



**HUG**

Hearts United Group

# **Presentation Material**

## **for the Fiscal Year Ending March 31, 2016**

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

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

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

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The Company disclosed the business results for the fiscal year ended March 31, 2016 on May 13, 2016, but partially revised them on May 25, 2016. The revised figures are reflected in this document.



**HUG**

Hearts United Group Co., Ltd.

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# **1. Summary of Business Results for FY2015**

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# FY2015 Results Highlight

Overview of results		<p><b>Both net sales and operating income hit a record high</b></p> <ul style="list-style-type: none"> <li>Net sales ¥15,011 million (113.0 % YoY) <ul style="list-style-type: none"> <li>Sales increased in all segments</li> </ul> </li> <li>Operating income ¥1,963 million (129.4% YoY) <ul style="list-style-type: none"> <li>Increased due to sales increase</li> </ul> </li> </ul>
Topics	Debugging	<ul style="list-style-type: none"> <li>Focused on human resource development and proactive development of new services <ul style="list-style-type: none"> <li>June : Introduced “full-time operational employee system” and hired over 100 testers as full-time employees.</li> <li>Sep : Started “Real time verification service” which replicates bugs and identifies the cause in a timely manner</li> <li>Oct : Started joint study with UBIG, Inc. to develop a new service using artificial intelligence for debugging in cyber security.</li> <li>Oct : Participated in Japan e-Sports Association and appointed as a director.</li> <li>Feb : Received an order for “Trend survey on countermeasure technology against cyber attack” from Acquisition, Technology &amp; Logistics Agency.</li> <li>Mar : Nationwide development of data collection service using drone in cooperation with Aerosense Inc.</li> </ul> </li> </ul>
	Media	<ul style="list-style-type: none"> <li>July : Formed a business alliance with Shochiku Broadcasting Co., Ltd. Transferred 40.0 % of shares of Aetas, Inc. to Shochiku Broadcasting Co., Ltd.</li> </ul>
	Creative	<ul style="list-style-type: none"> <li>July : Premium Agency Inc. became a wholly owned subsidiary as a result of additional share acquisition.</li> <li>Sep : Facilitated selection and concentration of business and consolidation of offices within the segment and recorded business structure improvement expense of ¥172 million as extraordinary loss.</li> <li>Jan : Merged three subsidiaries engaging in Creative Business and renamed to FLAME Hearts Co., Ltd.</li> <li>Mar : Recorded impairment loss of ¥594 million on goodwill and noncurrent assets in FLAME Hearts Co., Ltd.</li> </ul>
Profit distribution to Shareholders		<ul style="list-style-type: none"> <li>Repurchased treasury shares <ul style="list-style-type: none"> <li>May - July : Total number of shares repurchased : 513,800 shares, Total purchase cost : ¥999 million</li> <li>Feb - Mar : Total number of shares repurchased : 243,900 shares, Total purchase cost : ¥499 million</li> </ul> </li> <li>Revised interim dividend from initial forecast of ¥8 to ¥9 (announced on November 2, 2015)</li> <li>Year-end dividend from initial forecast of ¥9 to ¥10 (announced on February 5, 2016)</li> </ul>



# FY2015 Results Summary

➤ Both net sales and operating income increased but fell short of the plan as Debugging Business fell behind the schedule

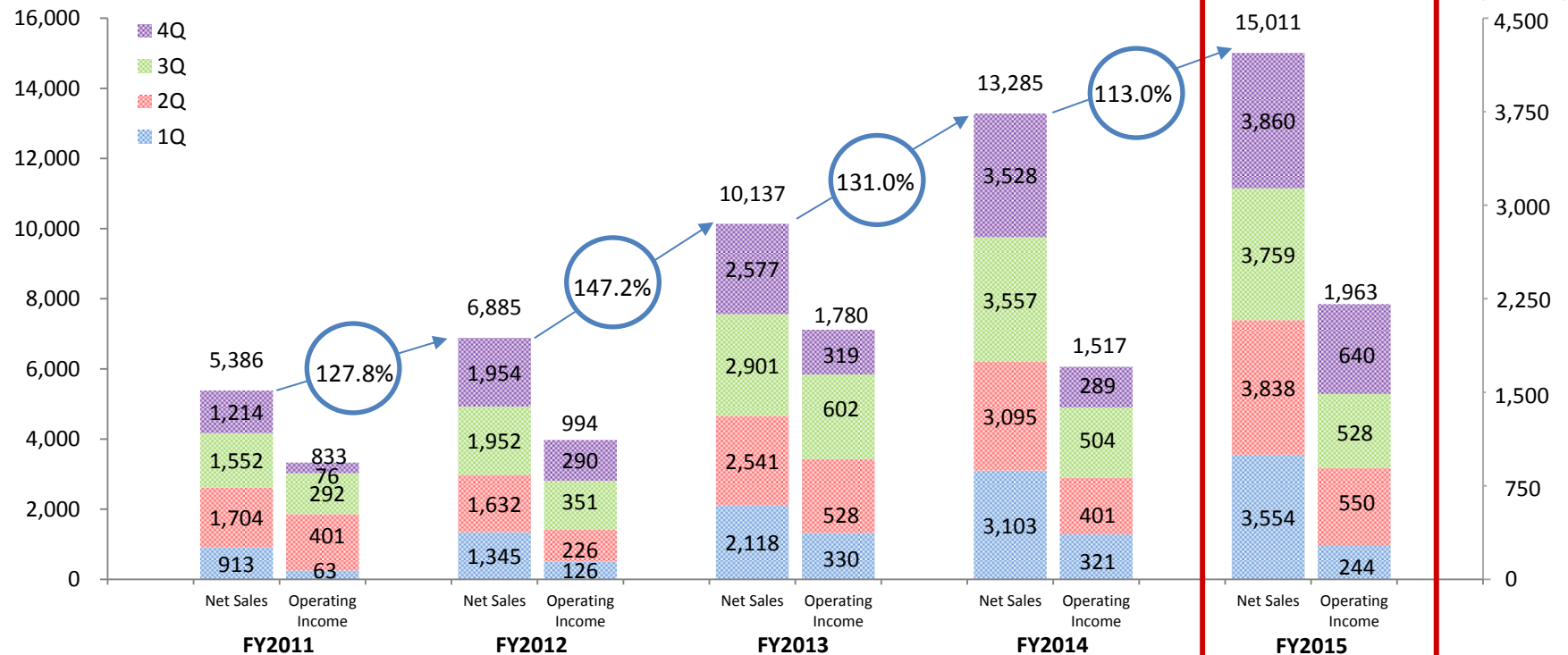
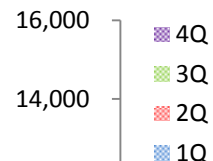
( ¥ Million)	Consolidated			Summary
	FY2014 Actual	FY2015 Actual YoY Change	FY2015 Forecast (announced on Sep.18) (Achievement rate)	
Net Sales	<b>13,285</b>	<b>15,011</b> <b>(113.0%)</b>	<b>16,034</b> <b>(93.6%)</b>	Increased in all segments, especially the Debugging Business which showed a strong growth with a double-digit increase
Cost of sales	<b>9,336</b>	<b>10,690</b> <b>(114.5%)</b>	-	- Increased due to proactive investment for human resources
Gross profit	<b>3,948</b>	<b>4,320</b> <b>(109.4%)</b>	-	-
Selling, general and administrative expenses	<b>2,431</b>	<b>2,356</b> <b>(96.9%)</b>	-	-
Operating Income	<b>1,517</b>	<b>1,963</b> <b>(129.4%)</b>	<b>2,252</b> <b>(87.2%)</b>	<ul style="list-style-type: none"> <li>• In FY2014, unprofitable development projects occurred in the Creative Business, but in FY2015, loss decreased through business operation focusing on profitability</li> <li>• Absorbed an increase in fixed expenses associated with investment in human resources</li> </ul>
Operating Income Margin	<b>11.4%</b>	<b>13.1%</b> <b>(+ 1.7point)</b>	<b>14.0%</b>	
Ordinary Income	<b>1,525</b>	<b>1,958</b> <b>(128.4%)</b>	<b>2,314</b> <b>(84.6%)</b>	
Profit attributable to owners of parent	<b>539</b>	<b>361</b> <b>(67.0%)</b>	<b>1,239</b> <b>(29.2%)</b>	Recorded business structure improvement expense of 201million yen as extraordinary loss in 2Q Recorded impairment loss of 594 million yen as extraordinary loss in 4Q



# Trend in Consolidated Sales/Operating Income (Fiscal Year)

➤ Sales increased for 12 consecutive years and both net sales and operating income hit a record high

Net Sales  
(¥ million)



## Consolidation through M&A: Timing of consolidating results

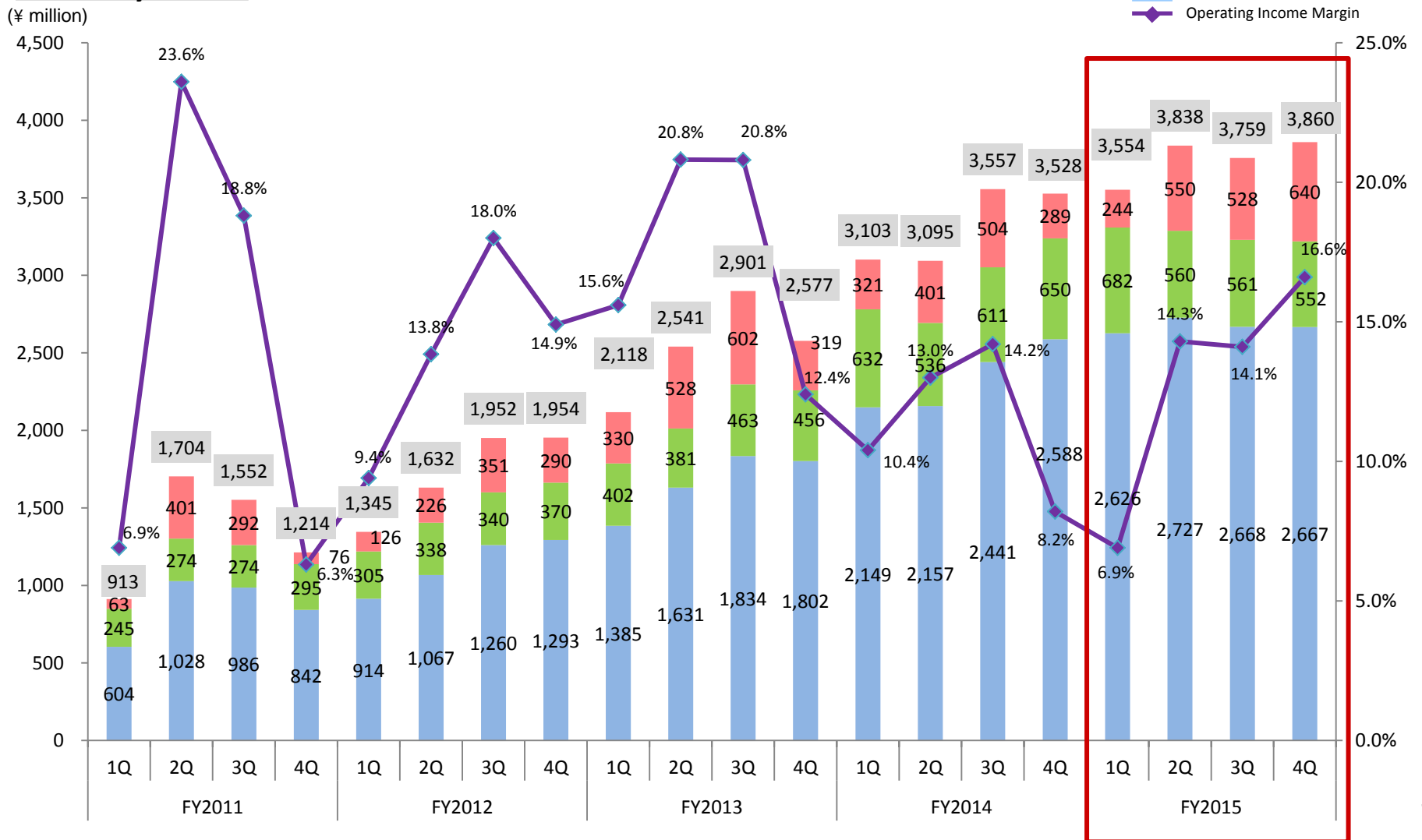
Company Name	FY2012		FY2013				FY2014				FY2015			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<u>Aetas, Inc.</u> (Subsidiary from December 2012)														
<u>NetWork21 Co., Ltd.</u> (Subsidiary from December 2013)														
<u>Premium Agency Inc.</u> (Consolidated from April 2014) Merged with other two group companies and renamed to FLAME Hearts Co., Ltd. in January 2016														
<u>SYSTEM KOHBO TOKYO CORPORATION</u> (Subsidiary from March 2015) Consolidated and absorbed by NetWork21 Co., Ltd. in March 2015.														



# Trend in Consolidated Sales/Operating Income (Quarterly)

➤ Operating margin improved in 4Q by improving gross profit margin in Debugging Business and turning Creative Business profitable

## Quarterly results





# Consolidated Balance Sheets

(¥Million)	FY2014 (As of Mar. 31, 2015)	FY2015 (As of Mar. 31, 2016)	YoY Change	(¥Million)	FY2014 (As of Mar. 31, 2015)	FY2015 (As of Mar. 31, 2016)	YoY Change
<b>Current assets</b>	<b>5,756</b>	<b>5,064</b>	<b>-691</b>	Current liabilities	<b>3,823</b>	<b>3,374</b>	<b>-449</b>
(Of which)				(Of which)			
Cash and deposits	<b>3,058</b>	<b>2,197</b>	<b>-860</b>	Short-term loan	<b>1,603</b>	<b>1,299</b>	<b>-303</b>
Note and accounts receivable-trade	<b>2,374</b>	<b>2,230</b>	<b>-143</b>	Noncurrent liabilities	<b>280</b>	<b>69</b>	<b>-210</b>
<b>Noncurrent assets</b>	<b>2,516</b>	<b>1,469</b>	<b>-1,047</b>	<b>Total liabilities</b>	<b>4,104</b>	<b>3,444</b>	<b>-659</b>
(Of which)				Shareholders' equity	<b>4,036</b>	<b>2,773</b>	<b>-1,263</b>
Property, plant and equipment	<b>368</b>	<b>299</b>	<b>-69</b>	(Of which)			
Intangible assets	<b>1,505</b>	<b>580</b>	<b>-925</b>	Capital stock	<b>300</b>	<b>300</b>	<b>—</b>
Investments and other assets	<b>642</b>	<b>589</b>	<b>-52</b>	Capital surplus	<b>300</b>	<b>368</b>	<b>67</b>
<b>Total assets</b>	<b>8,272</b>	<b>6,533</b>	<b>-1,739</b>	Retained earnings	<b>3,435</b>	<b>3,604</b>	<b>169</b>
				Treasury Shares	<b>-0</b>	<b>-1,499</b>	<b>-1,499</b>
				Total accumulated other comprehensive income	<b>55</b>	<b>41</b>	<b>-14</b>
				Subscription rights to shares /Non-controlling interests	<b>76</b>	<b>274</b>	<b>198</b>
				<b>Total net assets</b>	<b>4,168</b>	<b>3,089</b>	<b>-1,079</b>
				<b>Total liabilities and net assets</b>	<b>8,272</b>	<b>6,533</b>	<b>-1,739</b>

- Current assets :Decreased by ¥691 million (down 12.0% YoY) due to a decrease in cash and deposits despite an increase in income tax refund receivable
- Current liabilities:Decreased by ¥449 million (down 11.7% YoY) due to a decrease in short-term loan
- Net assets:While non-controlling interests increased due to partial sale of affiliated companies' shares and retained earnings increased due to recording profit attributable to owners of parent, retained earnings decreased due to payment of year-end and interim dividends and net assets decreased due to repurchase of treasury sharers. As a result, net assets decreased by ¥1,079 million (down 25.9% YoY)





# Consolidated Statements of Cash Flows

(¥Million)	FY2014 Actual	FY2015 Actual	YoY Change
Net cash provided by operating activities	<b>870</b>	<b>1,080</b>	<b>210</b>
(*Cash flows before income taxes paid)	<b>1,682</b>	<b>2,278</b>	<b>595</b>
Net cash used in investing activities	<b>-568</b>	<b>-17</b>	<b>551</b>
Net cash used in financing activities	<b>-950</b>	<b>-1,913</b>	<b>-963</b>
Effect of exchange rate change on cash and cash equivalents	<b>14</b>	<b>-10</b>	<b>-24</b>
Net increase in cash and cash equivalents	<b>-634</b>	<b>-860</b>	<b>-226</b>
Cash and cash equivalents at the beginning of period	<b>3,693</b>	<b>3,058</b>	<b>-634</b>
Cash and cash equivalents at the end of period	<b>3,058</b>	<b>2,197</b>	<b>-860</b>

- Cash flows from operating activities : Cash inflows from income before income taxes, impairment loss and depreciation exceeded cash outflows from income tax paid
- Cash flows from investing activities : Cash outflows from purchase of intangible assets and property, plant and equipment exceeded cash inflows from proceeds from business transfer and sale of investment securities
- Cash flows from financing activities : Cash outflows from repayment of short-term loans payable and repurchase of treasury shares exceeded cash inflows from proceeds of short-term loans payable and proceeds from sale of subsidiaries' shares not resulting in change in scope of consolidation



# Profit Distribution to Shareholders (1)

- Introduced new dividend policy to include DOE from FY2014 with the aim of increasing profit return and enhancing corporate value
- Revised interim dividend from initial forecast of ¥8 to ¥9, **year-end dividend also increased from ¥9 to ¥10**

## Further improvement of management efficiency with capital efficiency concept

(Basic policy)

A. Setting a target **dividend on equity (DOE) of 7%** on a consolidated basis

B. Introducing a dividend policy reflecting a comprehensive consideration of such factors as consolidated financial results in A. above

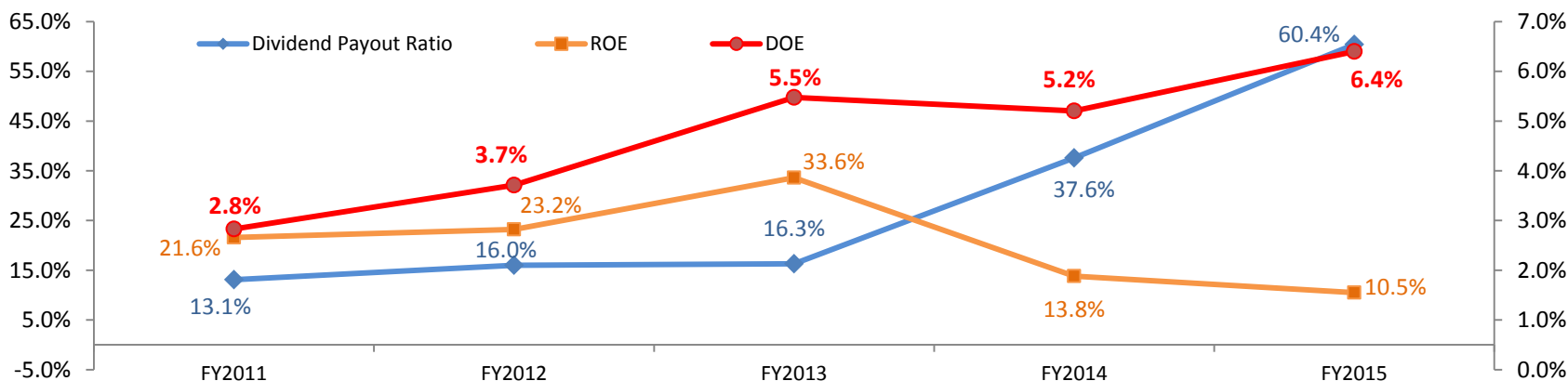
\*Dividend on equity (DOE) = Payout ratio × Return On Equity ratio (ROE)

\* Dividend on equity (DOE) is an indicator of shareholders' return which consists of dividend payout ratio indicating the amount of profits paid to shareholders and return on equity (ROE) indicating capital efficiency.

## DOE, Dividend Payout Ratio and ROE

	FY2011	FY2012	FY2013	FY2014	FY2015
DOE	2.8%	3.7%	5.5%	5.2%	6.4%
Dividend Payout Ratio	13.1%	16.0%	16.3%	37.6%	60.4%
ROE	21.6%	23.2%	33.6%	13.8%	10.5%

Dividend Payout Ratio • ROE





# Profit Distribution to Shareholders (2)

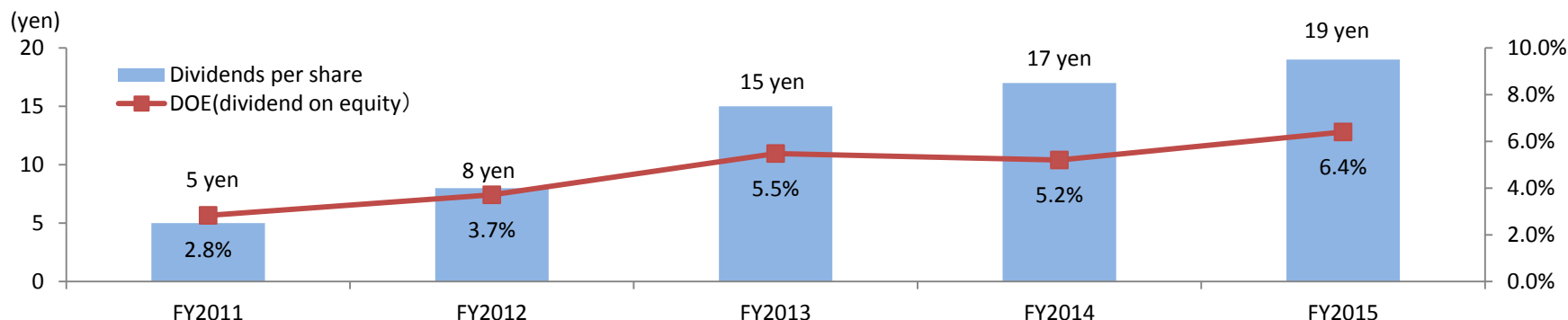
- Repurchased treasury shares to enhance profit return and improve capital efficiency
- Revised year-end dividend from initial forecast of 9 yen to 10 yen, resulting in annual dividend of 19 yen, which will be an increase for seven consecutive years

## Dividends per share

	FY2011	FY2012	FY2013	FY2014	FY2015
Annual Dividend	5 yen	8 yen	15 yen	17 yen	19 yen
Interim dividend	0 yen	3 yen	7 yen	8 yen	9 yen
Year-end dividend	5 yen	5 yen	8 yen	9 yen	10 yen

## Repurchase of treasury shares

Repurchase of treasury shares		Acquisition total
Repurchase period: From May 12, 2015 to July 30, 2015	Repurchase period: From February 29, 2016 to March 23, 2016	
Total number of shares repurchased : 513,800 shares	Total number of shares repurchased : 243,900 shares	757,700 shares
Total value of shares repurchased : 999,788,000 yen	Total value of shares repurchased : 499,861,000 yen	1,499,649,000 yen



\*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.



Hearts United Group Co., Ltd.

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## 2. Earnings by Segment and FY2016 Financial Outlook

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### 【Notice regarding Earnings by Segment】

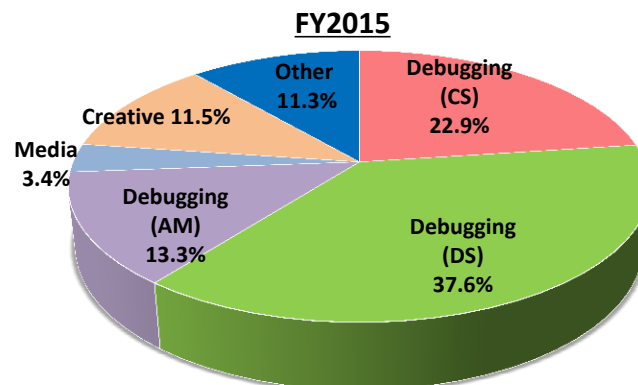
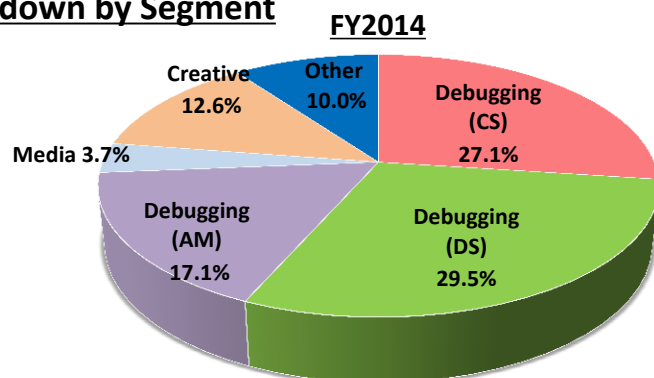
- ✓ “Creative Businesses” has become a new segment from FY2014. “Development Outsourcing Project” and “Video Production Project,” which were previously classified as “Others,” are consolidated as “Creative business.”
- ✓ We also have changed expenses allocation, etc. from 1Q FY2014. Those changes have applied retroactively to segment results of FY2013.
- ✓ 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.



# FY2015 Summary of Earnings by Segment

(¥ Million)	Business description		FY2014	FY2015	YoY Change	
Debugging Business	Checking software bug, it is reported to the customer service	Net Sales	9,812	11,138	1,325	(113.5%)
		Segment income	2,376	2,555	178	(107.5%)
	Consumer Games (CS)	Net Sales	3,604	3,449	-155	(95.7%)
	Digital Solutions (DS)	Net Sales	3,935	5,676	1,741	(144.2%)
	Amusement (AM)	Net Sales	2,272	2,012	-259	(88.6%)
Media Business	Operating Japan's largest game portal "4Gamer.net"	Net Sales	504	512	8	(101.7%)
		Segment income	32	35	3	(110.5%)
Creative Business	Contracted development of consumer games and social games and CG video production	Net Sales	1,675	1,729	53	(103.2%)
		Segment loss	-496	-224	272	(—)
Others	System Development Project Fuguai.com Project DIGITAL Hearts Creators Network Project	Net Sales	1,333	1,701	368	(127.6%)
		Segment income	52	83	31	(159.3%)
Adjustment for Each Segment	Segment income adjustments: Corporate expense including general and administrative expenses not attributable to any reportable segment.	Segment sales adjustments	-39	-70	-30	(—)
		Segment income adjustments	-447	-486	-38	(—)
Total		Net Sales	13,285	15,011	1,726	(113.0%)
		Operating Income	1,517	1,963	446	(129.4%)

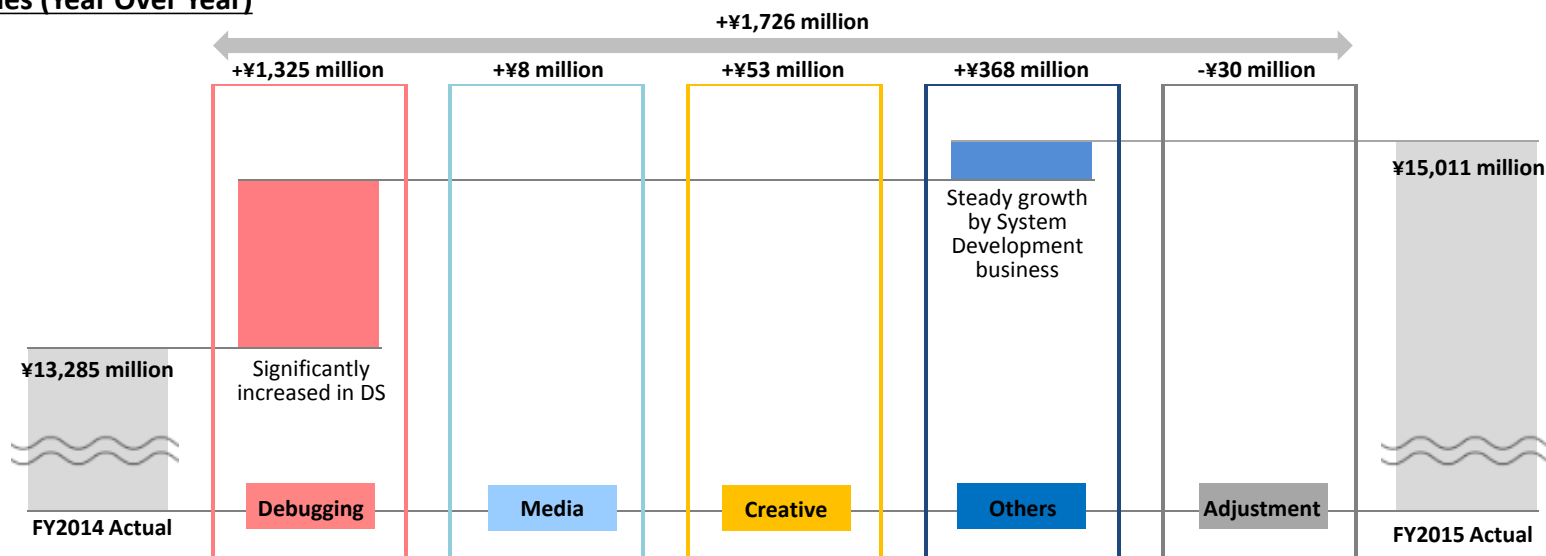
## Sales Breakdown by Segment



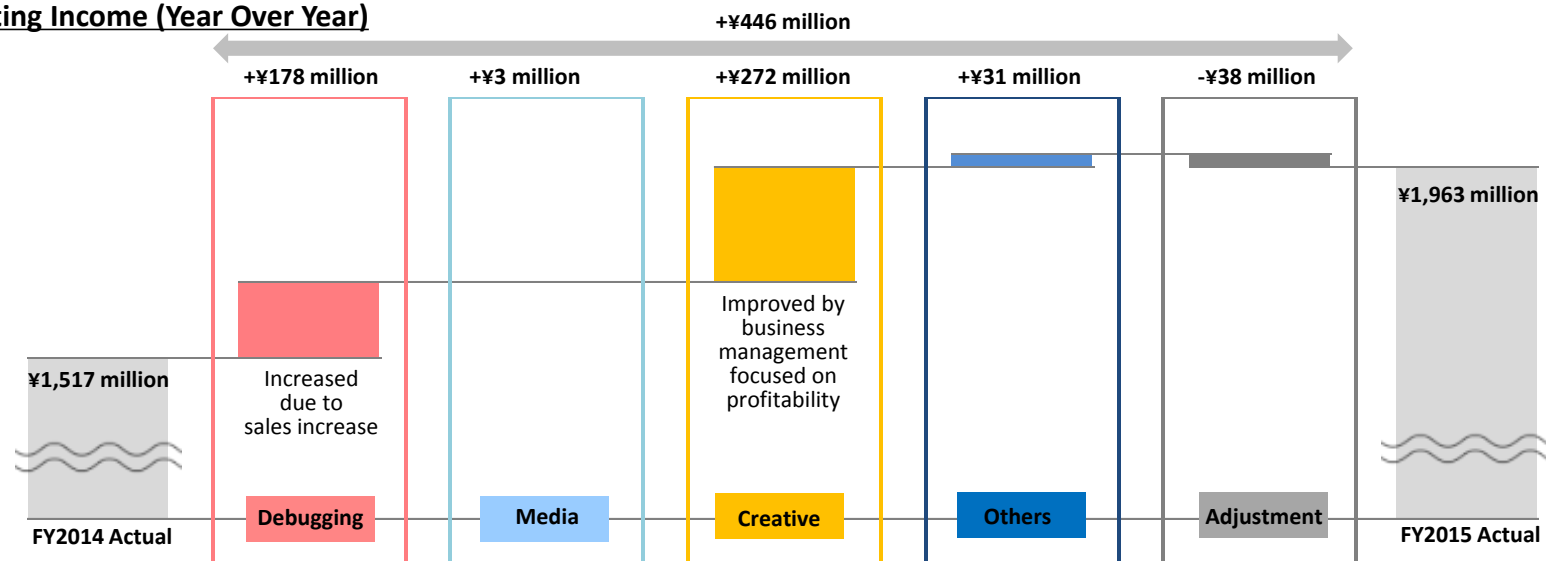


# Year over Year Change Factors by Segment

## Net Sales (Year Over Year)



## Operating Income (Year Over Year)





# Debugging Business

## Business Highlights

- ◆ Despite an unexpected drop in AM unit, DS unit achieved 144% growth, resulting in a record high net sales and segment profit for a whole segment
- ◆ Actively invested in human resources such as securing personnel and fostering title leaders
- ◆ Introduced “full-time operational employee system” and hired over 100 testers as full-time employees.

## Outlook for FY2016

- Development environment for CS and DS units will be generally strong though it is still necessary to closely monitor the AM market
- Focus on development of debugging service for software other than the entertainment field in response to expansion of the IoT market

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

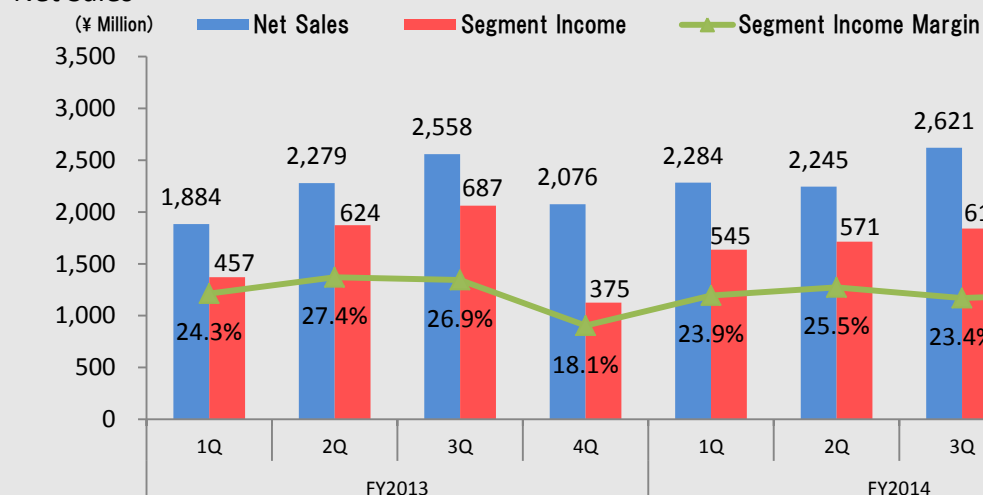
(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	9,812	11,138	1,325	113.5%
Segment Income	2,376	2,555	178	107.5%

### 【Business description】

Provide debugging service in the following fields  
 Consumer Games Unit (CS)  
 Digital Solutions Unit (DS)  
 Amusement Unit (AM)

## Segment results

### Net Sales



### Operating Income (¥ Million)



# Debugging Business (CS: Consumer Games Unit)

## Business Highlights

- ◆ Sales remained at the same level as the previous year due to changes in clients' development schedule
- ◆ Focused on expansion of transaction volume with existing clients by strengthening proposal-based marketing
- ◆ Established an order structure to prepare for new game categories such as VR (virtual reality)

## Outlook for FY2016

- Full scale development of large titles due to the spread of PS4
- Accelerate development of game titles for PSVR (to be released in October 2016) and Nintendo's new hardware "NX (development code)" (to be released in March 2017)
- Game areas will expand due to a spread of VR, and debugging demand from users' perspective will increase

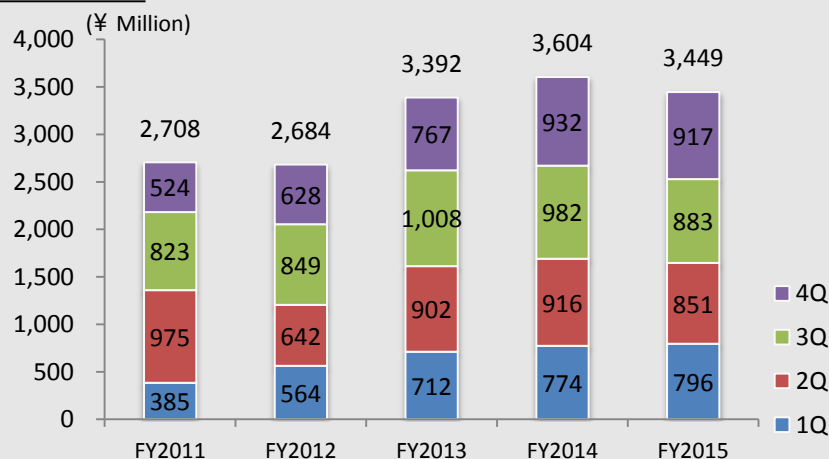
## Net Sales (Year Over Year)

(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	3,604	3,449	-155	95.7%

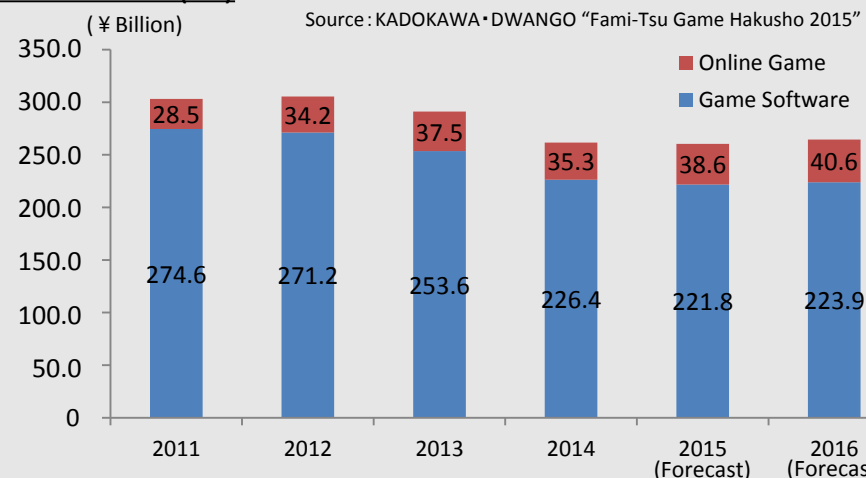
## Serviced Items:

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

## Net sales



## Market size (FY)



## Market Size of Game Software & Online Game

Source: KADOKAWA・DWANGO "Fami-Tsu Game Hakusho 2015"





# Debugging Business (DS: Digital Solutions Unit)

## Business Highlights

- ◆ Achieved significant 144% sales growth YoY as a result of efforts to expand transaction scale implemented since FY2014, such as investments in human resources
- ◆ Captured debugging demands continuously during management phase after release of games
- ◆ System verification and debugging of the automotive industry orders increased steadily

## Outlook for FY2016

- Mainly major game makers will continue to accelerate development of game applications to offer enhanced gameplay element
- Growing trend of focusing on quality further accelerates outsourcing of debugging process
- System verification demand will increase due to an increase in various IoT-related applications and a rapid increase in devices connected to the Internet

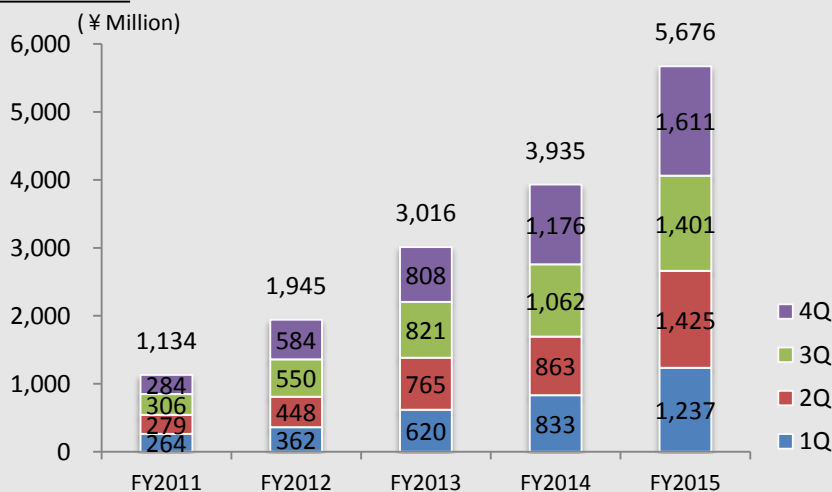
## Net Sales (Year Over Year)

(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	3,935	5,676	1,741	144.2%

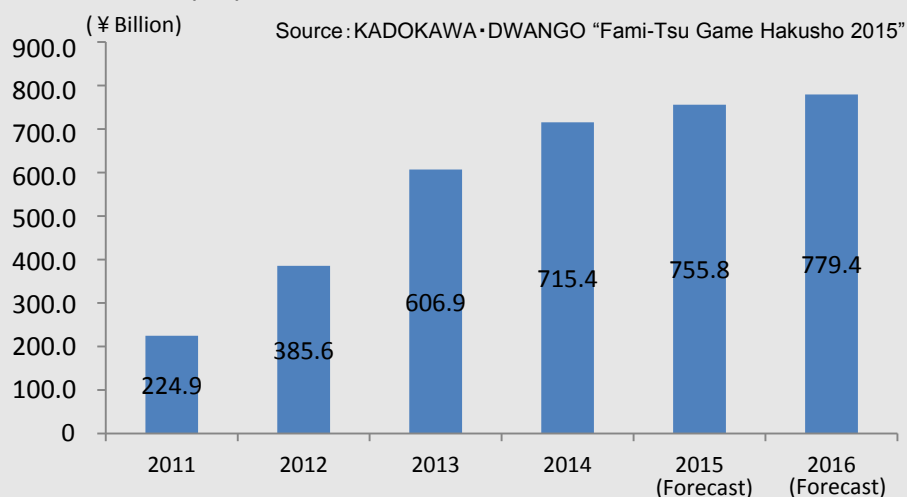
### Serviced Items:

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

## Net sales



## Market Size (FY)





# Debugging Business (AM: Amusement Unit)

## Business Highlights

- ◆ Regulations to gradually reduce gambling elements were enacted for both Pachinko and Pachislot.  
(Pachinko: November 2015, Pachislot: December 2015)
- ◆ Recovery of development environment took longer than expected and development schedule remained uncertain, causing net sales to fall below FY2014

## Outlook for FY2016

- Still need to closely monitor the development trend as tightening of regulations in stages continue

## Net Sales (Year Over Year)

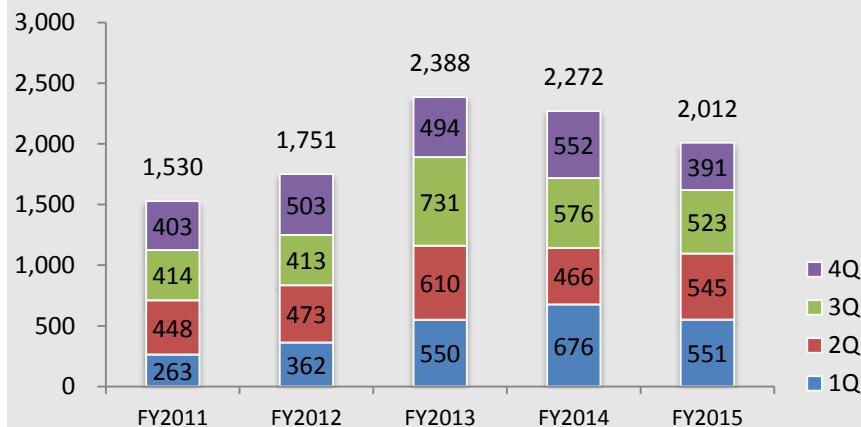
(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	2,272	2,012	-259	88.6%

## Serviced Items:

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

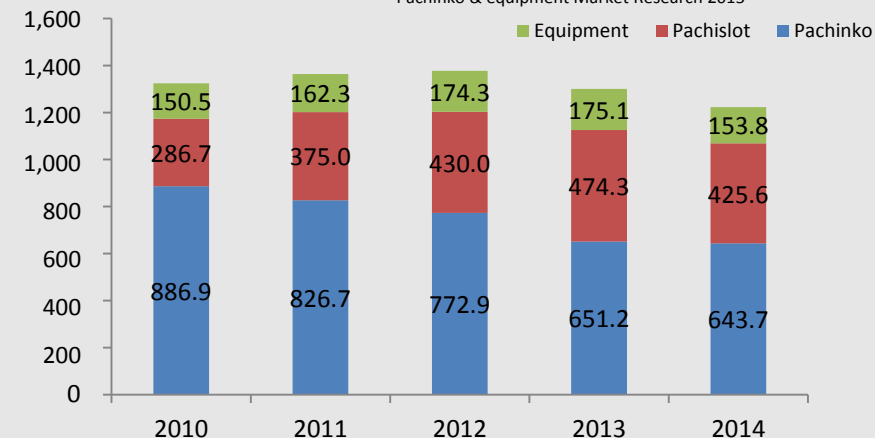
## Net sales (FY)

(¥ Million)



## Market Size (FY)

(¥ Billion)



## Market size of Pachinko and Pachislot

Source : Yano Research Institute Ltd.  
"Pachinko & equipment Market Research 2015"

Equipment Pachislot Pachinko



# Media Business

## Business Highlights

- ◆ Focused on creation of new services beyond news media. Actively implemented new measures such as forming a business alliance with Shochiku Broadcasting Co., Ltd. through transfer of 40% of shares of Aetas, Inc.
- ◆ Opened “GamesIndustry.biz Japan Edition” in April in cooperation with Gamer Network Ltd., a world leading game information media company, and expanded appealing areas for clients and users

## Outlook for FY2016

- Games on multiple devices will increase drastically and advertising methods will become diversified
- Gameplay video-sharing service will expand
- New business opportunities for media will increase on the back of an increasing popularity of e-Sports

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

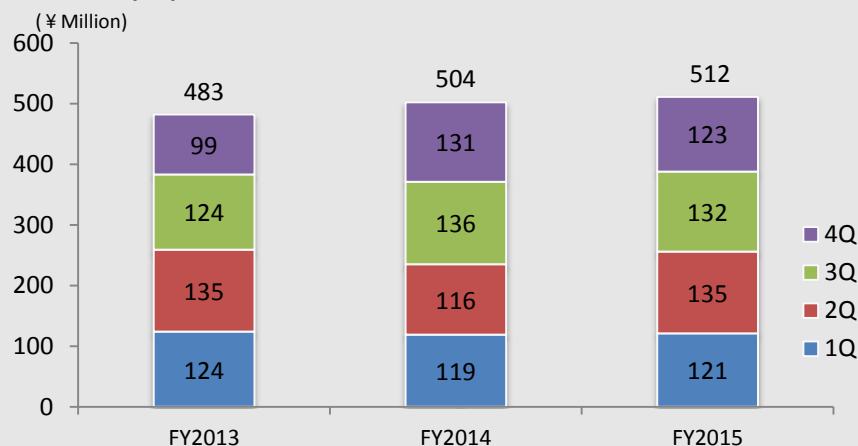
(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
<b>Net Sales</b>	<b>504</b>	<b>512</b>	<b>8</b>	<b>101.7%</b>
<b>Segment income</b>	<b>32</b>	<b>35</b>	<b>3</b>	<b>110.5%</b>

### 【Business description】

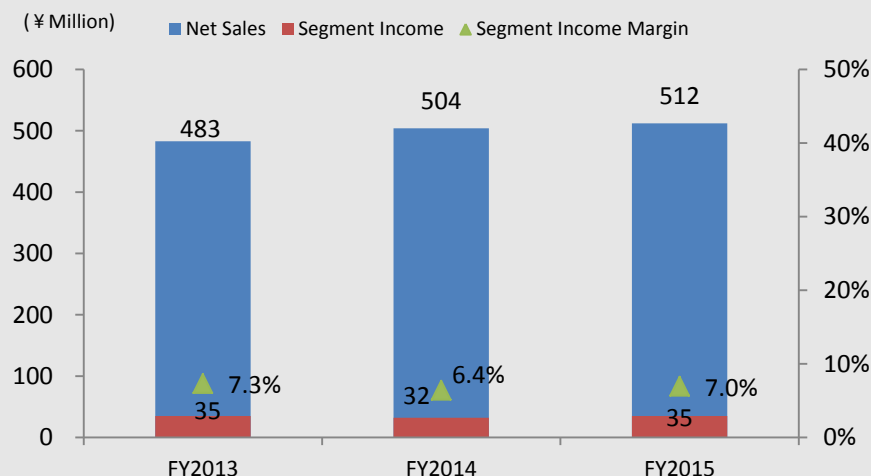
Media Business started from FY2012 3Q after consolidation of Aetas, Inc. Management of game portals ( <http://www.4gamer.net/> )

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

### Net Sales(FY)



### Segment results





# Creative Business

## Business Highlights

- ◆ 4Q profit turned positive as a result of reconstruction of subsidiaries acquired through M&A in FY2014 and completion of organization restructuring of the overall Creative Business
- ◆ Focused on building a structure enabling to secure sustainable and stable revenue in the overall Creative Business and transform to growth path

## Outlook for FY2016

- Outsourcing demand in development processes will increase in response to a trend of dividing game development process

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

(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	1,675	1,729	53	103.2%
Segment Loss	-496	-224	272	—

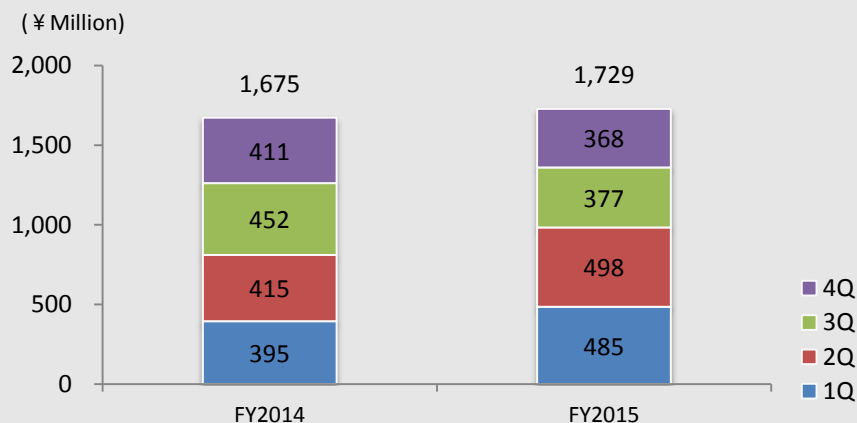
### 【Business description】

Game development/CG video production: FLAME Hearts Co., Ltd.

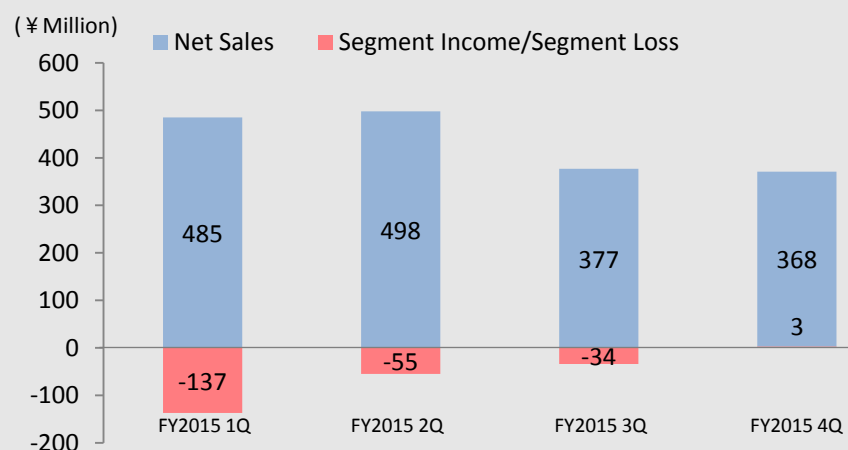
- April 2014: Consolidated Premium Agency Inc. engaging in 3DCG contents development project as a subsidiary
- January 2016: Merged with G&D Co., Ltd. and DIGITAL Hearts Visual Co., Ltd., both engaging in similar business, and renamed to FLAME Hearts Co., Ltd.

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

## Net Sales (FY)



## Quarterly operating results in FY2015





# Others

## Business Highlights

- ◆ Both net sales and profit increased due to strong performance in system development project
- ◆ NetWork21 Co., Ltd. consolidated and absorbed SYSTEM KOHBO TOKYO CORPORATION and contributed to earnings from FY2015

## Outlook for FY2016

- Strategic IT investment with the aim of enhancing productivity and competitiveness will increase
- Evolution of wearable devices and IoT penetration in anticipation of commercialization of self-driving cars and drones will be accelerated
- Acquired additional shares of NetWork21 Co., Ltd. in April to make it a wholly-owned subsidiary in order to accelerate growth speed in system verification field in Debugging Business

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

(¥ Million)	FY2014 Actual	FY2015 Actual	Y o Y Change	
Net Sales	1,333	1,701	368	127.6%
Segment income	52	83	31	159.3%

### 【Business description】

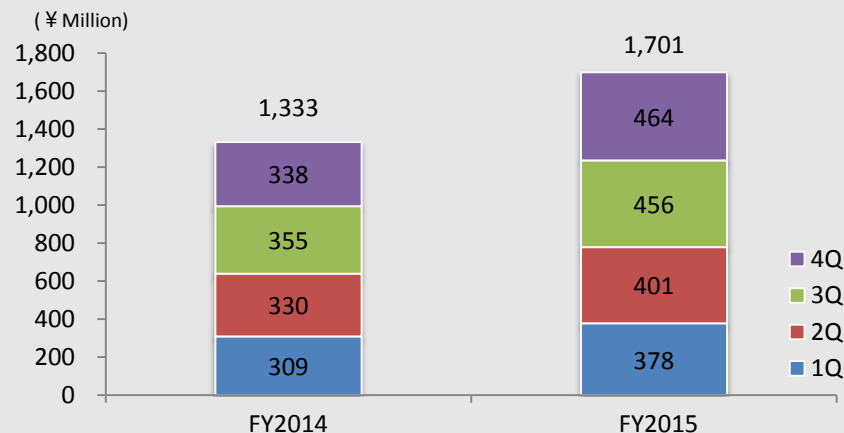
System Development Project: NetWork21 Co., Ltd. became a subsidiary in December 2013

Fuguai.com Project: DIGITAL Hearts Co., Ltd.

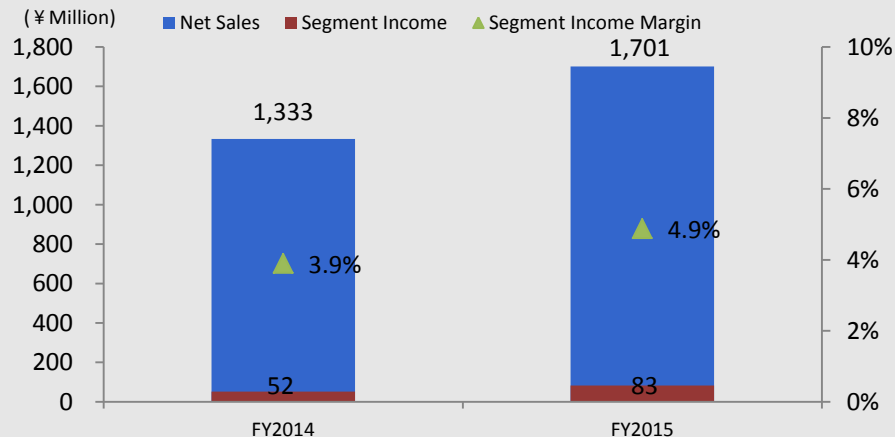
DIGITAL Hearts Creators Network Project: DIGITAL Hearts Co., Ltd.

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

### Net Sales(FY)



### Segment results





# FY2016 Consolidated Earnings and Dividends Forecast

( ¥ Million)	FY2015 Actual	FY2016 Forecast	YoY Change	
Net Sales	<b>15,011</b>	<b>16,705</b>	<b>1,693</b>	<b>111.3%</b>
Operating income	<b>1,963</b>	<b>2,572</b>	<b>608</b>	<b>131.0%</b>
Operating income margin	<b>13.1%</b>	<b>15.4%</b>	<b>+2.3Point</b>	
Ordinary income	<b>1,958</b>	<b>2,579</b>	<b>621</b>	<b>131.7%</b>
Profit attributable to owners of parent	<b>361</b>	<b>1,608</b>	<b>1,246</b>	<b>444.5%</b>

## FY2016 Key points of Consolidated Earnings Forecast

### Net sales and operating income will increase due to the growth of Debugging Business as core business

#### ● Net sales ¥16,705 million (111.3%) Debugging Business 110% + growth

Debugging needs for games, the Group's core business, will continue to increase for consumer games for which a surge in popularity due to VR and introduction of new hardware are expected and for smartphones for which a trend of focusing on quality and gameplay elements continues. In addition, actively develop debugging service for areas other than entertainment such as system verification and debugging service for the automotive industry, which have high growth potential.

#### ● Operating income ¥2,572 million (131.0% YoY)

Expected to increase due to sales increase of Debugging Business and improved profitability of Creative Business

## FY2016 Dividends Forecast

#### ● FY2015 Annual dividend 19 yen (DOE 6.4%) ⇒ FY2016 Annual dividend 19 yen (DOE 6.1%)

---

## **3. Measures and The Medium-term Management Plan**

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## Looking back 15-year history since establishment

Japan's  
first

**Became first Japanese company to receive the Authorized Xbox 360 Test Program (AXTP) from Microsoft Corp. for the Xbox 360**

Challenge

**Listed as the first debugging specialized company in Japan**

Growth

**Financial results grew approximately 10 times compared with pre-listing results (FY2007: net sales of ¥1.4 billion and operating income of ¥200 million)**

Employment

**Created new jobs exceeding 15,000 in total**

Uniqueness

**Accumulated over 1 million debugging data**

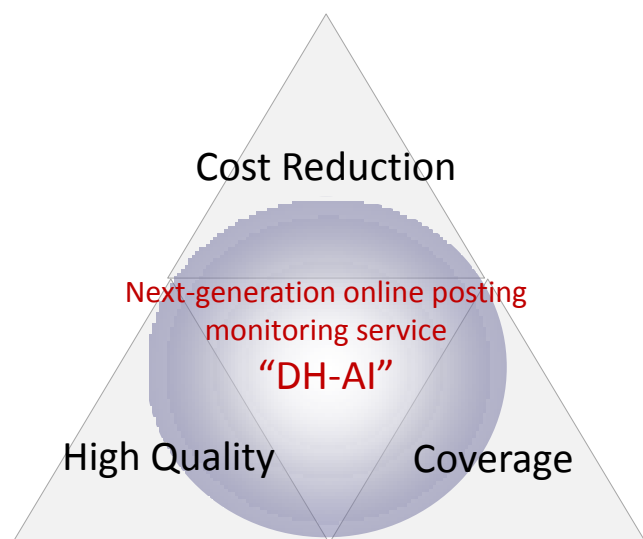


# Progress of Project: Development of a new AI service

From October 2015, Started joint study with UBIG, Inc. on new service using artificial intelligence (“AI”)

→ First new service: Starting the next-generation online posting monitoring service “DH-AI” in June 2016

[Features and flow of service]



## Interview



- Obtain data of postings and comments from companies
- Interview about examples of past issues, specific keywords, type of sentences to be detected, etc.

## Customize



- Assign appropriate members for the project from registered testers in the digital native generation and verify extraction and assumptions of research keywords and postings that may lead to risks
- Input all elements to AI “KIBIT” as learning data to execute analysis

## Offering service



- Automatically sort a large volume of postings and comments the company websites in descending order of risk
- Unexpected dangerous postings will be automatically extracted and reported by AI in order of priority

## Relearned by AI



- Tune learning data by inputting extracted postings to AI for relearning
- Detect postings unable to extract through search by a keyword to avoid risk to miss

- ✓ Achieve significant cost reduction by introducing AI with processing capacity of 4,000 times higher than human
- ✓ Detect postings with subtle nuances that couldn't be detected by the existing search by a keyword
- ✓ Automatically extract unexpected dangerous postings by AI in order of priority
- ✓ Utilize perception of more than 8,000 testers familiar with internet to customize AI
- ✓ Apply capability to analyze unexpected user behavior patterns, cultivated in debugging services, to monitoring service



# Review of the Previous Medium-term Management Plan (FY2014 to FY2016): Outline of Strategy and Review

## ◆ Outline of strategy and review

**Concept: Aim at Group net sales of ¥30 billion by expanding sales through strong autonomic growth and M&As**

While achieving strong autonomic growth in debugging projects mainly for mobile applications and IoT-related debugging services for systems and automobiles, the effects from slowdown of development due to rapid changes in external environment in the amusement market and non-execution of originally planned M&A projects resulted in postponement of the plan.

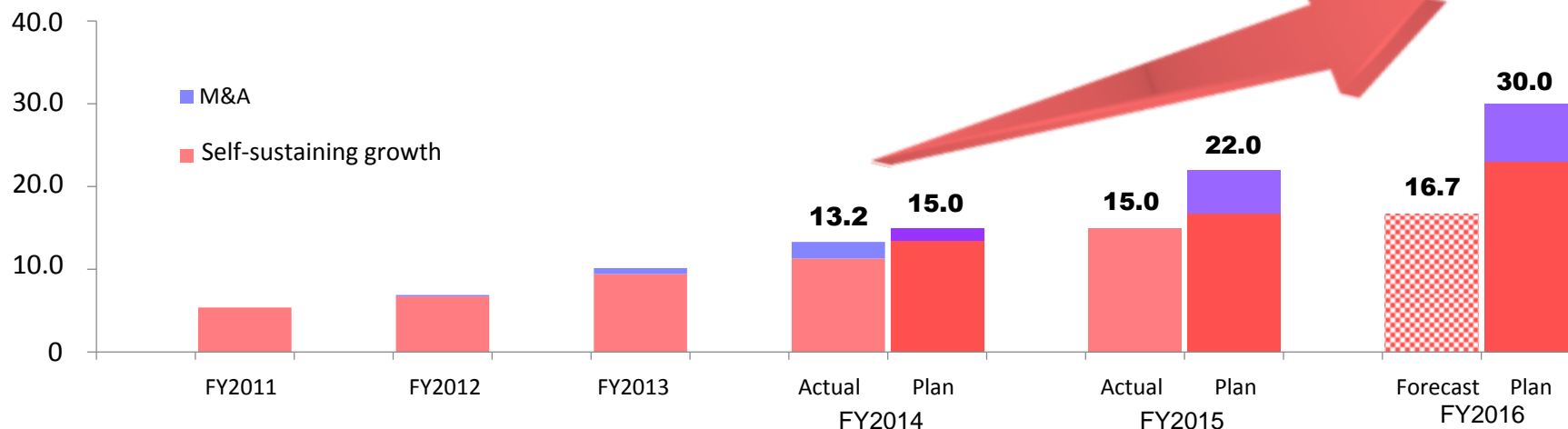
### Basic policy

- ◆ Pursue growth of Debugging Business beyond geographic and service area
- ◆ Develop services pursuing uniqueness
- ◆ Strategic use of management resources

### Review

- | FY2014 | <ul style="list-style-type: none"><li>● Full-fledged entry in the system verification field</li><li>● Consolidated a video production company and expanded creative related services</li><li>● Established a joint venture with ZMP Inc. and entered debugging service for the automotive industry</li></ul>                        |
|--------|---|
| FY2015 | <ul style="list-style-type: none"><li>● Sold part of stocks of a subsidiary engaging in media operation and formed a business alliance with Shochiku Broadcasting Co., Ltd.</li><li>● Conducted study with UBIC, Inc. on new AI service</li><li>● Merged three group subsidiaries and executed organization restructuring</li></ul> |

(Net Sales : ¥ Billion)



Previous M-T management plan period



# Review of the Previous Medium-term Management Plan (FY2014 to FY2016): Financial Indicator of the Group

## FY2016

Announced figures of Previous  
Medium-term Management plan

## FY2016 Forecast

Sales	¥30.0 billion	¥16.7 billion
Operating Income margin	16%	15.4%
Ordinary Income	¥4.8 billion	¥2.5billion
EPS (Earnings Per Share)	¥243	¥143.7
DOE (Dividend On Equity)	7%	6.1%
Dividend payout ratio	20%	13.2%
ROE (Return On Equity ratio)	37%	45.8%



# Review of the Previous Medium-term Management Plan (FY2014 to FY2016): Review by Segment

(¥ Million)

Segment	FY2014 (Actual/Announced figures of Previous Medium-term Management plan)		FY2015 (Actual/Announced figures of Previous Medium-term Management plan)		FY2016 (Forecast/Announced figures of Previous Medium-term Management plan)	
Debugging Business	9,812	10,900	11,138	13,000	12,752	15,600
Media Business	504	700	512	900	565	1,000
Creative Businesses	1,675	3,400	1,729	8,100	1,800	13,400
Others	1,333		1,701		1,586	
Total	13,285	15,000	15,011	22,000	16,705	30,000

\*As sales of each segment for FY2014 and FY2015 include inter-segment sales or transfer, the sum of each segment's sales does not necessarily match the total presented above.

\*Sales of Creative Business announced is included in other businesses in Previous Medium-term management plan.

Debugging Business : (Basic policy) Aim at average annual growth rate of over 20% (CAGR) and deliver results commensurate with the growth curve of target market

## ➤ Slowdown of development in the amusement market and delay in business expansion in new fields

- The consumer/mobile game field grew as expected, especially sales from debugging service for mobile application showed a significant growth
- Sales from the amusement field were weak as unexpected regulations in the industry slowed down the development
- Cultivated debugging demands in new fields (system verification and automotive industry)

Media Business: (Basic policy) Maintain and improve value of "4Gamer.net" brand, and enhance an appealing power to clients and users by providing unique services

## ➤ Unexpected delay in development and release of new services

- Promoted new approaches through a capital and business alliance with Shochiku Broadcasting Co., Ltd. engaging in broadcasting and video related business and an alliance with Gamer Network Ltd., a global game media.

Creative Business: (Basic policy) Pursue the rationality in the business under the concept of the selection and concentration

## ➤ Unexpected delay in restructure of a subsidiary acquired through M&A due to slowdown of development in the amusement field

- Completed organization restructuring for the entire segment and built sustainable and stable revenue base

Others: (Basic policy) Create and develop new businesses through M&As, etc.

## ➤ Existing System Development Project showed a steady growth, but M&A was not executed in FY2015 considering market trend and management environment



# Positioning of the New Medium-Term Management Plan (FY2016 to FY2018) and Management Vision

## Positioning of the new Medium-term Management Plan

Define the period up to the fiscal year ending March 31, 2019 as the  
**“period to maximize performance by utilizing our uniqueness for growth opportunities”**

and continue to follow the basic policies under the previous Medium-term Management Plan, in order to aim at becoming a global company demonstrating the power of Japan to the world

## Management vision

**We aim at consolidated sales of ¥30 billion by exploiting growth opportunities in new fields, in addition to the strong autonomic growth**

- 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



# New Medium-Term Management Plan (FY2016 to FY2018): Basic Policy and Business Strategy

## Basic policy in the new Medium-term Management Plan

**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**

## Business strategy by segment

**Debugging business:** Maintain autonomic growth focusing on the entertainment field and create opportunities and expand in new fields

- Accelerate to foster leader candidates and expand domestic share
- Accelerate commercialization of new market needs such as VR/AR
- Position the system verification service as the second core business
- Create added value in debugging service

**Media Business:** Maximize brand value of “4Gamer.net,” and provide unique service to enhance an appealing power to clients and users

- Operate multiple websites to expand business
- Create new businesses utilizing 4Gamer brand in alliance with other media companies, including video transmission of mainly game events such as e-sports as well as game event related projects

**Creative Business:** Pursue the rationality in the business under the concept of the selection and concentration and enhance technical capability

- Enhance the sales structure and strengthen business organization through active recruitment of mid-level employees
- Adopt the latest game development tools to enhance technical capability and corporate brand

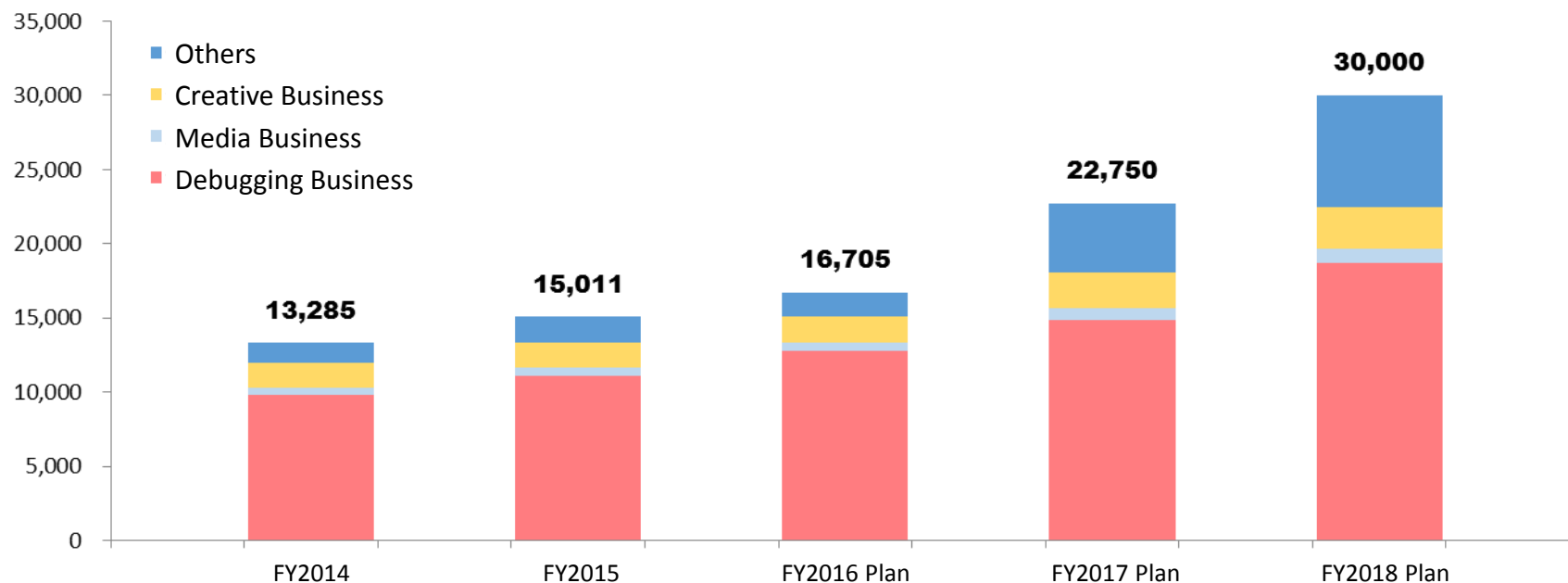
**Others:** Create and expand new businesses through M&As, etc.

- Maintain stable growth of system development project and support the growth of system verification project
- Consider M&A for development of verification service in new fields
- Consider investment with a view of capital participation in the game market in China



# New Medium-Term Management Plan (FY2016 to FY2018): Target Sales by Segment

(Net Sales : ¥Million)



(¥ Million)

← New M-T management plan period →

Segment	FY2014 Actual	FY2015 Actual	FY2016 Plan	FY2017 Plan	FY2018 Plan
Debugging Business	9,812	11,138	12,752	14,900	18,700
Media Business	504	512	565	800	1,000
Creative Business	1,675	1,729	1,800	2,400	2,800
Others	1,333	1,701	1,586	4,650	7,500
<b>Total</b>	<b>13,285</b>	<b>15,011</b>	<b>16,705</b>	<b>22,750</b>	<b>30,000</b>

\*As sales of each segment for FY2014 and FY2015 include inter-segment sales or transfer, the sum of each segment's sales does not necessarily match the total presented above.



# New Medium-Term Management Plan (FY2016 to FY2018): Financial Indicator of the Group

## FY2015 Actual

## FY2018 Target figure of New Medium-Term Management Plan

Sales	¥15.0 billion	▶	+¥14.9 billion (200%)	▶	¥30.0 billion
Operating Income margin	13.1%	▶	+3%	▶	16%
Ordinary Income	¥1.9 billion	▶	+¥2.8 billion (248%)	▶	¥4.8 billion
EPS (Earnings Per Share)	¥31.4	▶	+¥231 (835%)	▶	¥262
DOE (Dividend On Equity)	6.4%	▶	—	▶	6%
Dividend payout ratio	60.4%	▶	-44%	▶	16%
ROE (Return On Equity ratio)	10.5%	▶	+28%	▶	39%

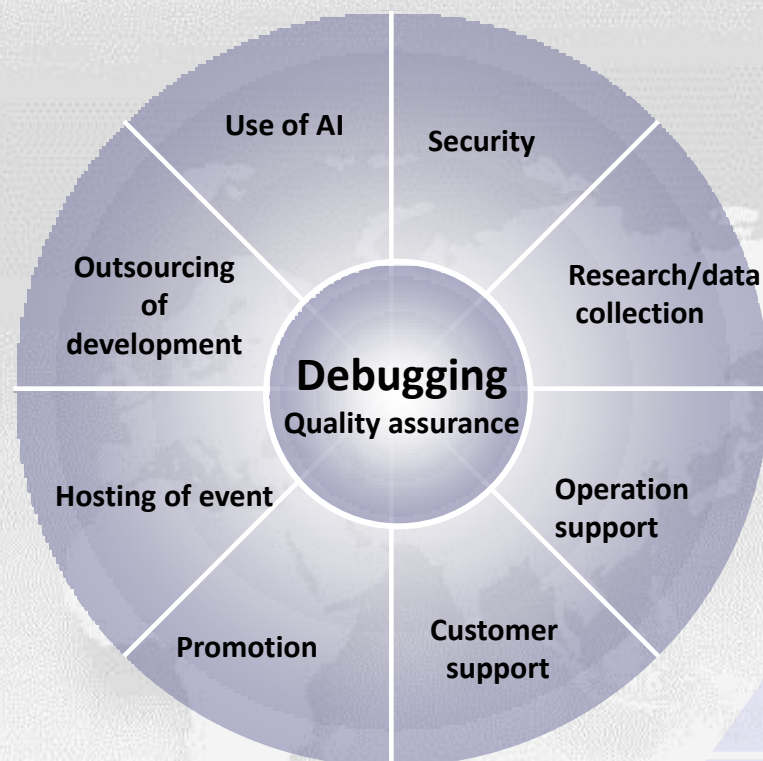




# New Medium-Term Management Plan (FY2016 to FY2018): Evolution of service and expansion of target markets

- Business opportunities rapidly expanded with the development of digitalization and we offer services pursuing “users’ satisfaction for quality”

## Group’s service domains



## Development of technology

*Develop ubiquitous network with an eye to the Tokyo Olympic/Paralympic Games in 2020*  
•Self-driving car, transportation telecommunication system  
•Smart house

Smart city

*On-line administrative services and digitization of personal data*  
•Social Security and Tax Number System  
•My portal

E-government

*ICT in aviation/education/medical fields*  
•Drone  
•Electronic health record  
•Nursing-care robot  
•Digital teaching materials

Smart platinum society

*Fusion of finance and ICT service*  
•Mobile settlement  
•Cloud household accounts  
•E-money

Fin Tech

*Innovation in video/contents fields*  
•e-sports  
•VR (virtual reality)  
•Wearable  
•Digital signage

Expansion of entertainment



Hearts United Group Co., Ltd.

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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)**



(as of March 31, 2016)

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	<div> <div> ■ Debugging Service ■ “4Gamer.net” Site Management </div> <div> ■ Game Development/CG Video Production Service ■ System Development Service </div> <div> ■ “Fuguai.com” Site Management ■ Supporting creators : Managing online multiplayer games </div> </div>
Capitalization	¥300,686,000
Shares Issued	11,945,400 Shares
Group Companies <div> <div>■ Consolidated subsidiary</div> <div>□ Affiliated company</div> </div>	<div> <div> ■ DIGITAL Hearts Co., Ltd.  ■ DIGITAL Hearts USA Inc.  ■ Aetas, Inc.  ■ NetWork21 Co., Ltd.  □ ZEG Inc. </div> <div> ■ DIGITAL Hearts Korea Co., Ltd.  ■ DIGITAL Hearts (Thailand) Co., Ltd.  ■ FLAME Hearts Co., Ltd. </div> </div>
Workforce (consolidated)	597



# 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	April	Acquired the shares of Premium Agency Inc. through acquisition and subscription to a third party allocation and made it a subsidiary
2015	January	Established a joint venture, ZEG Inc., with ZMP Inc. in Bunkyo Ward, Tokyo
2016	January	Merged G&D Co., Ltd., DIGITAL Hearts Visual Co., Ltd. and Premium Agency Inc., renamed to FLAME Hearts Co., Ltd.

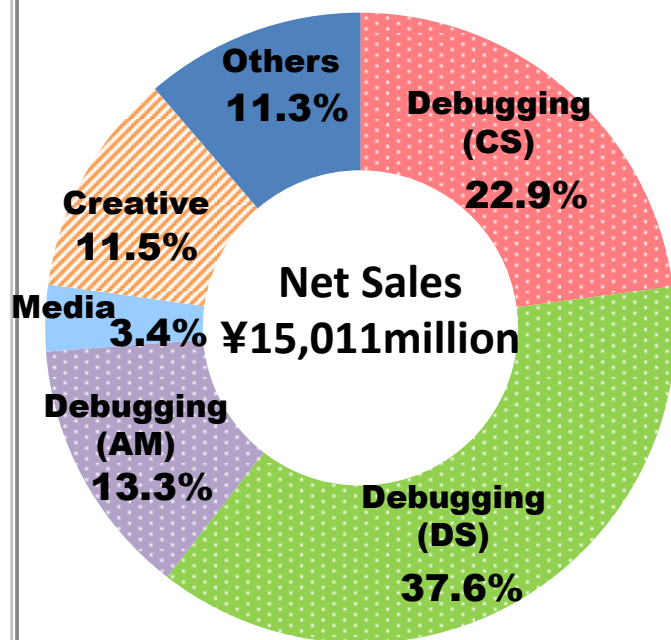


# Our Group

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
	DIGITAL Hearts USA Inc.	Provide User Debugging Service	Debugging
	DIGITAL Hearts(Thailand)Co.,Ltd.	Provide User Debugging Service	Debugging
	Aetas, Inc.	Planning/ operation of a PC/ online game information site "4Gamer.net," etc.	Media
	FLAME Hearts Co., Ltd.	Game Development and Video Production Service, etc.	Creative
	NetWork21 Co., Ltd.	Develop variety of systems including content program, core system, etc.	Others
	ZEG Inc.(affiliated company)	Investment ratio 49.0 % Agency service for debugging and data collection, etc. for the automotive industry	



# Segment



## Sales Breakdown by Segment for FY2015

\*Sales Breakdown by Segment is calculated including inter-company sales

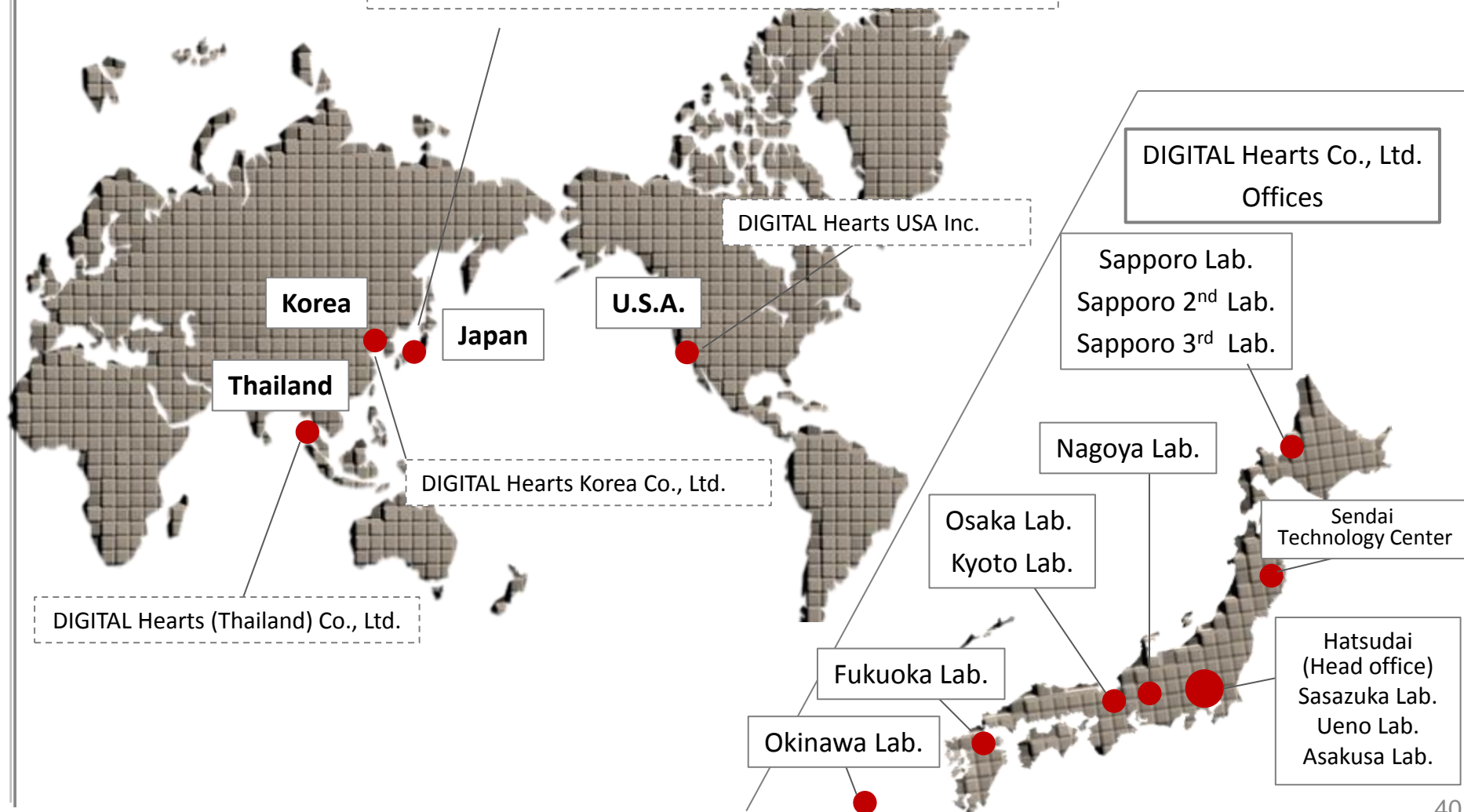
Debugging	22.9%	<b>Consumer Games Unit (CS)</b> Testing of Consumer game software/Online games, etc.
	37.6%	<b>Digital Solutions Unit (DS)</b> Testing of mobile contents/system of social game and smartphone applications, etc.
	13.3%	<b>Amusement Unit (AM)</b> Testing of Pachinko/Pachislot, etc.
Media	3.4%	<b>4Gamer.net</b> Managing one of Japan's largest game portals
Creative	11.5%	<b>Game Development/ CG Video Production Service</b>
Others	11.3%	<b>System Development</b> <b>Fuguai.com Site Management</b> <b>DIGITAL Hearts Creators Network business</b>





# Group Companies & Offices

- DIGITAL Hearts Co., Ltd.(13 offices)
- Aetas, Inc.
- FLAME Hearts Co., Ltd.
- NetWork21 Co., Ltd.
- ZEG Inc.





## Clients



- Game Industry
- Mobile Device Industry
- Pachinko & Pachislot Industry
- Home Appliance Industry
- System Industry
- Others

Request to test bugs



Verification process

Bug information report  
(daily)



Fee payment



- No. of personnel involved  
×  
No. of man-hours  
×  
price per unit (inclusive of  
know-how fee)
- Payment at 1 month after  
sight



## Our Group

DIGITAL Hearts Co., Ltd.  
DIGITAL Hearts Korea Co., Ltd.  
DIGITAL Hearts USA Inc.  
DIGITAL Hearts(Thailand) Co., Ltd.



## Registered staff



- Safe security environment with fingerprint authentication and security cameras
- Personal reference system applied to all registered testers

**4Gamer.net**

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

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

4Gamer.net deals with game related information worldwide. Our strength lies in the frequency of information update.

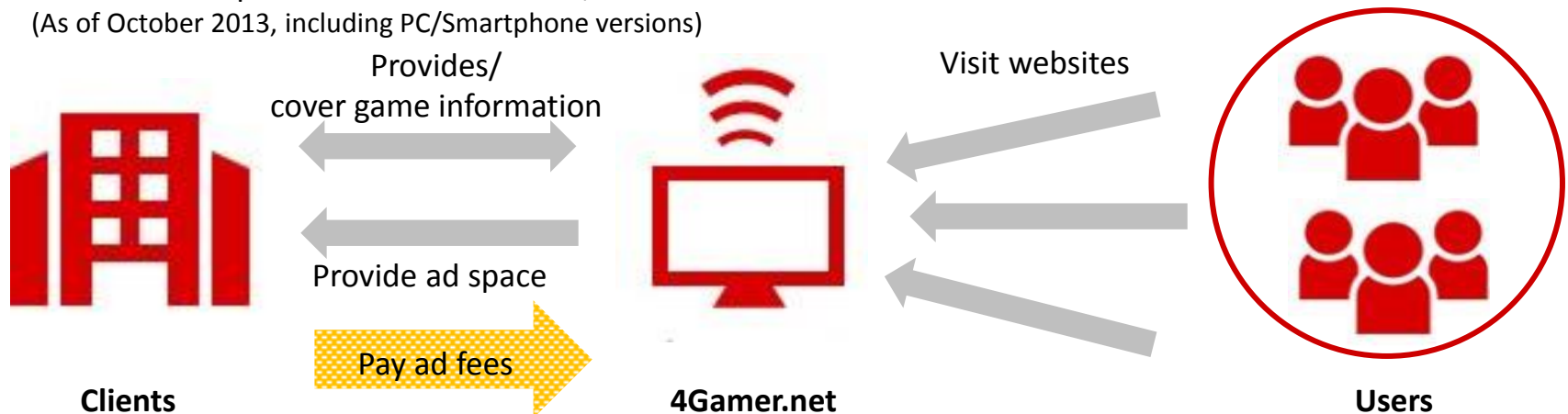
The information includes breaking news, review articles, hardware information and a series of articles uniquely featured by editors.

Built a 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

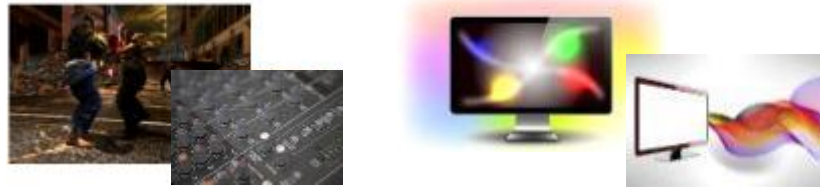
(As of October 2013, including PC/Smartphone versions)






## <Creative Business>

### Game Development/CG Video Production Service

Provide various production services for overall creative fields in customers' digital contents production, including contracted development of consumer games and social games and video production using CG



## <Others>

System Development Project	Fuguai.com Project	DIGITAL Hearts Creators Network
<p>Develops a variety of systems including content program, core system, etc.</p> 	<p>Manages a portal site for bug information with the aim to improve product 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>Illustration production through creator support and game management, etc.</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 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.