

**Showed significant growth in sales and profit as net sales grew by approx. 20%, OP fourfold. A Strong Start to the full year guidance which aim to achieve record high sales and profit.**

▷ **Q1FY3/2022 Results: Sales growth 21% and fourfold increase in OP.**

In Q1FY3/22, the Company achieved a significant increase in both sales and profits, with **net sales of ¥6.09bn (up 19.7% YoY), OP of ¥636mn (up 301.3%), and profit attributable to owners of parent company of ¥487mn (up 391%)**. This was a good start towards achieving its mid-term plan under the new management structure.

**Enterprise Business:** Sales rose 33.2%, with continued high growth in System Testing div. and IT services/ Security div.. In addition to the acquisition of major projects in system testing, security services more than doubled YoY. Segment P/L turned into the black with ¥87mn profit, compared to a ¥21mn loss a year earlier.

**Entertainment Business:** Domestic Debugging went well due to strong sales of console games. In Global and Other, sales increased by approximately 30% YoY due to strong cross-border/global projects. Overall, the segment reported a 14% increase in sales and a 79.9% increase in profit.

**EBITDA analysis:** Both the Enterprise and Entertainment businesses contributed significantly to the increase in gross profit due to higher sales. In addition, operational efficiencies and the consolidation of labs. in the Domestic Debugging div. contributed to EBITDA growth to ¥732mn in Q1 FY3/22, almost triple the ¥255mn recorded in Q1 FY3/21.

▷ **Full-year FY3/2022 forecast: Steady progress, no change to initial forecast.**

At the end of Q1, the Company's progress rate towards its full year guidance was 21.5% for sales and 30.3% for OP. Furthermore, with the recent acquisitions of identity Inc. in Enterprise Business and DIGITAL HEARTS CROSS Group in Entertainment Business starting to contribute from Q2, the full year sales guidance of ¥28.4bn looks achievable.

▷ **Stock Price Trends: Substantial Gains on Strong Results, Set to Hit New Yearly Highs**

Following the announcement of strong results on 10 August, the Company's share price rose a significant 13% on 11 August, reaching a new high for the year. The Company's Q1 results show that it is making steady progress in the continued development of its Enterprise Business and the global expansion of its entertainment business, as outlined in its medium-term management vision, which may lead to a higher stock price in the future.

**Note:** From this year, the Company has adopted the Accounting Standard for Revenue Recognition. The Company has changed its method of recognizing revenue as performance obligations are met. The impact of this change on Q1 results is minimal.

JPY mn	Net Sales	YoY (%)	Oper. Profit	YoY (%)	Ord. Profit	YoY (%)	Profit ATOP	YoY (%)	EPS ¥
2018/3	17,353	12.4	1,735	-9.0	1,782	-10.8	1,200	50.9	55.14
2019/3	19,254	11.0	1,605	-7.5	1,651	-7.4	1,575	31.3	72.13
2020/3	21,138	9.8	1,394	-13.2	1,372	-16.9	792	-49.7	36.31
2021/3	22,669	7.2	1,908	36.9	1,975	43.9	974	23.0	45.15
2022/3(CE)	28,420	25.4	2,100	10.0	2,100	6.3	1,400	43.7	64.77
2021/3 Q1	5,093	2.1	158	-26.4	194	2.5	99	-11.8	4.61
2022/3 Q1	6,098	19.7	636	301.3	670	244.9	487	391.3	22.57

Source: Sessa Partners from company materials

## Q1 FOLLOW-UP



**Focus Points:**  
Pioneer in the field of software testing. The Enterprise Business, a key focus, is growing rapidly. The traditional Entertainment Business is underpinning earnings, while overseas sales are also a growth driver. Under the new management structure, the medium-term management vision calls for ¥50 billion in sales.

### Key indicators

Stock price (8/16)	1,670
YH (8/12)	1,835
YL (1/6)	1,215
10YH (16/9/29)	2,200
10YL (20/3/23)	552
Shares issued (mn, shrs)	23.890
Market Cap (¥bn)	39.898
EV (¥bn)	37.546
Capital ratio (6/30)	38.0%
22/3 PER (CE)	25.78x
21/3 PBR (act)	5.96x
21/3 ROE (act)	18.4%
22/3 DY (CE)	0.90%

### Share Chart (1-year)



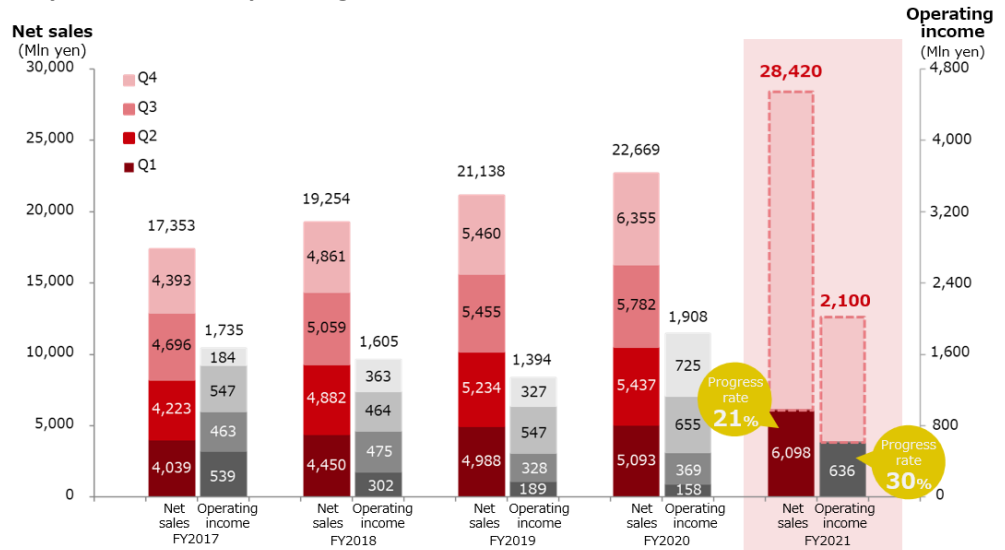
Source: Sessa Partners via SPEEDA

Analyst **Takafumi Yamawaki**  
[research@sessapartners.co.jp](mailto:research@sessapartners.co.jp)



This report was created by Sessa Partners on behalf of Digital Hearts Holdings Co., Ltd. For details, see the disclaimer at the end of this report.

Full-year Sales and Operating Profit Trends



Source: Company’s material for Q1, FY3/2022

1. Q1FY3/2022 Results

**1) Net sales rose 20% to ¥6,098mn and OP fourfold to ¥636mn. Both Enterprise Business, Entertainment Business achieved double digit growth. Back on the growth track again.**

These were the first results of the new ‘Growth’ period under the new management, and the Company made a good start in terms of sales and profits. In the core Enterprise Business, the number of customers increased on the back of rising DX demand, and sales continued to grow at a high rate, up 29% YoY, thanks to the acquisition of high-unit-price projects. In the Entertainment Business, the Company won a major project for game console business, which is performing well due to stay-at-home demand. Global Services is a new sub-category, which we expect to become another pillar of future earnings, also grew by 28%.

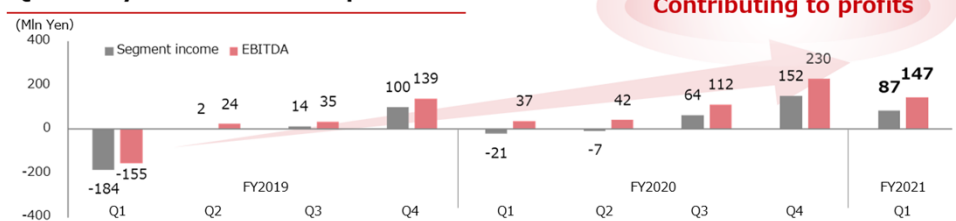
OP fourfold YoY. Gross profit margins increased in both businesses as a result of higher sales, and in the Entertainment business, gross profit margins for Domestic Debugging improved as a result of operational efficiencies and the consolidation of labs., which had been underway since the previous fiscal year.

2) Segment Analysis

**a) Enterprise Business (Sales: ¥2,029mn, +33.2%. Turned into the black).**

Enterprise Business turned into the black in FY3/21 full year basis with sales ¥2,029mn, and the sales and profits continue to grow at a high rate. Sales of both System Testing and IT services/ Security increased by approx. 30% respectively. Segment profit was ¥87mn, up from a ¥21mn loss a year earlier, and EBITDA grew fourfold (from ¥37mn to ¥147mn), suggesting that the segment's profitability is now firmly established.

Quarterly results of Enterprise Biz



Source: Company’s material for Q1, FY3/2022

In **Systems Testing**, DHH strengthened its sales structure on the back of strong demand for corporate DX which is imminent agenda. As a result, the Company was able to secure large, profitable projects. Sales increased significantly to ¥1.02bn, up 29% YoY. The gross profit margin improved by 4.3 percentage points YoY to 35.1% due to higher added value and higher utilization.

In **IT services / Security**, double-digit sales growth was achieved in all areas of Security, Maintenance and Operation, System development and SES, with sales rising by 37.5% to ¥1,011mn. Security growth more than doubled, particularly in response to the rising threat to cyber security.

**b) Entertainment Business (Sales: ¥4,069mn, +14.0%, Profit: ¥930mn. +79.9%).**

A new sub-segment structure has been introduced since Q1 of this financial year, comprising Domestic Debugging, Global and Other. Amid the spread of the COVID-19, the number of game users increased worldwide, and several large projects, mainly for game consoles took place in the Domestic Debugging div. under such circumstance. The number of global projects also increased, resulting in a **14.0% rise in the Entertainment Business's overall sales to ¥4,069mn**. In addition to the increase in sales, the Company continued to improve the efficiency of its operations by consolidating labs. and the introduction of remote debugging, which they have been doing since the previous fiscal year, led to a significant improvement in the gross margin for Domestic Debugging (a 6.7pt improvement to 31.3% from 24.6% of Q1FY3/21). **Segment profit increased by 79.9% to ¥930mn**. In absolute terms, segment profit was more than 10 times that of the Enterprise business, and the strong performance of the Entertainment business was a major driver of earnings.

In the **Domestic Debugging div.**, debugging for console games was strong, partly due to stay-at-home demand. As a result of the contribution of large projects, **sales were ¥2,931bn yen, 9.3% higher** than the previous year. As mentioned above, the gross profit margin improved significantly due to higher sales and improved operational efficiency.

The **Global and Other div.**, along with the Enterprise segment, is positioned as a new growth pillar for the Company. In the current fiscal year, the Company has been aggressively pursuing cross-border projects across Japan, China and Korea, including translation and LQA (Linguistic Quality Assurance) services. In addition, synergies from the acquisition of DIGITAL HEARTS CROSS have already started to emerge, with existing subsidiaries expanding their business with Chinese companies. As a result, double-digit sales growth was achieved for all services, resulting in a **significant increase in sales of 28.2% to ¥1,137mn**.

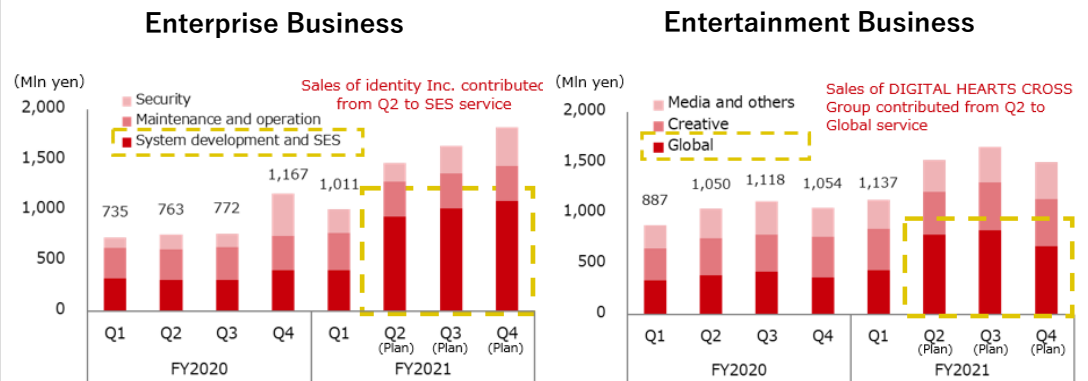
**2. Full-year Guidance - Progress as of Q1: sales 21%, operating profit 30%.**

The Company is currently maintaining its full-year FY3/22 guidance: sales of ¥28,420bn (+25.4% YoY), OP of ¥2,100mn (+10.0%), RP of ¥2,100bn (+6.3%), and profit attributable to owners of parent company ¥1,400mn (+43.7%).

As of the end of Q1, the progress towards the full-year plan was 21.5% for sales, 30.3% (OP), 31.9% (RP), and 34.8% (NP). In terms of segment sales, the Enterprise Business reached 18.5% of full year guidance and 23.4% for the Entertainment Business.

In the Enterprise business, sales from identity Inc., which became a subsidiary in June 2021, will start to contribute from Q2. In the Entertainment Business, sales from the DIGITAL HEARTS CROSS Group (formerly Metaps Entertainment Group), which became a subsidiary in March 2021, are expected to contribute from Q2 (see above, next page). As previously reported, each of these companies is expected to boost sales by ¥1.0-1.5bn this year, putting the Company on track to achieve its full-year forecasts.

Earnings contribution from Q2 onwards through M&A

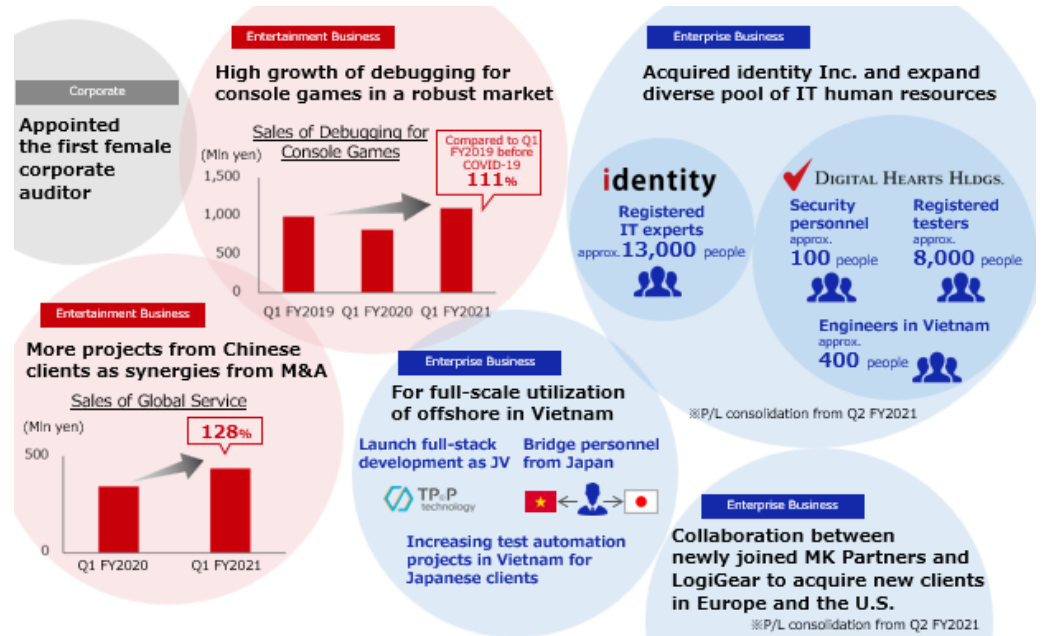


Source: Company's material for Q1, FY3/2022

3. FY3/2022 Topics

As can be seen in the chart below, the Company has been building a variety of business foundations through M&A and other means as it moves from its 'Second Founding' period to 'Growth' period. Domestic Debugging continues to be the cash cow underpinning earnings, but the Enterprise Business and Global Entertainment services have been steadily producing results. These businesses have entered a phase where they are contributing to earnings and are emerging as future growth drivers.

Q1 FY2020/3 Topics



Source: Company's materials for Q1, FY3/2022

**3676 Digital Hearts Holdings Stock Price Trends (Last 5 Years)**

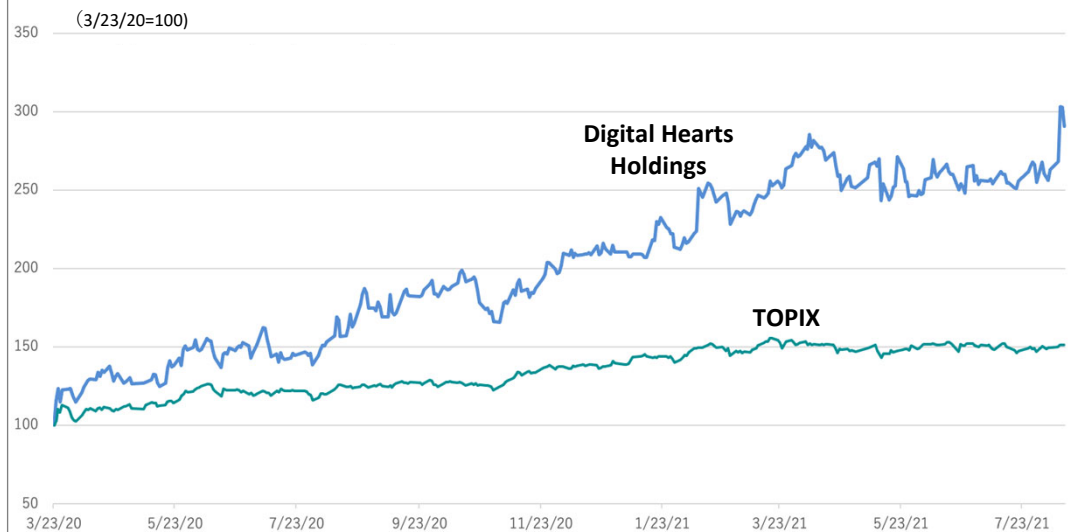


Source: Sessa Partners from SPEEDA

**4. Share price performance**

Following the announcement of positive results on 10 August, the company's share price rose sharply to ¥1,796, up 13%, on the following day, reaching a new high for the year. On the 12th, the share price hit ¥1,835. The company's Q1 results show that it is making steady progress towards the medium-term management plan, and this is now being recognized by investors. In the past, the Company's OP declined due to upfront investment in the Enterprise Business, but in FY3/21, it posted its first profit in four years. Since posting a clear medium-term vision, outlining specific growth strategies, the share price is likely to reflect continued progress towards these goals.

**Digital Hearts Holdings Vs. TOPIX Relative Chart**



Source: Sessa Partners from SPEEDA

## Quarterly Consolidated Financial Results By Segment

	2019/3				2020/3				2021/3				2022/3
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Sales</b>	<b>4,450</b>	<b>4,882</b>	<b>5,059</b>	<b>4,861</b>	<b>4,988</b>	<b>5,234</b>	<b>5,455</b>	<b>5,460</b>	<b>5,093</b>	<b>5,437</b>	<b>5,782</b>	<b>6,355</b>	<b>6,098</b>
YoY	10.2%	15.6%	7.7%	10.6%	12.1%	7.2%	7.8%	12.3%	2.1%	3.9%	6.0%	16.5%	19.7%
<b>Enterprise Business</b>	<b>652</b>	<b>806</b>	<b>859</b>	<b>983</b>	<b>954</b>	<b>1,139</b>	<b>1,133</b>	<b>1,793</b>	<b>1,523</b>	<b>1,541</b>	<b>1,711</b>	<b>2,246</b>	<b>2,029</b>
YoY	109.8%	77.1%	100.2%	41.6%	46.3%	41.3%	31.9%	82.4%	59.6%	35.1%	51.0%	25.2%	33.2%
% of Sales	14.7%	16.5%	17.0%	20.2%	19.1%	21.8%	20.8%	32.9%	29.9%	28.3%	29.6%	35.3%	33.3%
<b>System Testing</b>	<b>259</b>	<b>286</b>	<b>366</b>	<b>483</b>	<b>430</b>	<b>570</b>	<b>488</b>	<b>924</b>	<b>788</b>	<b>777</b>	<b>937</b>	<b>1,078</b>	<b>1,018</b>
YoY	57.4%	58.9%	23.2%	9.5%	65.8%	99.3%	33.3%	91.3%	83.1%	36.3%	92.2%	16.8%	29.2%
% of Sales	5.8%	5.9%	7.2%	9.9%	8.6%	10.9%	8.9%	16.9%	15.5%	14.3%	16.2%	17.0%	16.7%
<b>IT Service / Security</b>	<b>392</b>	<b>520</b>	<b>493</b>	<b>500</b>	<b>523</b>	<b>569</b>	<b>645</b>	<b>869</b>	<b>735</b>	<b>763</b>	<b>772</b>	<b>1,167</b>	<b>1,011</b>
YoY	168.9%	89.1%	273.5%	97.6%	33.4%	9.4%	30.8%	73.8%	40.4%	34.1%	19.8%	34.4%	37.5%
% of Sales	8.8%	10.7%	9.7%	10.3%	10.5%	10.9%	11.8%	15.9%	14.4%	14.0%	13.4%	18.4%	16.6%
<b>Entertainment Business</b>	<b>3,798</b>	<b>4,074</b>	<b>4,199</b>	<b>3,876</b>	<b>4,032</b>	<b>4,093</b>	<b>4,320</b>	<b>3,664</b>	<b>3,569</b>	<b>3,897</b>	<b>4,072</b>	<b>4,109</b>	<b>4,069</b>
YoY	1.9%	5.1%	-1.5%	4.9%	6.2%	0.5%	2.9%	-5.5%	-11.5%	-4.8%	-5.7%	12.1%	14.0%
% of Sales	85.3%	83.4%	83.0%	79.7%	80.8%	78.2%	79.2%	67.1%	70.1%	71.7%	70.4%	64.7%	66.7%
<b>New subsegment</b>													
<b>Domestic Debugging</b>									2,681				2,931
YoY									-				9.3%
% of sales									6.1%				47.9%
<b>Global &amp; Other</b>									887				
YoY									-				28.2%
% of sales									4.6%				18.7%
<b>Old subsegment</b>													
<b>Debugging</b>	3,110	3,282	3,493	3,217	3,444	3,480	3,730	3,167	3,023	3,235	3,375	3,424	-
YoY	-4.6%	-1.6%	-3.1%	7.8%	10.7%	6.0%	6.8%	-1.6%	-12.2%	-7.0%	-9.5%	8.1%	-
% of sales	69.9%	67.2%	69.0%	66.2%	69.0%	66.5%	68.4%	58.0%	59.4%	59.5%	58.4%	53.9%	-
<b>Game Console</b>	979	1,002	1,157	1,017	1,186	1,056	1,340	1,125	1,023	1,146	1,258	1,402	-
YoY	-10.9%	4.8%	-0.9%	7.1%	21.1%	5.4%	15.8%	10.6%	-13.7%	8.6%	-6.1%	24.6%	-
% of sales	22.0%	20.5%	22.9%	20.9%	23.8%	20.2%	24.6%	20.6%	20.1%	21.1%	21.8%	22.1%	-
<b>Mobile Solutions</b>	1,993	2,135	2,098	1,944	2,013	2,171	2,141	1,848	1,819	1,958	2,005	1,869	-
YoY	16.1%	20.2%	7.4%	-0.4%	1.0%	1.7%	2.0%	-4.9%	-9.6%	-9.8%	-6.4%	1.2%	-
% of sales	44.8%	43.7%	41.5%	40.0%	40.4%	41.5%	39.2%	33.9%	35.7%	36.0%	34.7%	29.4%	-
<b>Amusement</b>	138	144	237	255	245	252	247	193	179	130	111	153	-
YoY	-68.9%	-76.1%	-51.0%	218.8%	77.5%	75.0%	4.2%	-24.3%	-26.9%	-48.4%	-55.4%	-20.7%	-
% of sales	3.1%	2.9%	4.7%	5.2%	4.9%	4.8%	4.5%	3.5%	3.5%	2.4%	1.9%	2.4%	-
<b>Creative</b>	511	561	422	395	350	307	282	285	311	367	372	398	-
YoY	50.3%	42.0%	-15.1%	-22.5%	-31.5%	-45.3%	-33.2%	-27.8%	-11.2%	19.9%	32.2%	39.7%	-
% of sales	11.5%	11.5%	8.3%	8.1%	7.0%	5.9%	5.2%	5.2%	6.1%	6.8%	6.4%	6.3%	-
<b>Media &amp; others</b>	176	231	284	264	238	306	308	212	234	294	324	286	-
YoY	39.7%	59.3%	74.2%	30.0%	35.2%	32.5%	8.5%	-19.7%	-1.5%	-3.6%	5.4%	35.0%	-
% of sales	4.0%	4.7%	5.6%	5.4%	4.8%	5.8%	5.6%	3.9%	4.6%	5.4%	5.6%	4.5%	-
<b>Operating Profit</b>	<b>302</b>	<b>475</b>	<b>464</b>	<b>363</b>	<b>189</b>	<b>328</b>	<b>547</b>	<b>327</b>	<b>158</b>	<b>369</b>	<b>656</b>	<b>725</b>	<b>636</b>
YoY	-44.0%	2.5%	-15.2%	96.9%	-37.2%	-30.9%	18.0%	-9.9%	-16.7%	12.6%	19.8%	121.3%	301.3%
Operating margin	6.8%	9.7%	9.2%	7.5%	3.8%	6.3%	10.0%	6.0%	3.1%	6.8%	11.3%	11.4%	10.4%
<b>Enterprise Business</b>	<b>(58)</b>	<b>(61)</b>	<b>(76)</b>	<b>(30)</b>	<b>(184)</b>	<b>2</b>	<b>14</b>	<b>100</b>	<b>(21)</b>	<b>(7)</b>	<b>64</b>	<b>151</b>	<b>87</b>
YoY	-	-	-	-	-	-	-	-	-	-	357.5%	52.0%	-
Operating margin	-8.9%	-7.6%	-8.8%	-3.1%	-19.3%	0.2%	1.2%	5.6%	-1.4%	-0.5%	3.7%	6.8%	4.3%
<b>Entertainment Business</b>	<b>677</b>	<b>834</b>	<b>840</b>	<b>735</b>	<b>727</b>	<b>760</b>	<b>892</b>	<b>585</b>	<b>517</b>	<b>700</b>	<b>937</b>	<b>923</b>	<b>930</b>
YoY	-16.6%	0.2%	-4.4%	65.9%	7.4%	-8.9%	6.2%	-20.4%	-28.9%	-7.9%	5.0%	58.0%	79.9%
Operating margin	17.8%	20.5%	20.0%	19.0%	18.0%	18.6%	20.6%	16.0%	14.5%	18.0%	23.0%	22.5%	22.9%

Note) Rounding, etc. may cause fine differences in numbers. Company-wide expenses that are not attributable to the segment are adjusted. The total operating income of the segment does not match the company-wide operating income.

Source: Created by Sessa Partners from the company's materials

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**Sessa Partners Inc.**

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5-3-18, Hiroo, Shibuya-ku, Tokyo  
[info@sessapartners.co.jp](mailto:info@sessapartners.co.jp)