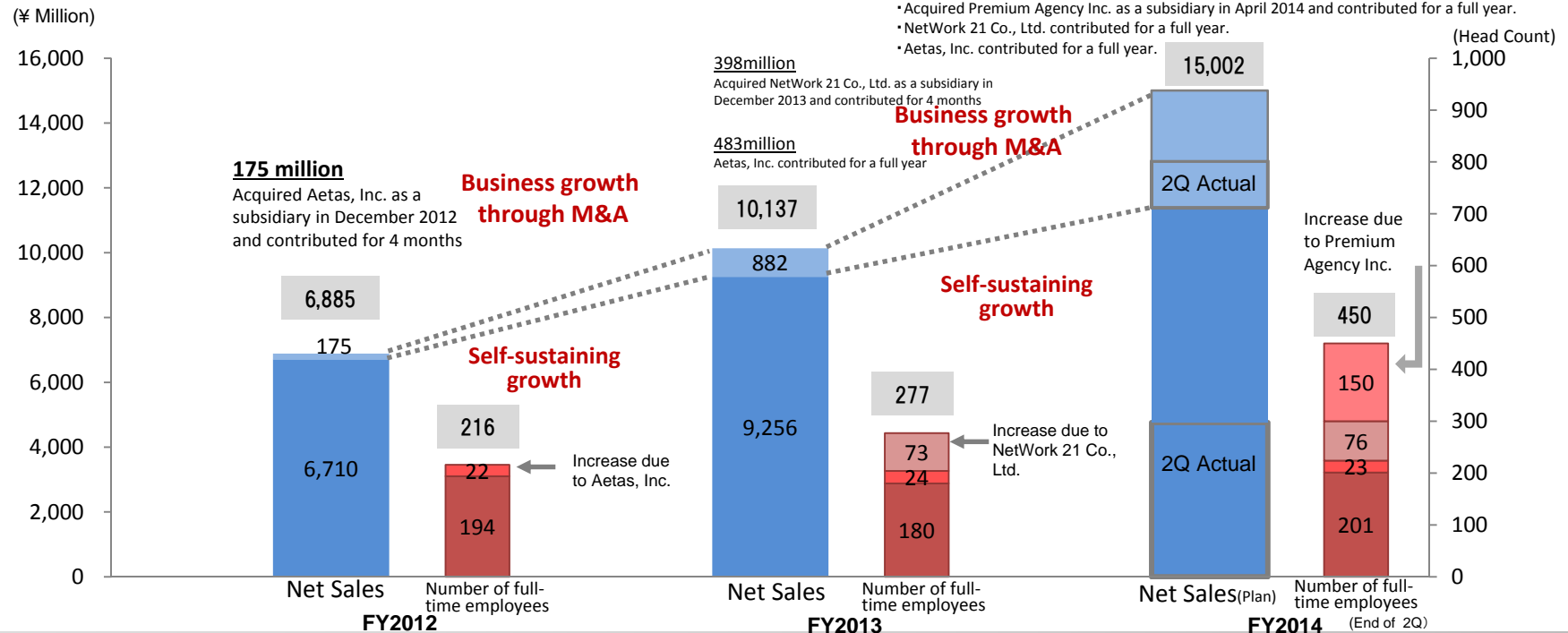


# Trend in Consolidated Sales and Analysis of M&A Impact

## Timing of consolidating results of new consolidated subsidiaries

Company Name	Segment	FY2012		FY2013				FY2014	
		3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
<b>Aetas, Inc.</b> (Subsidiary from December 2012)	Media Business								
<b>NetWork21 Co., Ltd.</b> (Subsidiary from December 2013)	Other Businesses								
<b>Premium Agency Inc.</b> (Subsidiary from April 2014)	Creative Business								

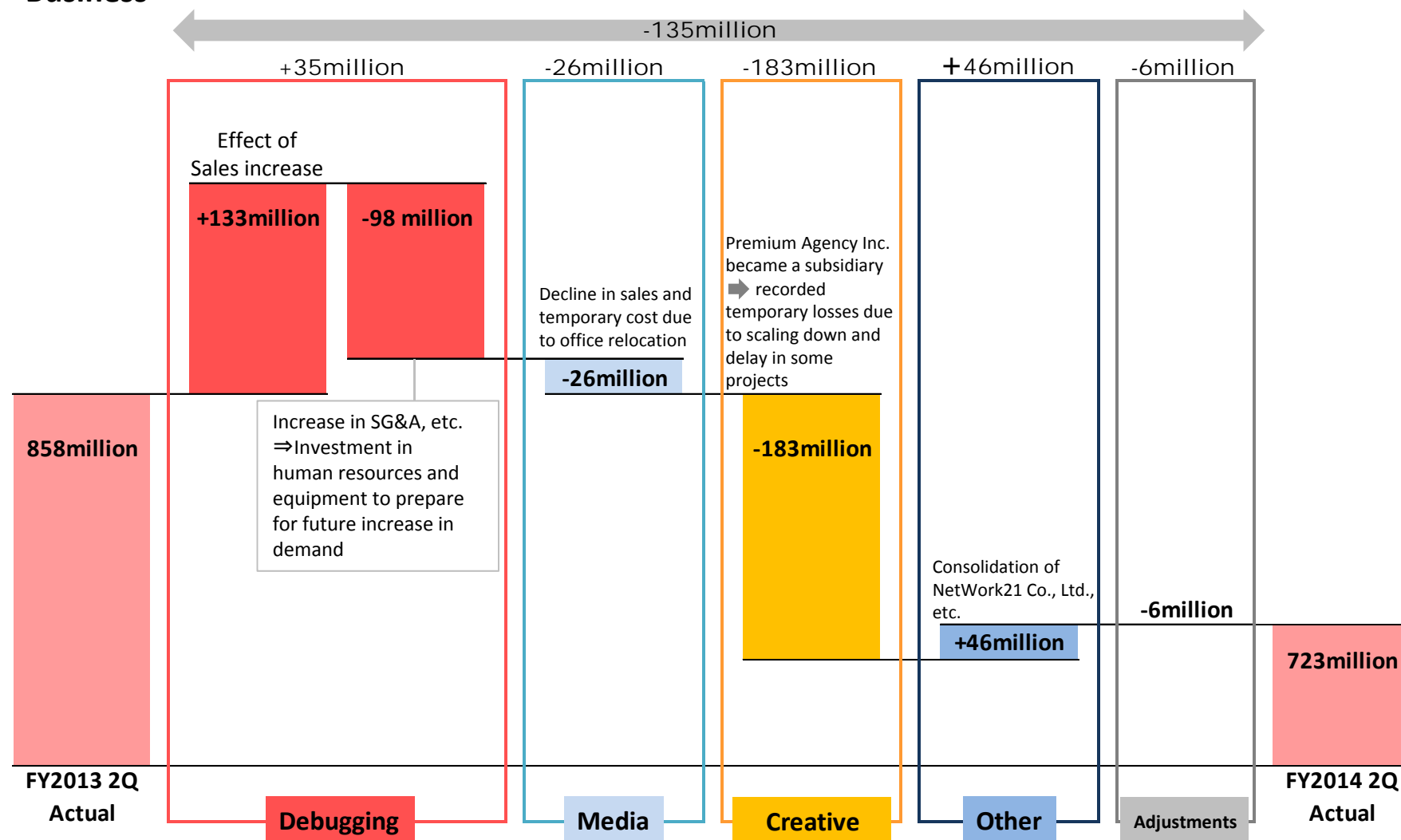
## Net annual sales and the number of full-time employees, autonomic growth and growth through M&A





# Analysis of Changes in Operating Income

- Decreased from the previous period due to investment in Debugging Business and loss in Creative Business

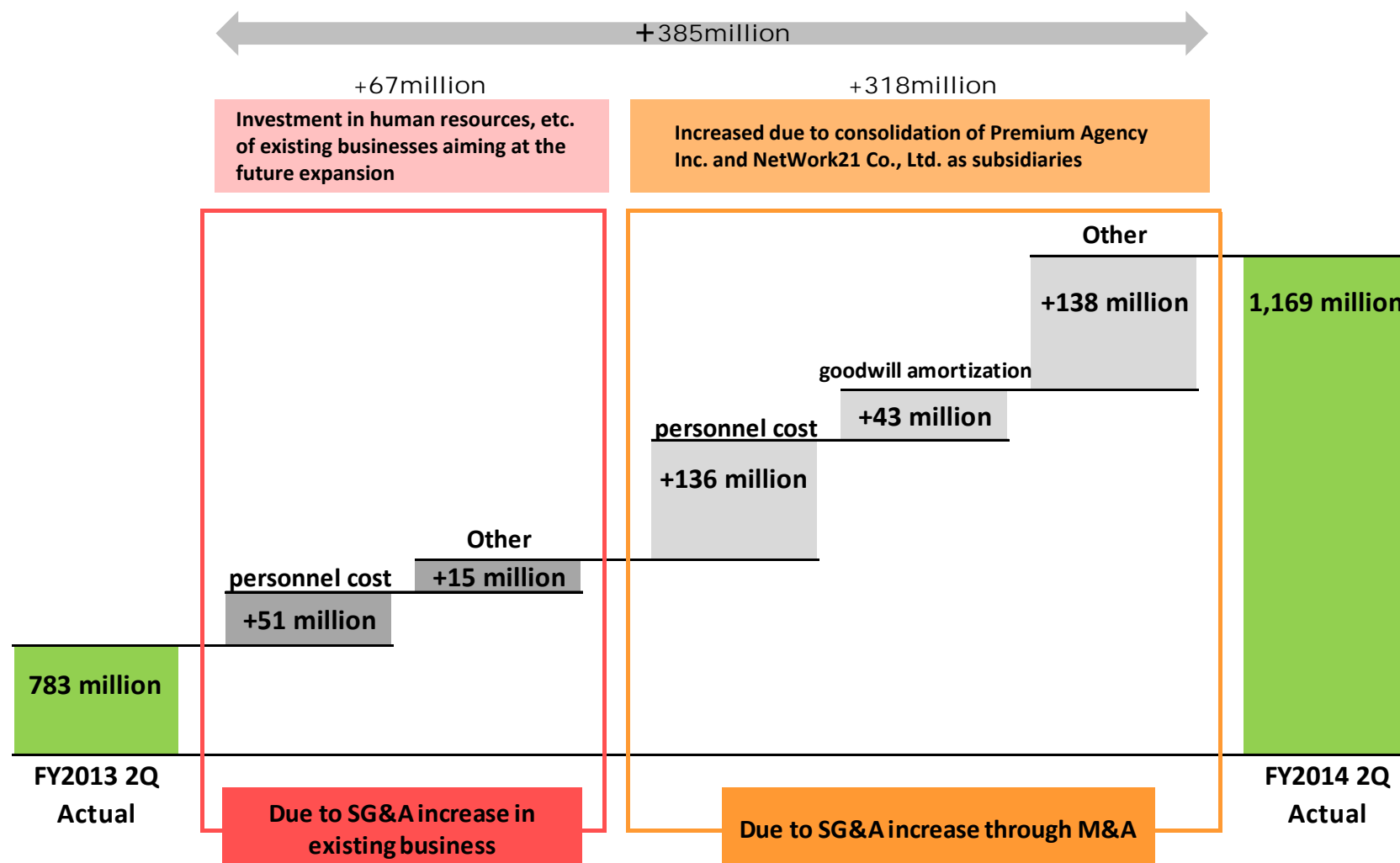






## Analysis of Changes in Selling, General and Administrative Expenses

- Personnel cost increased due to recruiting human resources for mainly debugging business and also an increase in consolidated subsidiaries





# Consolidated Balance Sheets

(¥ Million)	FY 2013 (As of Mar. 31, 2014)	FY 2014 2Q (As of Sep. 30, 2014)	YoY Change	(¥ Million)	FY 2013 (As of Mar. 31, 2014)	FY 2014 2Q (As of Sep. 30, 2014)	YoY Change
Current assets	5,549	5,281	-267	Current liabilities	3,372	3,636	263
(Of which)				(Of which)			
Cash and deposits	3,693	3,059	-633	Short-term loan	1,610	1,988	378
Notes and accounts receivable-trade	1,483	1,953	469	Noncurrent liabilities	20	291	270
Noncurrent assets	1,611	2,692	1,081	Total liabilities	3,393	3,927	534
(Of which)				Shareholders' equity	3,687	3,933	246
Property, plant and equipment	323	365	41	(Of which)			
Intangible assets	695	1,578	882	Capital stock	300	300	0
Investments and other assets	592	749	156	Capital surplus	300	300	0
Total assets	7,160	7,974	813	Retained earnings	3,086	3,332	245
				Total accumulated other comprehensive income	29	38	8
				Subscription rights to shares/Minority interests	49	73	24
				Total net assets	3,766	4,046	279
				Total liabilities and net assets	7,160	7,974	813

- Current assets: Decreased by ¥267 million (down 4.8% YoY) due to a decrease in cash and deposits despite an increase in notes and accounts receivable-trade.
- Noncurrent assets: Increased by ¥1,081 million (up 67.1% YoY) due to an increase in goodwill.
- Net assets: Increased by ¥279 million (up 7.4% YoY) mainly due to net profit (¥341million) and newly issued subscription rights to shares (¥14 million) offset by dividend payment (¥95 million)



# Consolidated Statements of Cash Flows

( ¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	YoY Change
Net cash provided by operating activities	478	85	-393
(*Cash flows before income taxes paid)	755	460	-294
Net cash used in investing activities	-90	-362	-272
Net cash used in financing activities	-57	-362	-305
Effect of exchange rate change on cash and cash equivalents	2	6	3
Net increase in cash and cash equivalents	333	-633	-967
Cash and cash equivalents at the beginning of period	2,184	3,693	1,508
Cash and cash equivalents at the end of period	2,518	3,059	541

- Cash flows from operating activities: Cash inflows from quarterly income before income taxes and income taxes refund exceeded cash outflows from income tax paid and a decrease in accounts payables.
- Cash flows from investing activities: Mainly includes cash outflows from acquisition of subsidiary stock resulting in change in scope of consolidation and purchase of intangible and tangible fixed assets.
- Cash flows from financing activities: Cash outflows from repayment of short term loan exceeded cash inflows from proceeds of short term loan.



# Profit Distribution to Shareholders

- Interim dividend Forecast: Increased from 7 yen to 8 yen, **to be an increase for six consecutive years**  
(Basic policy)  
Pay dividends linked to business performance of the relevant period with the medium-term **target for consolidated dividend payout ratio of 20%**

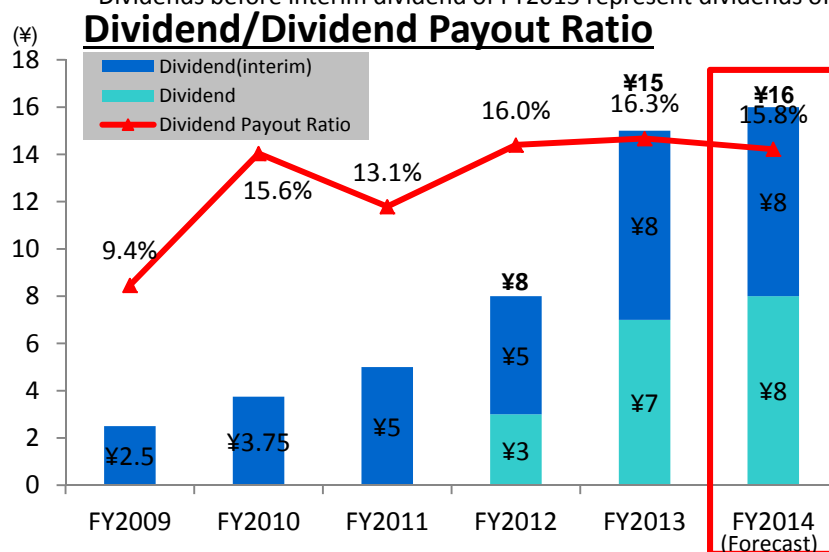
## Dividends per share

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014 (plan)
Annual Dividend	2.5 yen (500 yen)	3.75 yen (750 yen)	5 yen (1,000 yen)	8 yen (11 yen)	15 yen	16 yen
Interim dividend	-	-	-	3 yen (6 yen)	7 yen	8 yen
Year-end dividend	2.5 yen (500 yen)	3.75 yen (750 yen)	5 yen (1,000 yen)	5 yen	8 yen	8 yen
Dividend Payout Ratio	9.4%	15.6%	13.1%	16.0%	16.3%	15.8%

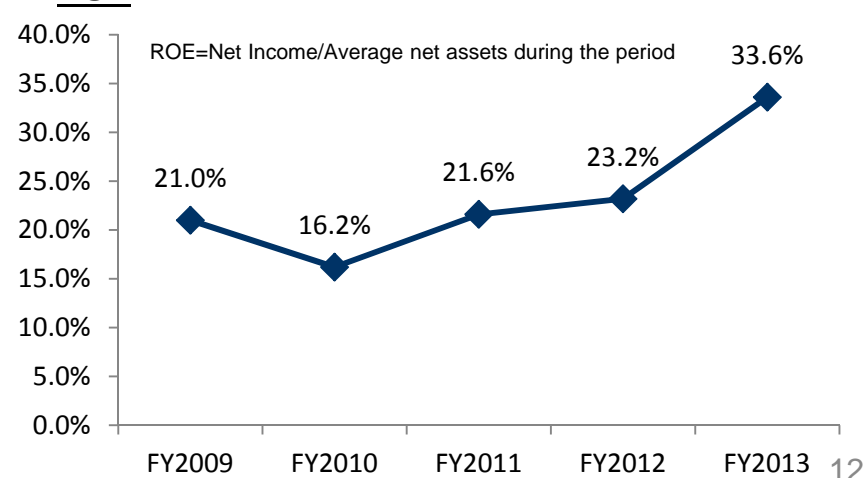
\*Executed stock splits at a rate of 1:100, effective on July 1, 2012, and at a rate of 1:2, effective on October 1, 2012.

Dividends per share in previous years are adjusted retroactively to reflect share splits impact. The dividend without adjustment are shown in brackets.

\*Dividends before interim dividend of FY2013 represent dividends of DIGITAL Hearts Co., Ltd.



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## **2. Earnings by Segment and Outlook for the Second Half of FY2014**

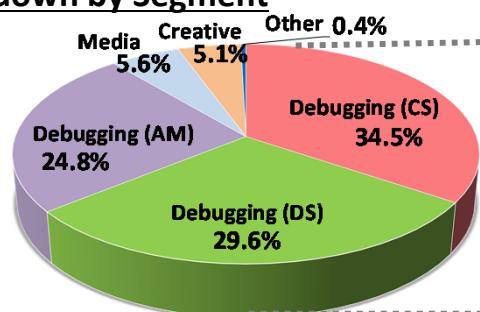
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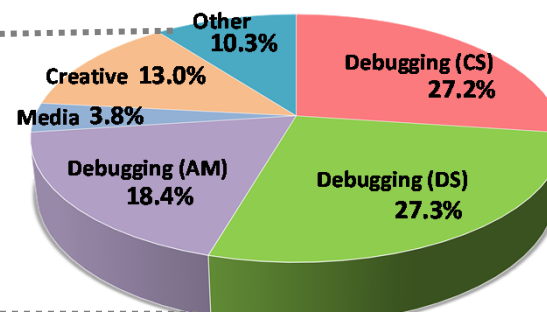
# The First Half of FY2014 Summary of Earnings by Segment

( ¥ Million)		FY2013 2Q	FY2014 2Q	YoY Change		Summary	
Debugging Business	Net Sales	4,163	4,530	366	(108.8%)	↑ DS continued to drive the sales of Debugging Business substantially	
	Segment Income	1,081	1,116	35	(103.2%)		
	Consumer Games (CS)	Net Sales	1,615	1,690	74	(104.6%)	↑ Received orders for large titles on multiple platforms
	Digital Solutions (DS)	Net Sales	1,385	1,696	311	(122.4%)	↑ Received repeat orders from existing customers and new orders
	Amusement (AM)	Net Sales	1,161	1,142	-19	(98.4%)	→ Focused on expanding market share by providing high value added services
Media Business	Net Sales	259	235	-24	(90.7%)	↓ Profit decreased due to declined sales and temporary cost related to office relocations, etc.	
	Segment Income	26	0	-26	(0.4%)		
Creative Business	Net Sales	237	810	572	(340.8%)	↑ 3DCG content development business started after Premium Agency Inc. became a subsidiary and contributed to consolidated results for a full year from 2Q of FY2014	
	Segment Income	-22	-206	-183	(—)	↓ Temporary losses were recorded due to scale down of some projects in 3DCG content development business	
OtherBusinesses	Net Sales	17	639	622	(3,650.4%)	↑ System development project started after Network21 Co., Ltd. became a subsidiary, and contributed to consolidated results for a full year from 2Q of FY2014	
	Segment Income	-22	24	46	(—)		
Adjustment for Each Segments	Segment sales adjustments	-19	-17	2	(—)	: Corporate expense including general and administrative expenses not attributable to any reporting segment	
	Segment income adjustments	-205	-212	-6	(—)		
Total	Net Sales	4,659	6,199	1,540	(133.1%)	↑ Sales increased due to an increase of two consolidated subsidiaries acquired through M&A and growth of Debugging Business	
	Operating income	858	723	-135	(84.2%)	↓ Profit decreased due to recording temporary losses in a subsidiary and an increase of SG&A	

## Sales Breakdown by Segment



FY2013 2Q



FY2014 2Q

\*Net sales by segment include inter-segment sales or transfers. Segment income is based on operating income. Adjustments represent corporate expense including general and administrative expenses not attributable to any reporting segment. This assumption also applies to the following pages.



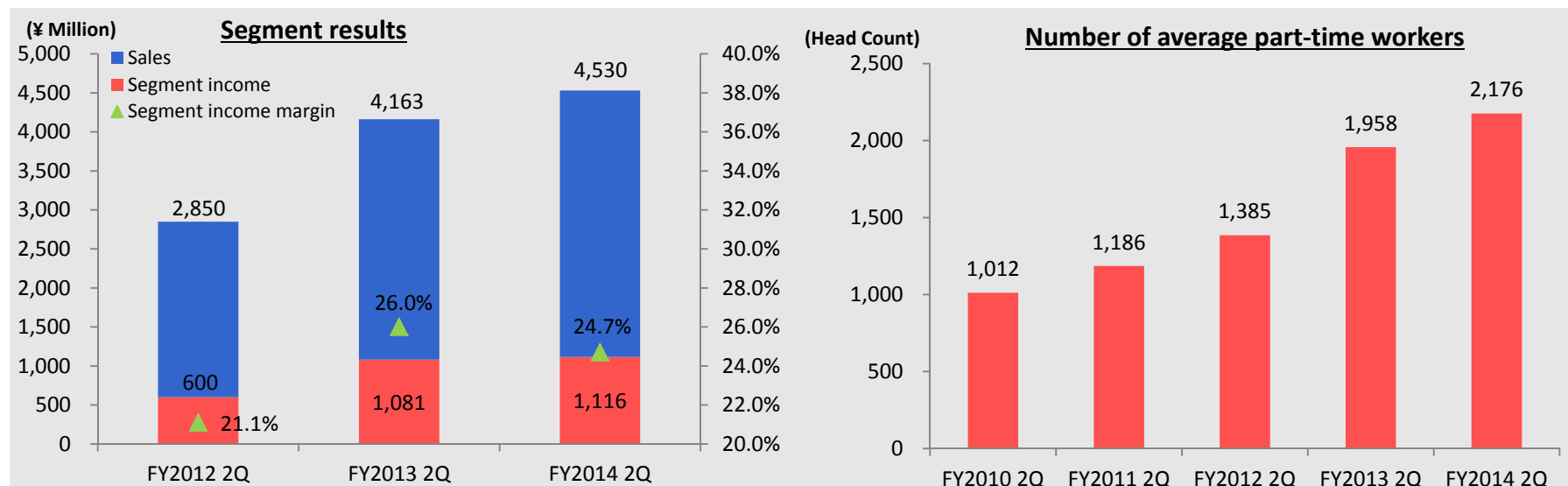
# Debugging Business

➤ DS unit, targeting fast-growing smartphones games, contributed to increased revenue/profit

<b>Background・environment</b>	<ul style="list-style-type: none"> <li>Market size keeps expanding due to integration of consumer games and social games market</li> <li>The number of debugging man-hours increased as the development scale grew</li> </ul>	➔	<b>Outlook of FY2014 2H</b>	<ul style="list-style-type: none"> <li>Steady growth by receiving large orders and expanding transaction volume is expected</li> <li>To make a strategic move toward development of new market, and to also acquire increasing debugging needs in existing area</li> </ul>
<b>Key Measures</b>	<ul style="list-style-type: none"> <li>Established efficient debugging system to meet customer needs (Newly built: Sendai Technology Center and Kyoto Shield room)</li> <li>Provided enhanced consulting service such as “DH-EYE” (full-scale operation started from Sep. 2014)</li> </ul>			

## Net Sales, Segment income (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	YoY Change		Summary
Net Sales	4,163	4,530	366	108.8%	DS unit continued to drive revenue and profit
Segment income	1,081	1,116	35	103.2%	Invested in human resources and equipment





# Debugging Business (CS: Consumer Games Unit)

➤ Market scale remained flat, but game titles running on multiple platforms resulted in stable growth

<b>Background・environment</b>	<ul style="list-style-type: none"> <li>Despite slight decrease in the number of developed titles, multiple platform titles increased significantly</li> <li>The number of debugging man-hours increased due to enhanced online functions enabled by high performance hardware</li> </ul>
<b>Key Measures</b>	<ul style="list-style-type: none"> <li>Acquired large title projects for multi-platform</li> <li>Acquired long-term recurring project such as arcade games and downloadable titles, etc.</li> </ul>

## Outlook of FY2014 2H

- 3Q is expected to be busy as game makers develop multiple titles simultaneously in preparation for year-end shopping season every year
- To strive to acquire large title projects for the year-end shopping season
- Project scale to expand and development of multiple platform to accelerate on the next generation hardware such as PS4 and XboxOne becomes available

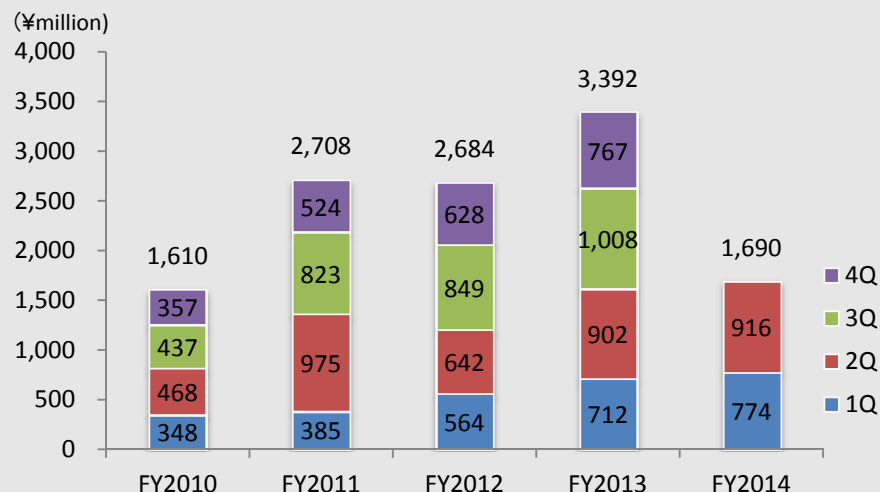
## Net Sales (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	Y o Y Change	
<b>Net Sales</b>	<b>1,615</b>	<b>1,690</b>	<b>+74</b>	<b>104.6%</b>

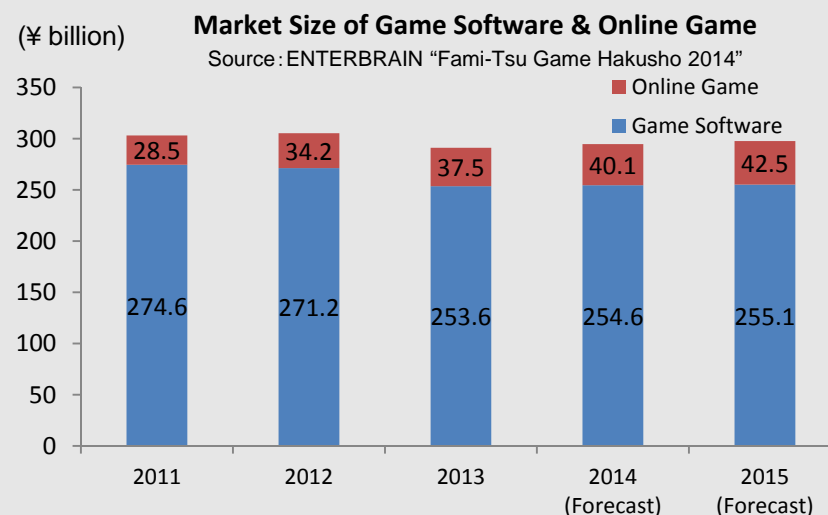
## Serviced Items:

- Debugging - consumer game software (Japan/overseas)
- Debugging - online games
- Debugging - arcade games
- Translation of consumer game software (localization)

## Net sales (FY)



## Market size (FY)







# Debugging Business (DS: Digital Solutions Unit )

➤ Market expansion as well as penetration of debugging process outsourcing drove the Debugging segment

<b>Background・environment</b>	<ul style="list-style-type: none"> <li>Active development of native applications</li> <li>Intense competition to acquire users improved game quality, leading to quality-focused tendency</li> <li>Development scale expanded and duration prolonged due to sophisticated functionality of smartphones and game factors</li> </ul>
<b>Key Measures</b>	<ul style="list-style-type: none"> <li>Focused on receiving orders of native applications using know-how of consumer games debugging</li> <li>Acquired debugging needs during development phase and also management phase that requires update</li> </ul>

## Outlook of FY2014 2H

- Solid growth due to full scale developments of multiple native applications, which were behind schedule is expected. This will continue to drive the Debugging Segment
- Growing trend of focusing on quality and game factors to further accelerate outsourcing debugging process.
- Prolongation of development period and expansion of development scale to continuously increase debugging man-hour and transaction volume
- To acquire testing needs in System Development field

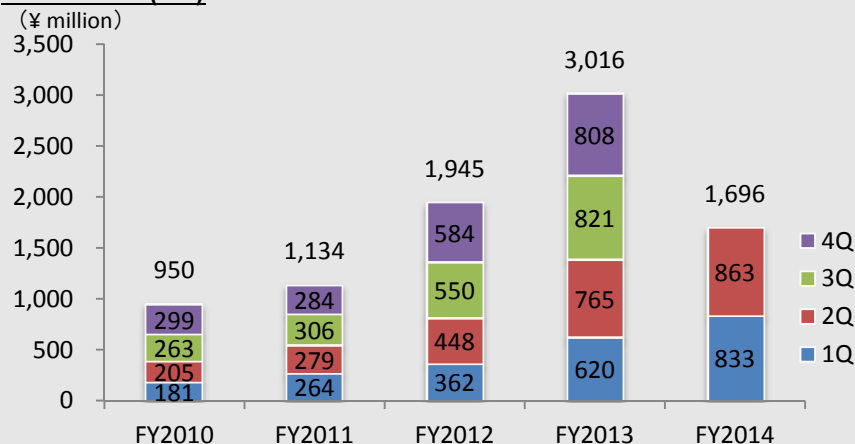
## Net Sales (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	Y o Y Change	
<b>Net Sales</b>	<b>1,385</b>	<b>1,696</b>	<b>+311</b>	<b>122.4%</b>

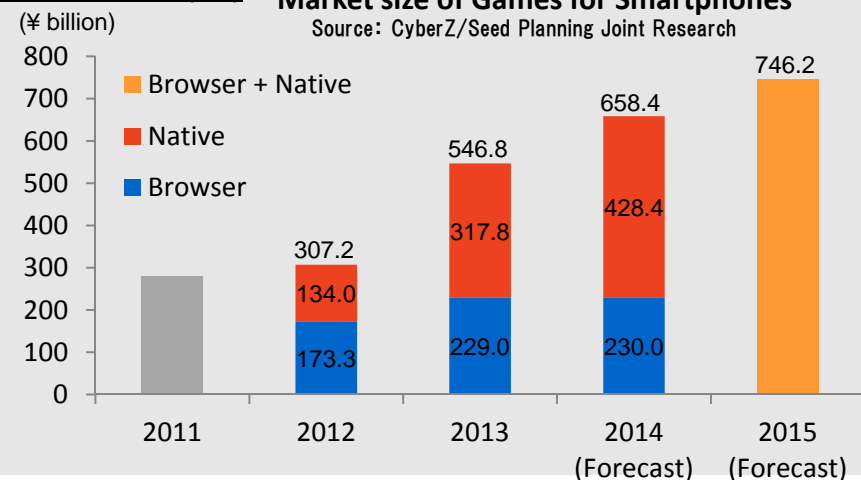
## Serviced Items:

- Debugging – applications (Japan/overseas)
- Debugging - Social Network System (SNS) games, localization, operation support (Japan/overseas)
- Testing of web system, operation system, and home appliances
- Cyber Security Service

## Net sales (FY)



## Market Size (FY)





# Debugging Business (AM: Amusement Unit )

➤ Maintains the same level of results as 2Q of FY2013 despite tough market conditions

<b>Background・environment</b>	<ul style="list-style-type: none"> <li>In spite of slight scale-down of market size of Pachinko and Pachislot, the number of titles remained the same</li> <li>Scale of development kept increasing as the game factors got more complicated</li> </ul>	➔	<b>Outlook of FY2014 2H</b>	<ul style="list-style-type: none"> <li>Impact of change in model tests for pachislot machines to be insignificant as 70% of Amusement Unit sales is generated from debugging-pachinko</li> <li>Trend of orders to continue to be fluid due to influence of the clients' development schedule</li> </ul>
<b>Key Measures</b>	<ul style="list-style-type: none"> <li>Expanded market share by providing high value services</li> <li>Enhanced sales activity to acquire new customers</li> </ul>			

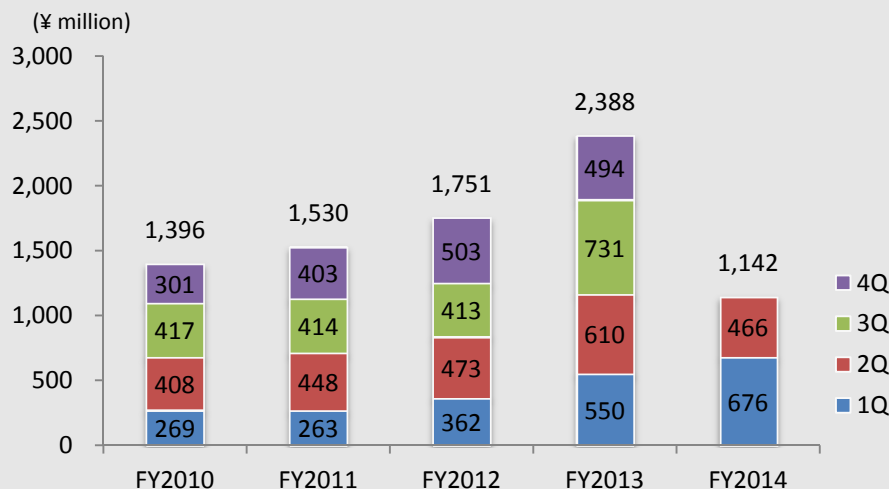
## Net Sales (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	Y o Y Change	
<b>Net Sales</b>	<b>1,161</b>	<b>1,142</b>	<b>-19</b>	<b>98.4%</b>

## Serviced Items:

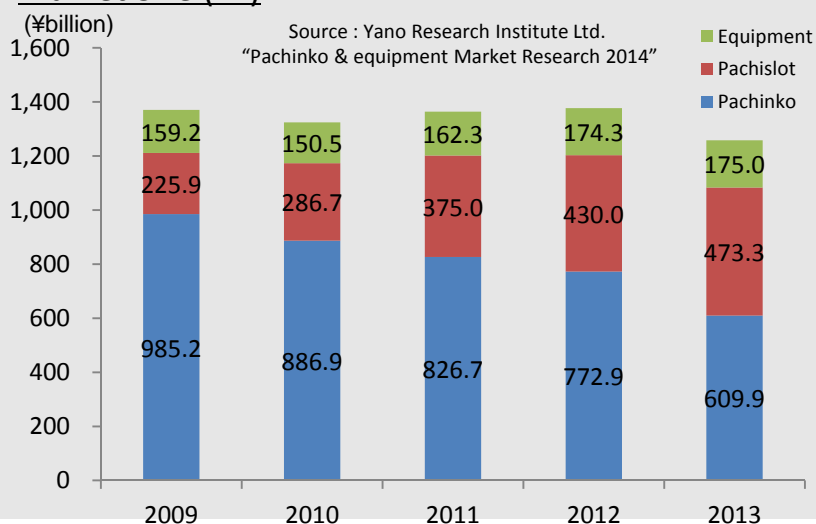
- Debugging - pachinko
- Debugging - pachislot
- Other development support services

## Net sales(FY)



## Market Size (FY)

## Market size of Pachinko and Pachislot





# Media Business

- Reduction of advertising costs by clients had an impact on the results. Targets were expanded to include smartphone games

## Background・environment

- SNS and movies accelerated real-time information sharing
- Diversification of information distribution method changed customer needs

## Key Measures

- ◆ Expanded contents lineup and developed services for growing smartphone games market

## Outlook of FY2014 2H

- To expand content lineup for smartphone games to appeal to clients and users
- To implement new measures to improve “4Gamer” brand value

## Net Sales, Segment income (Year Over Year)

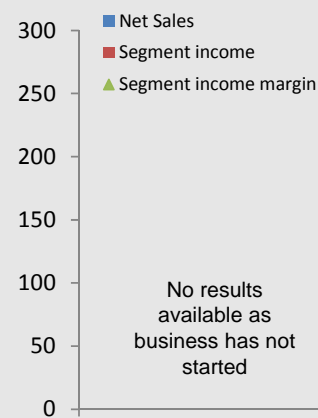
(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	YoY Change		Summary
Net Sales	259	235	-24	90.7%	Decreased as a backlash of multiple received in 2Q of FY2013
Segment income*	26	0	-26	0.4%	Decreased due to decline in sales and temporary cost related to office relocations, etc.

\*Segment income is net of amortization of goodwill arising from acquisition of shares of Aetas, Inc.

Media Business started from FY2012 3Q after consolidation of Aetas, Inc. (Started management of game portals <http://www.4gamer.net/>)

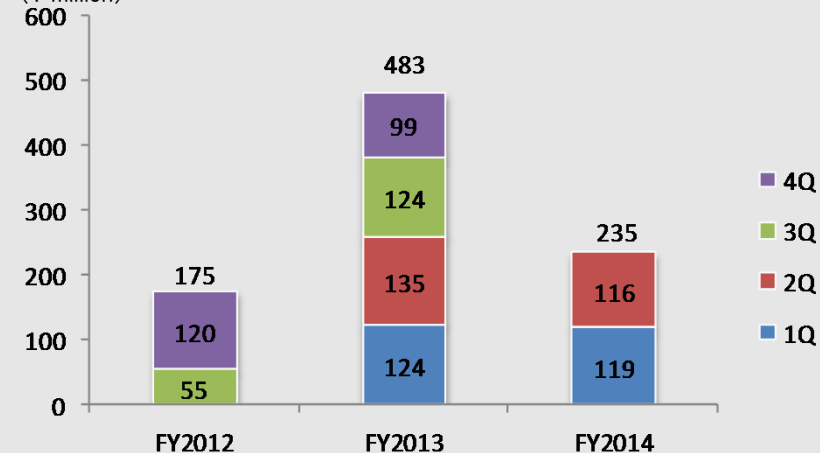
## Segment results

(¥ million)



## Net Sales(FY)

(¥ million)





# Creative Business

- Consolidation of Premium Agency Inc. contributed to sales increase but loss due to scaling back of project resulted in overall decline in profit

## Background environment

- Larger LCD screen and higher image quality increased development scale
- Home video game and game machines market is gradually scaling back

## Key Measures

- ◆ Improve development rate through disposition of unprofitable projects of Premium Agency Inc. and fundamental review of project management

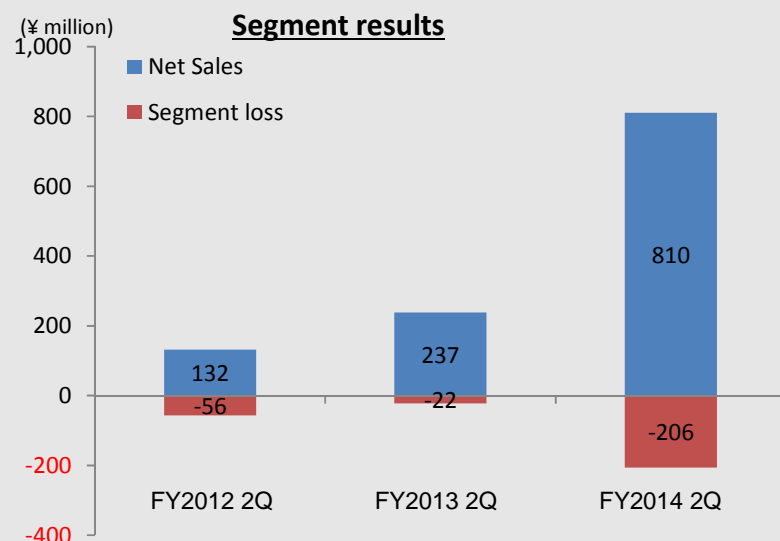
## Outlook of FY2014 2H

- Profitability to improve as reorganization of Premium Agency Inc. to enhance profitability is complete
- To improve technology design capability by strengthening alliance with group companies and G&D Co., Ltd.
- Creative business in the annual results is expected to record profit

## Net Sales, Segment loss (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	YoY Change		Summary
Net Sales	237	810	572	340.8%	Contribution by Premium Agency Inc.:¥594 million
Segment loss	-22	*-206	-183	—	Loss of Premium Agency Inc.:¥182 million

\*Segment loss is net of goodwill amortization (Premium Agency Inc.)



Business Unit	Company
• 3DCG Contents Development Project	<u>Premium Agency Inc.</u> Project started after Premium Agency Inc. became a subsidiary in April 2014
• Development Outsourcing Project	<u>G&amp;D Co., Ltd.</u> Project started after G&D Co., Ltd. was established in March 2012
• Video Production Project	<u>DIGITAL Hearts Visual Co., Ltd.</u> Project started in February 2011 and the company spun off in May 2012.

\* "Creative Businesses" became a new segment from 1Q of FY2014, and "Development Outsourcing Project" and "Video Production Project," which were previously classified as "Others," are grouped together as "Creative Business."  
This change was applied retroactively to the segment results for FY2012 and FY2013, and segment results for FY2012 is not audited by auditor.



# Other Businesses

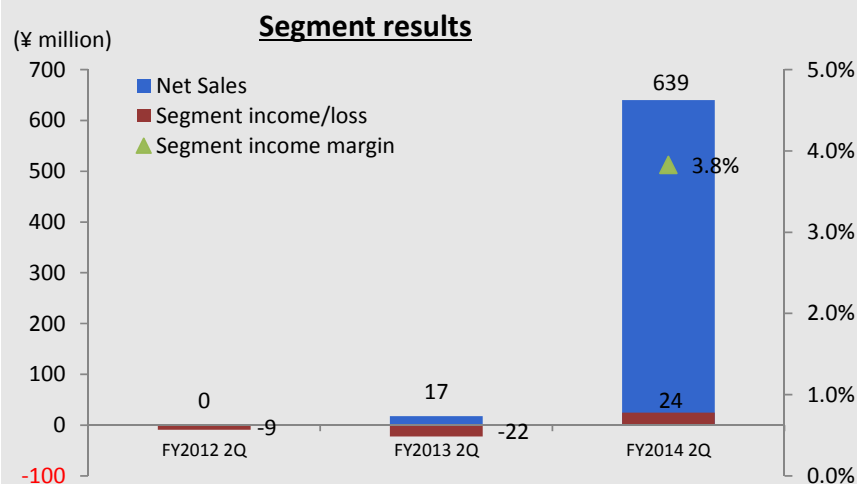
➤ Built a revenue base centering on System Development project and continue to test/create an affinity with other segments

<b>Background・environment</b>	<ul style="list-style-type: none"> <li>NetWork21 Co., Ltd. that provides system development service became a subsidiary in December 2013, and contributed to consolidated result for a full year</li> </ul>	➔	<b>Outlook of FY2014 2H</b> <ul style="list-style-type: none"> <li>To continue to show solid growth as development needs are stable</li> <li>To build solid revenue base by pursuing group synergy</li> </ul>
<b>Key Measures</b>	<ul style="list-style-type: none"> <li>Promoted measures to contribute to debugging business through collaboration with group companies</li> </ul>		

## Net Sales, Segment income/loss (Year Over Year)

(¥ Million)	FY2013 2Q Actual	FY2014 2Q Actual	YoY Change		Summary
<b>Net Sales</b>	<b>17</b>	<b>639</b>	<b>622</b>	<b>3650.4%</b>	Contribution by NetWork21 Co., Ltd.:¥612 million
<b>Segment income/loss</b>	<b>-22</b>	<b>*24</b>	<b>46</b>	<b>—</b>	

\*Segment income is net of amortization of goodwill arising from acquisition of shares of NetWork21 Co., Ltd.



Business Unit	Company
• System Development Project	<u>NetWork21 Co., Ltd.</u> Project started after NetWork21 Co., Ltd. became a subsidiary in December 2013
• Fuguai.com Project	<u>DIGITAL Hearts Co., Ltd.</u> Website opened in July 2008
• DIGITAL Hearts Creators Network Project	<u>DIGITAL Hearts Co., Ltd.</u> Project started in February 2013

\* “Creative Businesses” became a new segment from 1Q of FY2014, and “Development Outsourcing Project” and “Video Production Project,” which were previously classified as “Others,” are grouped together as “Creative Business.”  
This change was applied retroactively to the segment results for FY2012 and FY2013, and segment results for FY2012 is not audited by auditor.



# Financial Outlook for Second Half of FY2014

➤ Despite the effects of M&As and the timing of orders in Debugging Business affecting 1H results, full-year results are expected to turn out as initially planned

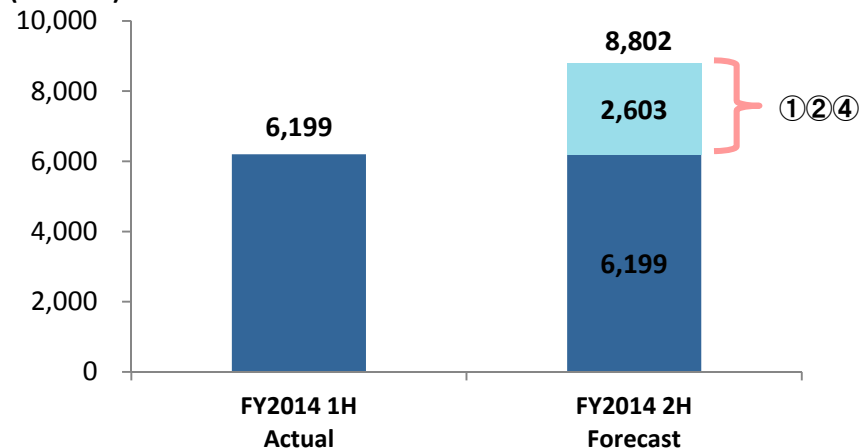
→ **No revision for the full year forecast**

## Summary

ID	Segment	Unit	Forecast of Second half	Factors
①	Debugging	CS	Net Sales ↑ / Operating income ↑	3Q is expected to be busy as is every year
②	Debugging	DS	Net Sales ↑ / Operating income ↑	Debugging needs will continue to increase as the market scale expands
③	Debugging	AM	Net Sales → / Operating income →	While impacted by development schedule changes, there will be no effect on full-year plan
④	Creative	-	Net Sales ↑ / Operating income ↑	Net sales and Operating income are expected to increase due to increase in orders in 2H
⑤	Creative	-	- / Operating income ↑	Positive effect of disposition of unprofitable business in 1H of FY2014 can be expected

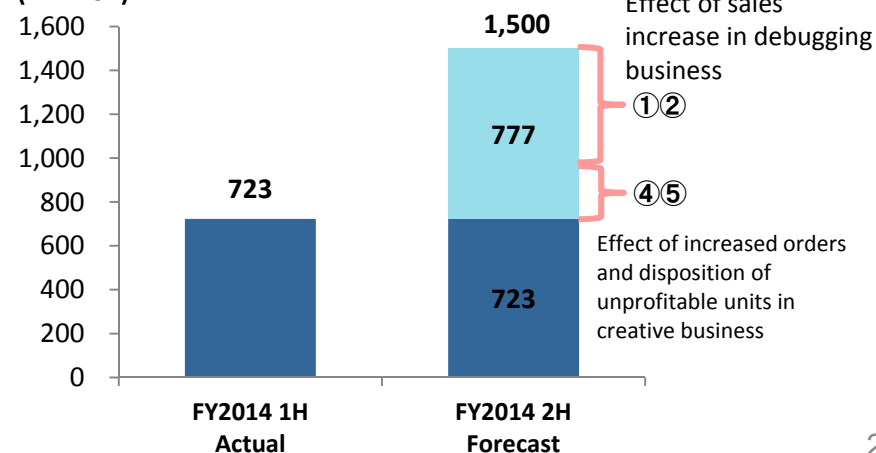
## Net Sales

(¥million)



## Operating income

(¥million)

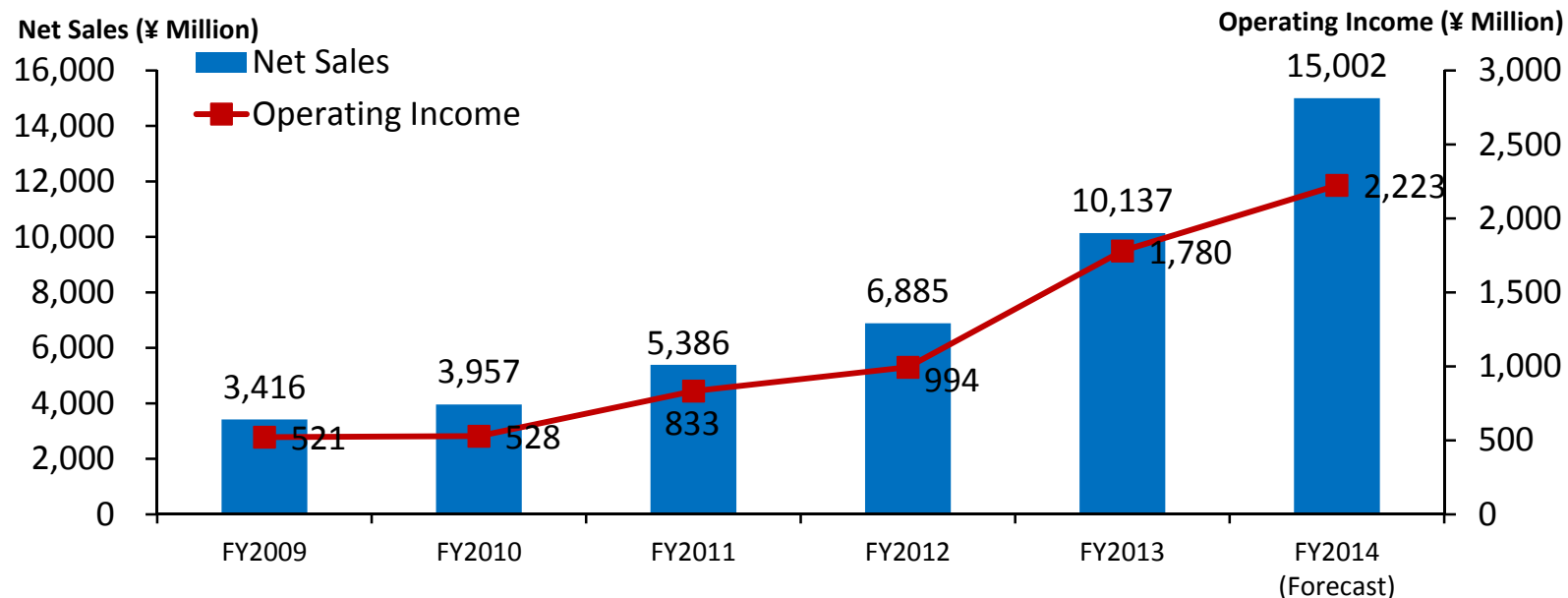




# FY2014 Consolidated Earnings Forecast

Aim further growth as the 1<sup>st</sup> year of Medium-term Management Plan

(¥ million)	FY2013		FY2014		
	Consolidated Actual	YoY Change	Consolidated Forecast	YoY Change	
Net Sales	10,137	147.2%	15,002	4,864	148.0%
Operating income	1,780	179.1%	2,223	442	124.9%
Operating income margin	17.6%	+3.1Point	14.8%	- 2.7Point	
Ordinary income	1,788	179.5%	2,201	412	123.1%
Net income	1,087	187.7%	1,210	122	111.3%





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## **3. Future Development and The Medium-term Management plan**

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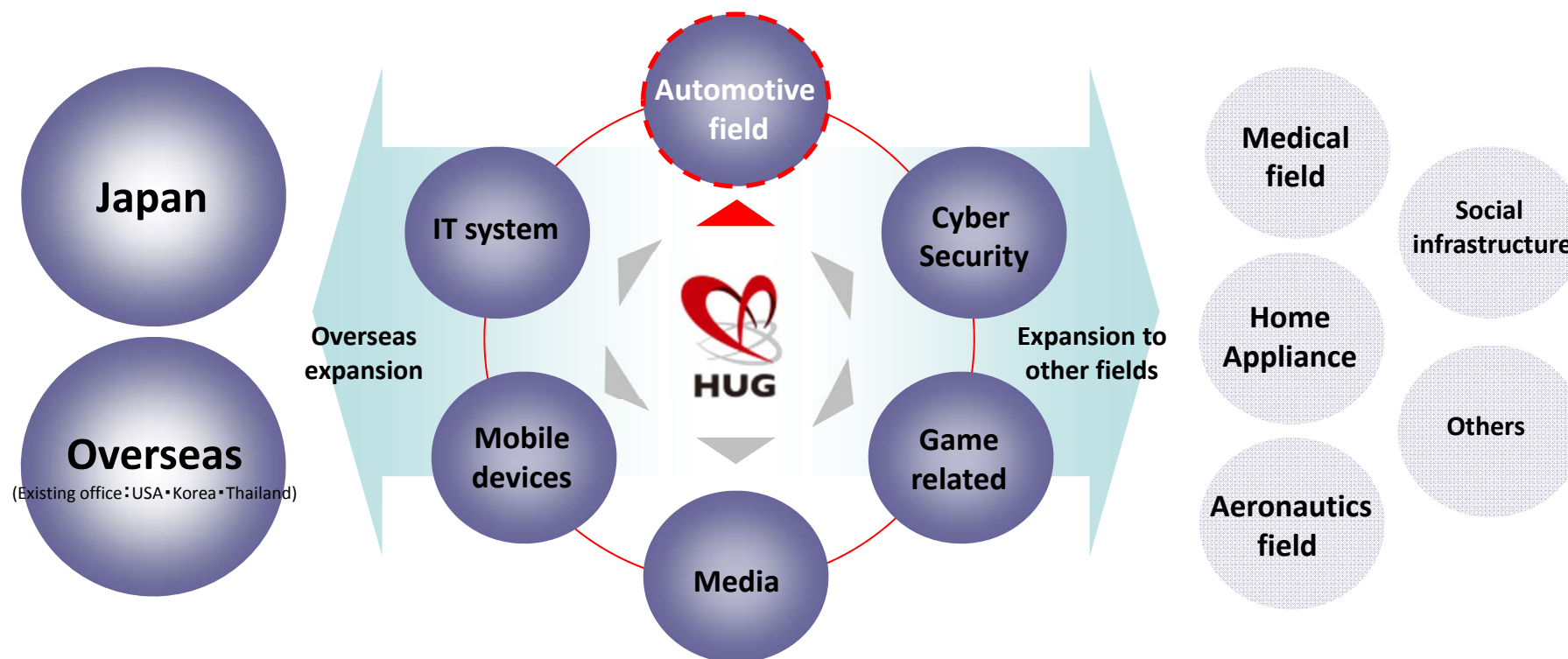




# Future Development

With its high versatility and potential to expand to other fields, “Debugging,” HUG’s core business, will be essential for future development in various business fields

## HUG positioning





# Future Development

Announced business alliance and establishment of joint venture with ZMP Inc. on November 4, 2014,  
which opened a path for us to enter automotive industry

## Cultivation of a new market with “**Debugging** × Automotive”

### Secure test drives flexibly and swiftly

Over 8,000 abundant human resources for testing.  
Record of 850 thousand bugs detected.



- Secure confidentiality of information with high-level security system by debugging-specialized company
- High quality testing by experienced staff
- Flexible support for expedited request

### Experience of automatic driving technology and test driving

Original hardware & software platform  
Experience of data collecting driving in Japan and overseas.



- Original data logger system optimized for test driving.
- Capable of simultaneous measurement by installing camera, GPS, accelerometer and gyro sensor, in addition to vehicle information through CAN.

## Background and objective

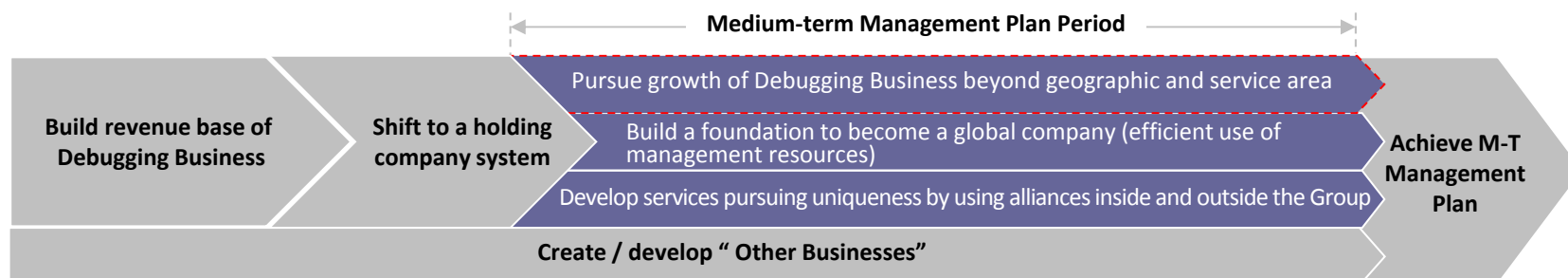
In recent years, vehicle software has become highly sophisticated and complicated due to advanced ADAS installed in vehicles. On the other hand, driving test for vehicle software verification is becoming a heavy burden on automobile companies and suppliers as it requires high completeness of test items and a large number of testing staff.

Under such environment, HUG, that has abundant testing staff and testing know-how with the users' viewpoint, and ZMP Inc., that has its original automatic driving technology and knowledge about sensor system, decided to combine their assets and form a business alliance and establish a joint venture, with an aim to co-develop “debugging business and data collecting and testing agency business for automotive industry.”



# Future Development

- Continue to pursue growth of existing business as well as external alliance, in order to achieve “growth of Debugging Business beyond geographic and service area”



## Pursue growth of Debugging Business beyond geographic and service area

- ◆ For the achievement of the medium-term management plan, pursuing growth of existing businesses and also consolidation of NetWork21 Co., Ltd. in November 2013 and Premium Agency Inc. in April 2014 resulted in expansion of the Group scale and enabled provision of “debugging service” to outside entertainment industry.
- ◆ Business alliance and establishment of a joint venture with ZMP Inc. enabled entry to automotive industry

Timing	Method	Company	Purpose
November 2013	Consolidated subsidiary	NetWork21 Co., Ltd.	To take in debugging needs in system development field
March 2014	Joint venture	KADOKAWA CORPORATION DWANGO Co., Ltd.	To establish Reinforce, Inc. to create and verify new media platform
April 2014	Consolidated subsidiary	Premium Agency Inc.	To take in debugging needs in game development field and improve the expertise of “Creative Business”
November 2014	Joint venture	ZMP Inc.	To take in debugging needs in automotive field



# Basic Policy of Medium-term Management plan

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## Positioning of the medium-term management plan

In developing the medium-term management plan,  
we define the period up to the fiscal year ending March 31, 2017 as the  
“period to enhance management base and  
achieve challenging and significant progress”  
and hold up the following basic policies

## Basic policies of the medium-term management plan

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Basic policy #1: Pursue growth of Debugging Business beyond  
geographic and service area

Basic policy #2: Develop service pursuing uniqueness

Basic policy #3: Strategic use of management resources

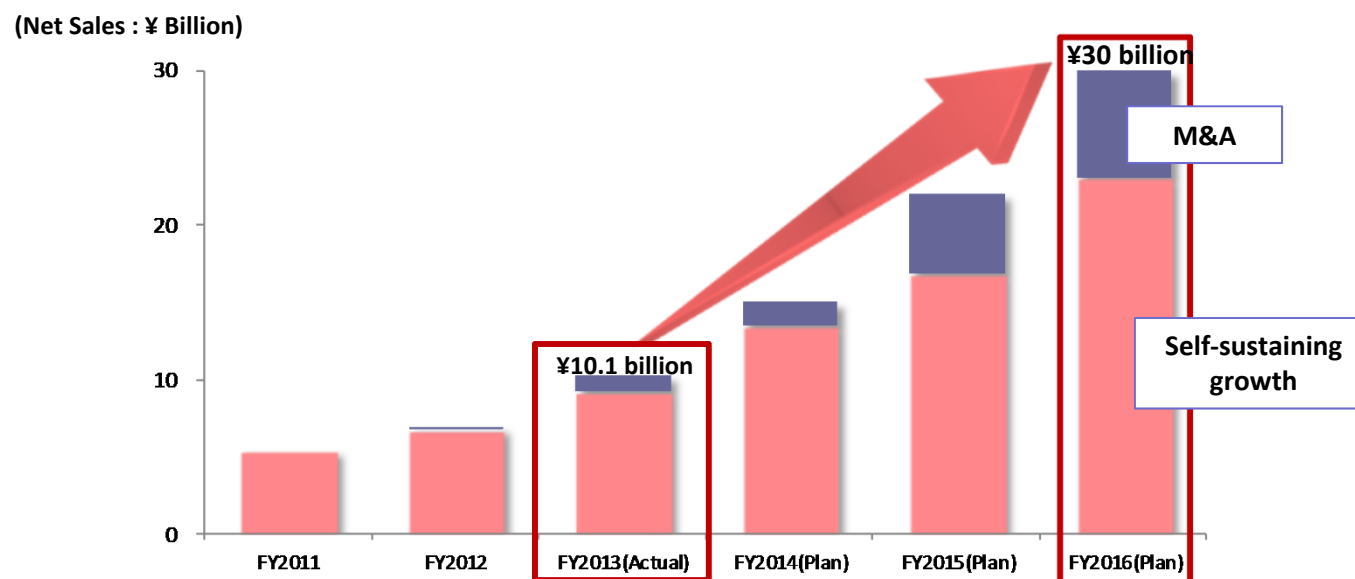


# The Medium-term Management Plan: Management Vision

## ◆ Management vision

With the strong autonomic growth and the use of M&A

**We aim at consolidated sales of ¥30 billion and market capitalization of ¥100 billion**



- In order to achieve new management vision, we shifted to a holding company system by sole-share transfer method on October 1, 2013. Our milestone necessary for the everlasting growth of the entire group is as follows:

- Improve the management mobility with mobile and dynamic management decision capable of responding to environmental changes
- Improve the Group's management efficiency by efficient procurement and allocation of management resources



# The Medium-term Management Plan: Financial Indicator of the Group

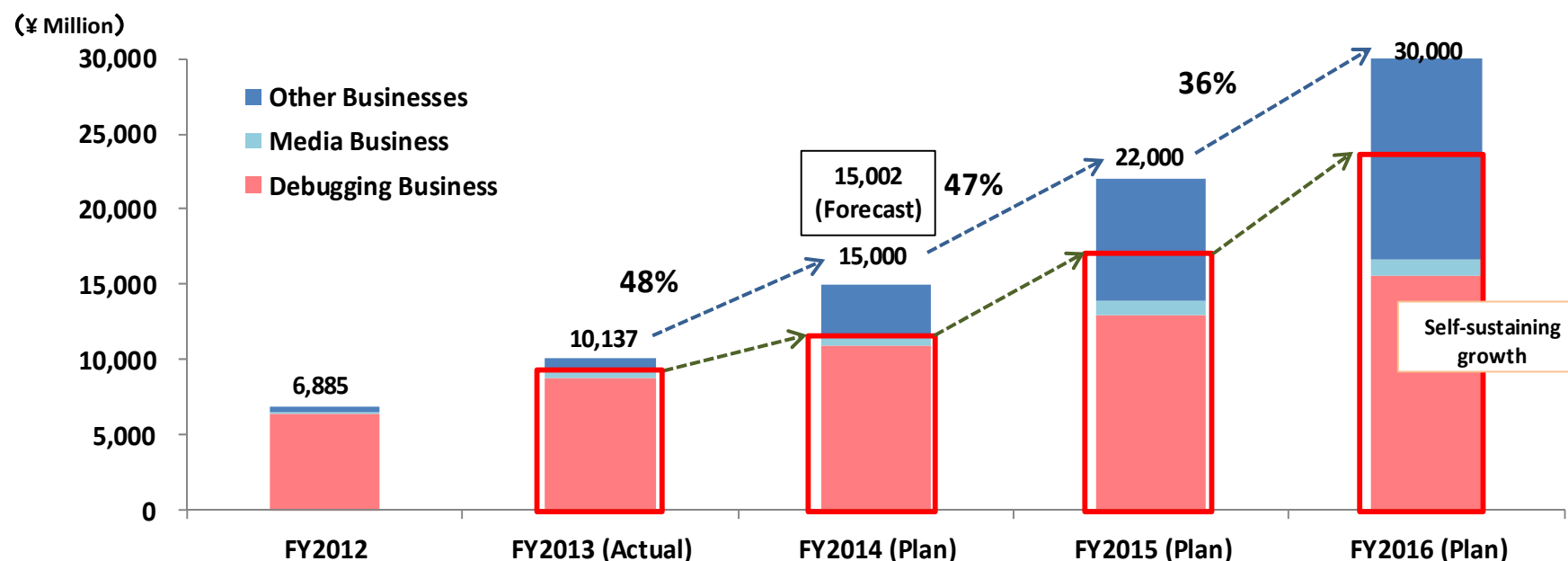
- The financial indicator to be achieved during the period of the medium-term management plan is as follows:

FY2013 Actual		Target increase for revenue/profit: over 150%		FY2016 Plan
Sales	¥10.1 billion	◀	+¥19.8 billion (+196%)	▶ ¥30 billion
Operating Income margin	17.6%	◀	-	▶ 16%
Ordinary Income	¥1.7billion	◀	+¥3.0 billion (+168%)	▶ ¥4.8 billion
ROE	33.6%	◀	+3%	▶ 37%
EPS	¥91.9	◀	+¥151 (+164%)	▶ ¥243
Dividend payout ratio	16.3%	◀	+4%	▶ 20%



# The Medium-term Management Plan: Target Sales by Segment

■ Images of target sales by segment are as follows:



(¥ Million)

← M-T management plan period →

Segment	FY2012	FY2013 (Actual)	FY2014 (Plan)	FY2014 (Forecast)	FY2015 (Plan)	FY2016 (Plan)
Debugging Business	6,381	8,798	10,900	15,002	13,000	15,600
Media Business	175	483	700		900	1,000
Other Businesses	345	880	3,400		8,100	13,400
<b>Total</b>	<b>6,885</b>	<b>10,137</b>	<b>15,000</b>	<b>15,002</b>	<b>22,000</b>	<b>30,000</b>

\*As sales of each segment for FY2012 and FY2013 include inter-segment sales or transfer, the sum of each segment's sales does not necessarily match the total presented above.

\*Sales by segment for FY2014 (forecast) is not disclosed.

\*Sales of Creative Business is included in Other Businesses.



Hearts United Group Co., Ltd.

**<Contact>**

**Management Planning Office**

**Phone : +81-3-6406-0081**

**Email : [ir\\_info@heartsunitedgroup.com](mailto:ir_info@heartsunitedgroup.com)**

**<http://www.heartsunitedgroup.co.jp/en>**

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# Reference

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- **Corporate Profile**
- **History**
- **Our Group**
- **Segment**
- **Group Companies & Offices**
- **Debugging Business**
- **Media Business**
- **Creative Business**
- **Other Businesses**
- **FYI (Glossary)**



# Corporate Profile

(as of September 30, 2014)

Registered Name	Hearts United Group Co., Ltd.
Incorporated	October 1, 2013
Date Listed	October 1, 2013 Listed on Tokyo Stock Exchange The 1st Section (Information about DIGITAL Hearts Co., Ltd.) February 1, 2008: Listed on TSE Mothers February 25, 2011: Moved from TSE Mothers to TSE 1st Section
Representative	President & CEO: Eiichi Miyazawa
Location	6-10-1 Roppongi Minato-ku, Tokyo
Services	Business management of subsidiaries, etc. and other service incidental or related thereto.
Group Businesses	<ul style="list-style-type: none"> <li>■ Debugging Service</li> <li>■ 3DCG Contents</li> <li>■ Video Production Service</li> <li>■ “Fuguai.com” Site Management</li> <li>■ “4Gamer.net” Site Management</li> <li>■ Development Outsourcing Service</li> <li>■ System Development Service</li> <li>■ Supporting creators : Managing online multiplayer games</li> </ul>
Capitalization	¥300,686,000
Shares Issued	11,945,400 Shares
Group Companies	<ul style="list-style-type: none"> <li>■ DIGITAL Hearts Co., Ltd.</li> <li>■ DIGITAL Hearts USA Inc.</li> <li>■ DIGITAL Hearts Visual Co., Ltd.</li> <li>■ Aetas, Inc.</li> <li>■ Premium Agency Inc.</li> <li>■ DIGITAL Hearts Korea Co., Ltd.</li> <li>■ DIGITAL Hearts (Thailand) Co., Ltd.</li> <li>■ G&amp;D Co., Ltd.</li> <li>■ NetWork21 Co., Ltd.</li> </ul>
Workforce (consolidated)	450



# History

Year	Month	Corporate History
2001	April	Established DIGITAL Hearts Ltd. Began offering debugging services
2003	October	Became a public corporation
2007	September	Became first Japanese company to receive the Authorized Xbox 360 Test Program (AXTP) from Microsoft Corp. for the Xbox 360®
	October	Granted privacy mark certification
2008	February	Listed on the Mothers Market on the Tokyo Stock Exchange
2011	February	Listed on the First Section of the Tokyo Stock Exchange
	July	Established a subsidiary DIGITAL Hearts Korea Co., Ltd., in Korea
	October	Established a subsidiary DIGITAL Hearts USA Inc., in the United States of America
	December	Established a subsidiary DIGITAL Hearts (Thailand) Co., Ltd., in Thailand
2012	March	Established a subsidiary G & D Co., Ltd., in Shinjuku Ward, Tokyo
	May	Established a subsidiary DIGITAL Hearts Visual Co., Ltd., in Shinjuku Ward, Tokyo
	November	Acquired all of the company shares of Aetas, Inc. and made it a subsidiary
2013	October	Established a pure holding company, Hearts United Group Co., Ltd., by means of a stock transfer and transitioned to a pure holding company structure
	November	Acquired the shares of NetWork21 Co., Ltd. and made it a subsidiary
2014	March	Established Reinforce, Inc. in cooperation with KADOKAWA CORPORATION and DWANGO Co., Ltd. in Chuo Ward, Tokyo
	April	Acquired the shares of Premium Agency Inc. through acquisition and subscription to a third party allocation and made it a subsidiary

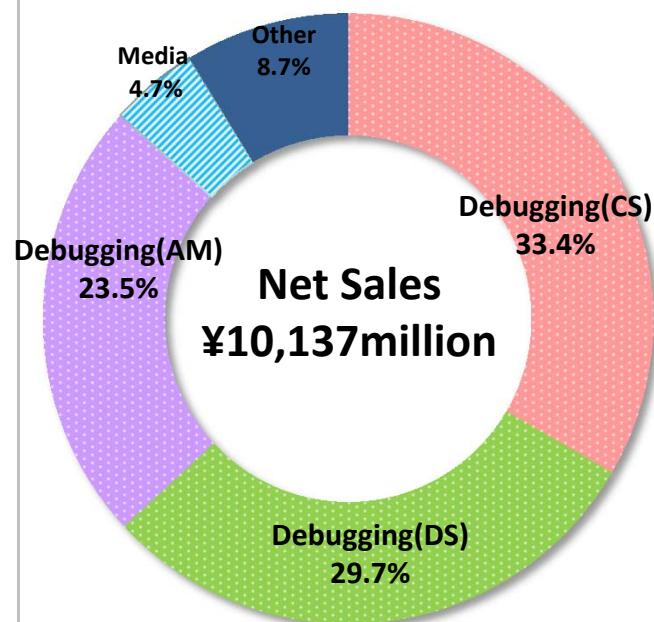


# Our Group

Company		Business	Segment
 Hearts United Group Co., Ltd.	DIGITAL Hearts Co., Ltd.	Provide User Debugging Service	Debugging Others
	DIGITAL Hearts Korea Co., Ltd.	Provide User Debugging Service	Debugging Creative
	DIGITAL Hearts USA Inc.	Provide User Debugging Service	Debugging
	DIGITAL Hearts(Thailand)Co., Ltd.	Provide User Debugging Service	Debugging Creative
	G&D Co., Ltd.	Entrusted development of consumer games and game contents for mobile terminal, etc.	Creative
	DIGITAL Hearts Visual Co., Ltd.	Provision of movie production service, etc.	Creative
	Aetas, Inc.	Planning/ operation of a PC/ online game information site "4Gamer.net," etc.	Media
	NetWork21 Co., Ltd.	Develop variety of systems including content program, core system, etc.	Others
	Premium Agency Inc.	Content development for 3D and CG, game development, video and audio production services, etc.	Creative



# Segment



## Sales composition ratio for FY2013

\*Sales composition ratio is calculated including inter-company sales  
\*Figures before segment change is used

### Debugging

33.4%

#### Consumer Games Unit (CS)

Testing Consumer game software/Online games, etc.

29.7%

#### Digital Solutions Unit (DS)

Testing mobile contents/system of social game and smartphone applications, etc.

23.5%

#### Amusement Unit (AM)

Testing Pachinko/Pachislot, etc.

### Media

4.7%

#### 4Gamer.net

Managing one of Japan's largest game portals

### Creative

8.7%

Content development for 3D and CG  
Development outsourcing  
Video production

### Other

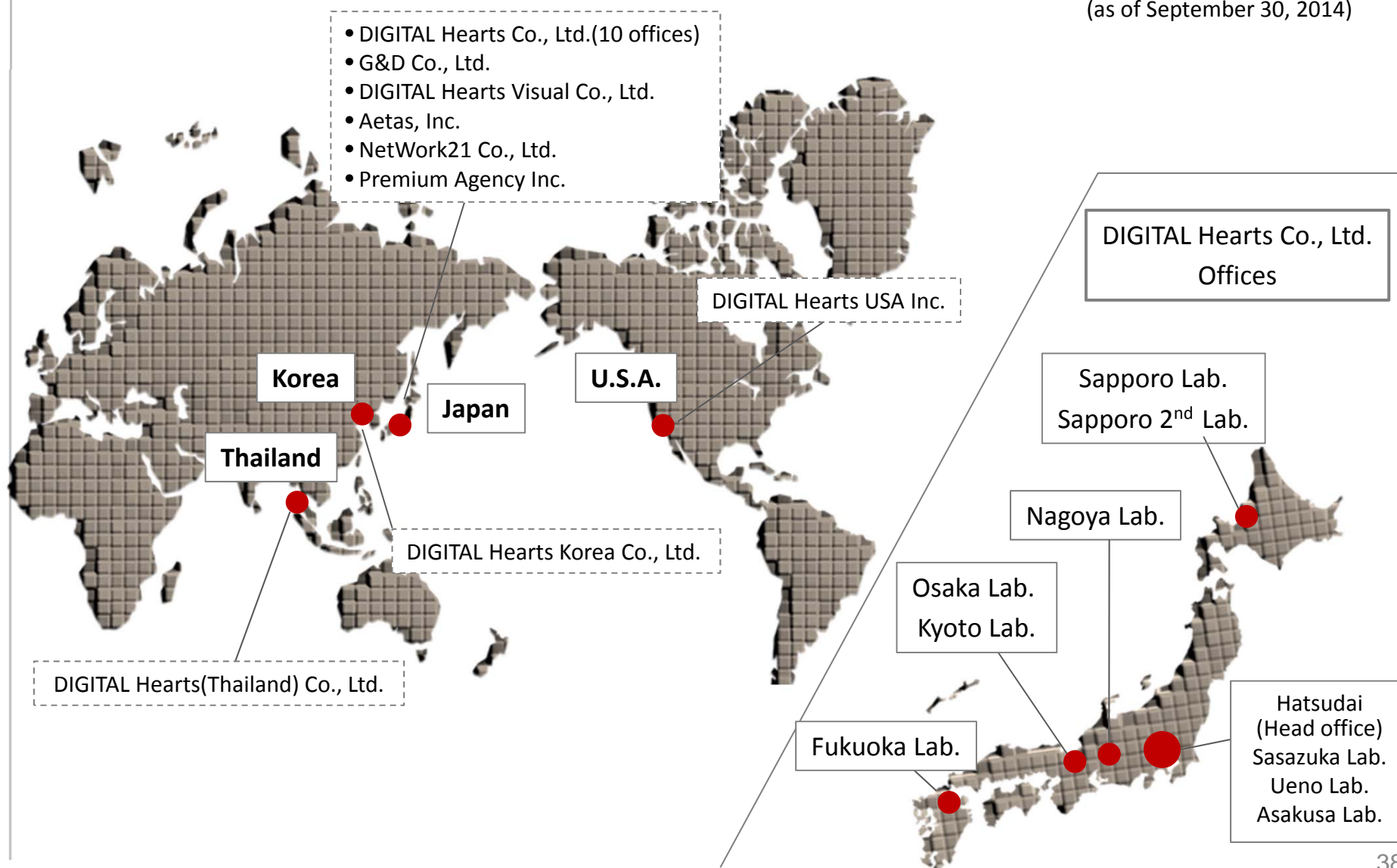
#### System Development

Fuguai.com Site Management  
DIGITAL Hearts Creators Network business



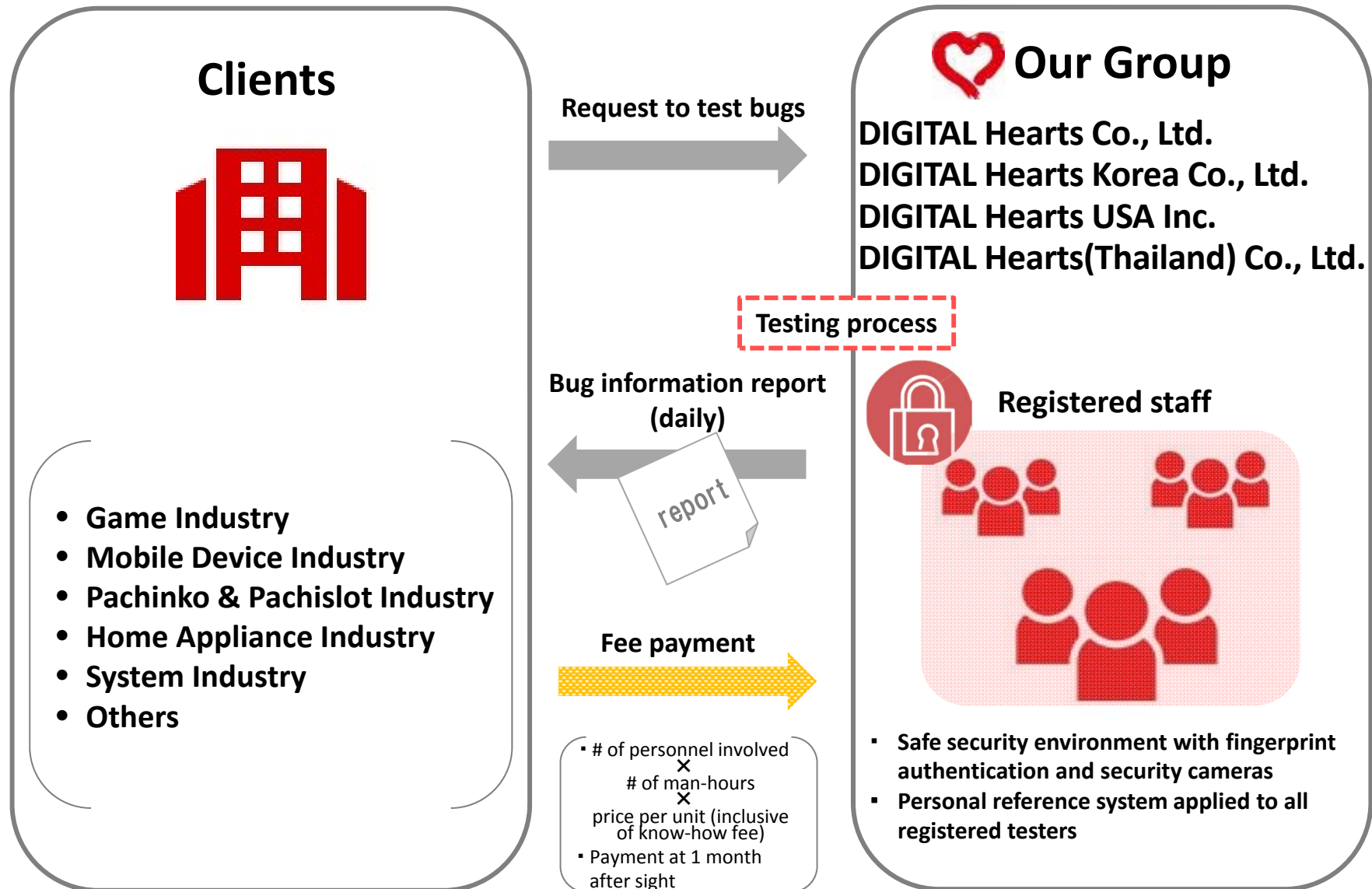
# Group Companies & Offices

(as of September 30, 2014)





# Debugging Business





**4Gamer.net**

<http://www.4gamer.net/>

**Manage one of Japan's largest game portals for game fans.**

4Gamer.net deals with the world wide game related information. Our strength is frequency of information update.

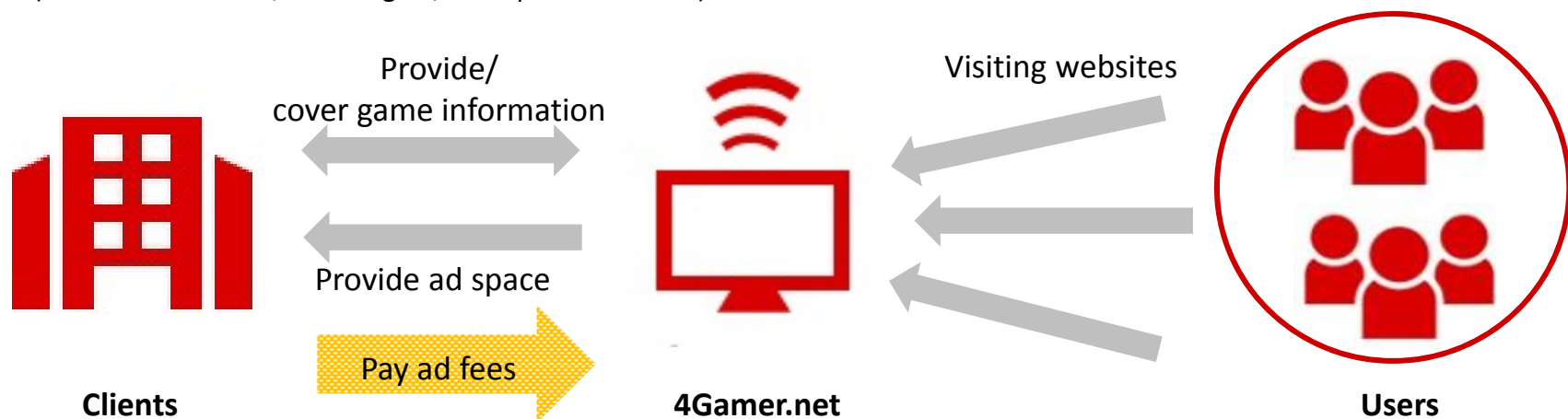
The information includes breaking news, review articles, hardware information and the series of articles uniquely featured by editors.

Built the strong position as mainstream media as shown by the numbers below.

Number of page views : 65 million PV/ Month

Number of unique users : 4.7 million UU/ Month

(As of October 2013, including PC/Smartphone versions)








## <Creative Business>

3DCG Content Development Business	Development Outsourcing Project	Video Production Project
<p>Engages in game development and CG image production using original 3D graphics engine "Chidori" as technical basis</p> 	<p>Provide total outsourcing service throughout the development processes of consumer games and mobile contents</p> 	<p>Provide total service regarding image processing technology to create computer generated imagery</p> 

## <Other Business>

System Development Project	Fuguai.com Project	Supporting creators Managing online multiplayer games
<p>Develop variety of systems including content program, core system, etc.</p> 	<p>Manage a portal site for bug information with the aim to improve products' quality by collecting and posting a wide variety of information on "bugs"</p>  <p><a href="http://www.fuguai.com/">http://www.fuguai.com/</a></p>	<p>Manage online multiplayer games in which online players communicate with each other to progress the story while creators create and provide the game contents based on the players' requests for a fee</p> 



## FYI (Glossary)

Word	Meaning
Bug	A bug is an error, flaw, or fault in a computer program.
Debugging	In general, debugging refers to identification and correction of errors in computer program (i.e. bug). Debugging Service of the Group specializes in "identifying and reporting bugs" without correcting them.
Outsourcing	Outsourcing is to entrust all or part of the company's work or process to another company who specializes in such work or process.
Lab.	The Group refers to the location for debugging work as "Lab."
Tester	The Group refers to staff who carries out debugging service as a "tester." The Group adopts the part-time registration system, and a "registered tester" refers to a staff registered with the Group.
Consumer games	A consumer game is a game played on the home video game player (floor-standing type or portable type).
Online games	Online game is a video game played by multiple people simultaneously over the internet and also a downloadable game content through the Internet which can be charged.
SNS	Social Networking Service (SNS) is a general term for web-based service to create community promoting social network among people or community to provide means to interact over the internet.
Social games	Social network game is a type of online game that is played through social networks with other users.
Browser games	Browser game is a game that is played over the internet using a web browser without downloading or installation.
Native application (game)	Native application game is an application game developed by a program operating on a platform such as smartphone. It can be played by downloading or installing.