DIGITAL HEARTS HOLDINGS Co., Ltd.

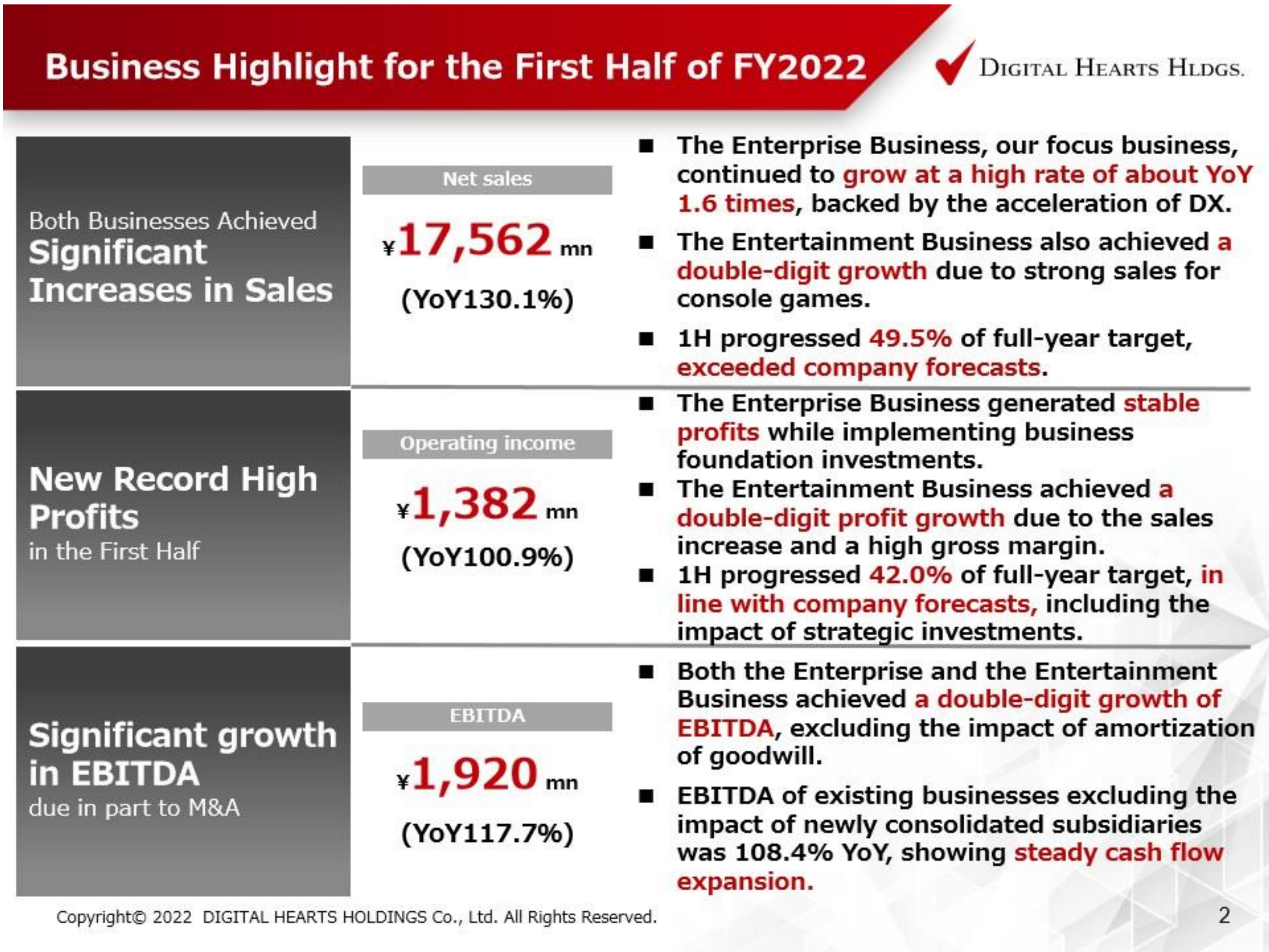
Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 11, 2022

Presentation

Tsukushi: Hello, everyone. My name is Toshiya Tsukushi, Executive Vice President and CFO. Thank you for participating in the presentation of our financial results for Q2 of the fiscal year ending March 2023.

I would now like to quickly explain our financial results for Q2.



Here are the highlights for the H1 performance of the current fiscal year.

Net sales were JPY17,562 million, 130.1% of the year-before level, and both the enterprise business and the entertainment business were able to achieve significant YoY increases in sales. The enterprise business, our focus business, continued to grow at a high rate, approximately 1.6 times that of the year-earlier level, driven by the acceleration of digital transformation. The entertainment business also achieved double-digit YoY growth in sales due to strong sales in the debugging business for consoles. Progress against the full-year plan for sales, announced at the beginning of the year, was 49.5% in H1, slightly exceeding the Company's plan.

Operating income was JPY1,382 million, or 100.9% of the year-before level. It was a record high for H1 of a fiscal year. The enterprise business generated stable profits while implementing business foundation investments.

The entertainment business achieved double-digit profit growth due to the sales increase and a high gross margin. Progress against the announced plan for operating income was 42%, which is almost in line with the plan, although slightly less than the progress rate in sales.

EBITDA was JPY1,920 million, a significant increase with 117.7% of the year-before result, partly due to the effect of M&As. On an EBITDA basis, both the enterprise and entertainment businesses achieved double-digit YoY revenue growth, and EBITDA from existing businesses, excluding the impact of newly consolidated subsidiaries, was 108.4% of the year-before level, showing steady cash flow expansion.

Summary of Financial Results by Segment

DIGITAL HEARTS HLDGS.

(JPY mn)	1H FY2021	1H FY2022	YoY Change
Net sales	**13,498**	**17,562**	**130.1%**
Enterprise	4,863	7,614	156.6%
Entertainment	8,635	10,020	116.0%
Adjustments	—	-72	—
Operating income	**1,370**	**1,382**	**100.9%**
Enterprise	232	114	49.2%
Entertainment	1,906	2,192	115.0%
Adjustments	-768	-924	—
EBITDA	**1,632**	**1,920**	**117.7%**
Enterprise	376	443	117.8%
Entertainment	2,009	2,379	118.4%

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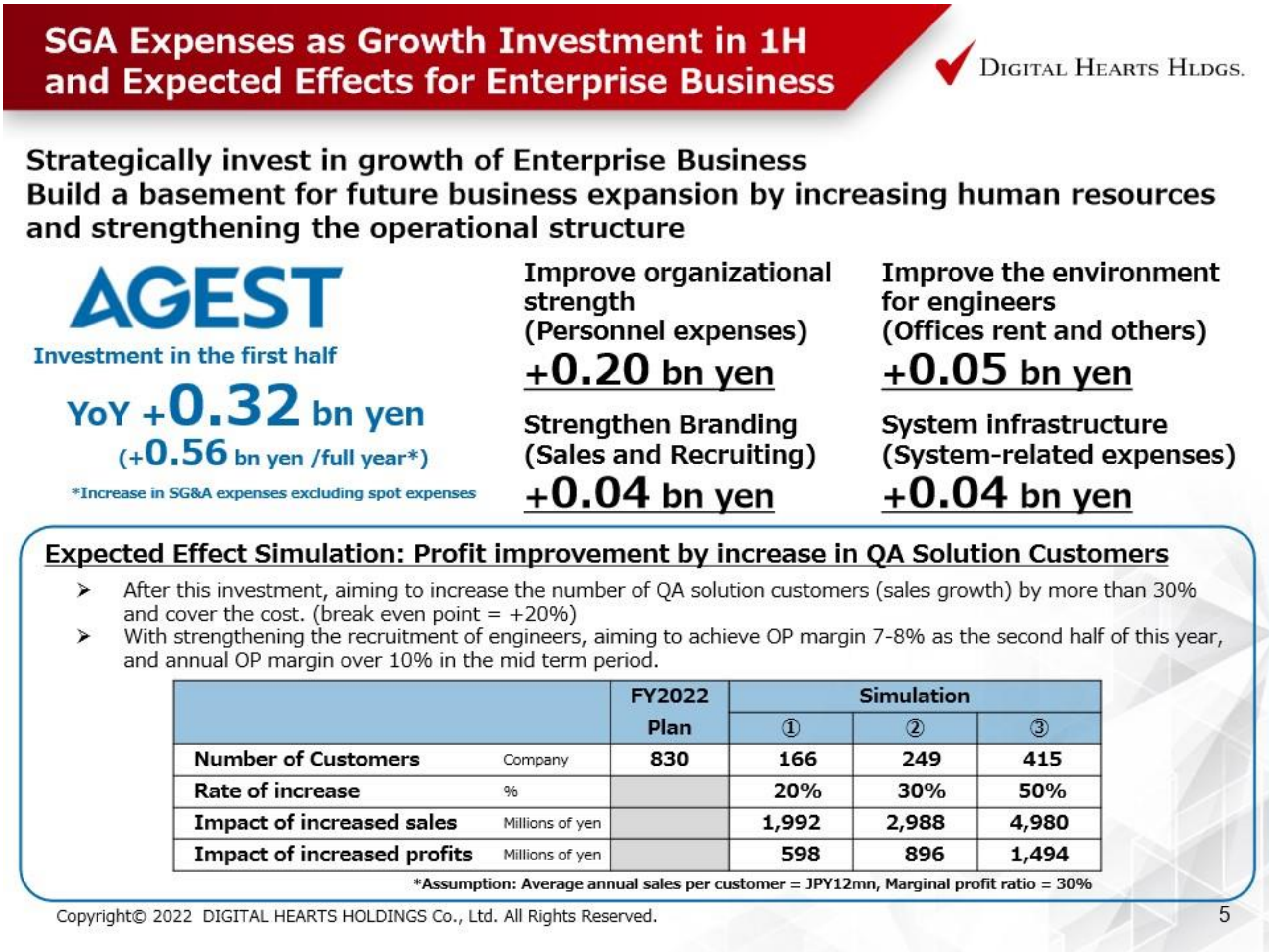
Here is a summary of the financial results by segment.

We will present the segment-by-segment results in more detail later, so we will skip this page for now.

In H1, to ensure further growth of the enterprise business, which had steadily been extending sales, we were building a business foundation to support medium-term growth with considerable will and speed.

On AGEST, Inc., the new Enterprise Business core company, we were concentrating management resources, improving the brand awareness, developing a new working environment, and strengthening human resources.

We integrated three domestic subsidiaries, including ANET, into AGEST. In addition, AGEST took over the quality assessment business from Sobal Corporation, and approximately 130 test engineers have joined AGEST from Sobal. In order to promote such business transfers and M&As, we have completed procurement of JPY800 million in equity financing as of the end of October this year.



		FY2022 Plan	Simulation ①	Simulation ②	Simulation ③
Number of Customers	Company	830	166	249	415
Rate of increase	%		20%	30%	50%
Impact of increased sales	Millions of yen		1,992	2,988	4,980
Impact of increased profits	Millions of yen		598	896	1,494

Now, let me explain what specific items and how much money were spent on this growth investment.

First, we spent JPY200 million to reinforce personnel to strengthen the organization, mainly engineers, JPY50 million to improve the environment for engineers, mainly rents for offices, and JPY40 million for sales and recruiting to strengthen branding.

In addition, we invested about JPY40 million to renovate our system infrastructure, with the aim of increasing the productivity of our engineers. Even excluding one-time expenses, this strengthening of the business foundation boosted full-year SG&A expenses by around JPY500 million to JPY600 million.

So how would we view this expected effect? After these investments, we aim to increase the number of QA solution customers by more than 30%. For the current fiscal year, we plan to have some 830 customer companies for the QA solution business. Considering the increase in gross profit from the increase in sales, it will be possible to simply cover such investments with the amount of gross profit by increasing the number of customers by approximately 20%.

However, considering the amount of noncurrent assets of the enterprise business, we are naturally aiming for a further increase in sales of 30% or more, based on the foundation strengthened by these business investments. We expect sales to continue to grow in H2, and if sales are achieved as initially planned, we believe that we will be able to achieve an operating margin of 7% for the enterprise business in H2, and that we can expect a level of more than 10% for the medium term.

Summary of Business Results for the Six Months Ended September 30, 2022

DIGITAL HEARTS HLDGS.

Significant increase in sales due to the growth of existing businesses and the impact of M&As. Operating income increased and EBITDA grew significantly, despite aggressive investment for growth.

(JPY mn)	1H FY2021	1H FY2022	YoY Change	
Net sales	13,498	17,562	4,063	130.1%
Cost of sales	9,562	12,376	2,814	129.4%
Cost of sales (%)	70.8%	70.5%		-0.4 points
Gross profit	3,936	5,185	1,248	131.7%
SG&A	2,566	3,802	1,236	148.2%
Operating income	1,370	1,382	12	100.9%
Operating income margin	10.2%	7.9%		-2.3 points
Ordinary income	1,431	1,527	95	106.7%
Profit attributable to owners of parent	917	950	32	103.5%
EBITDA	1,632	1,920	288	117.7%

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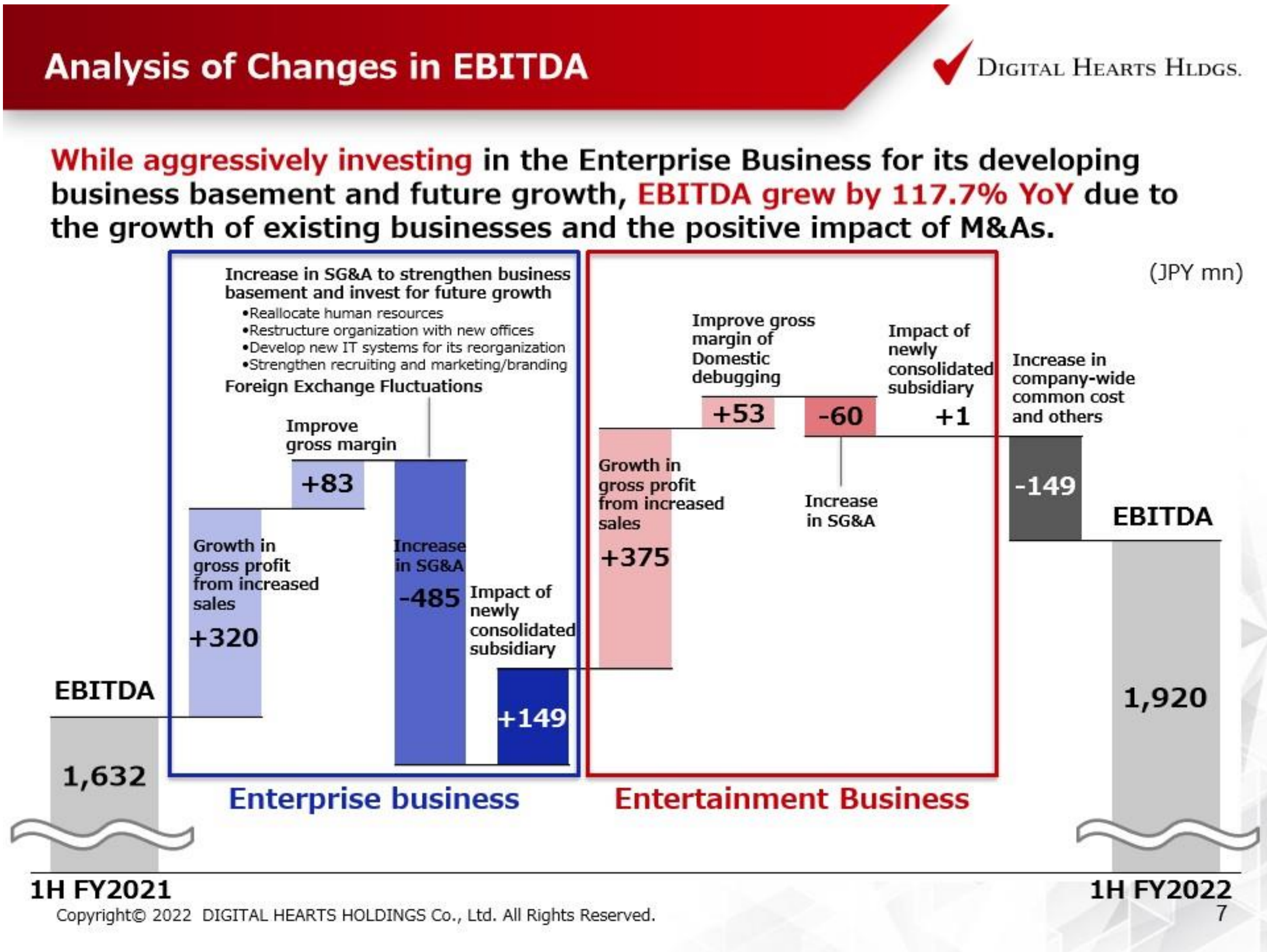
Here is the final consolidated statement of income.

As I mentioned at the beginning, we achieved YoY growth in all of sales, which were 130% of the year-before level, operating income, which was 100.9%, and EBITDA, which was 117.7%.

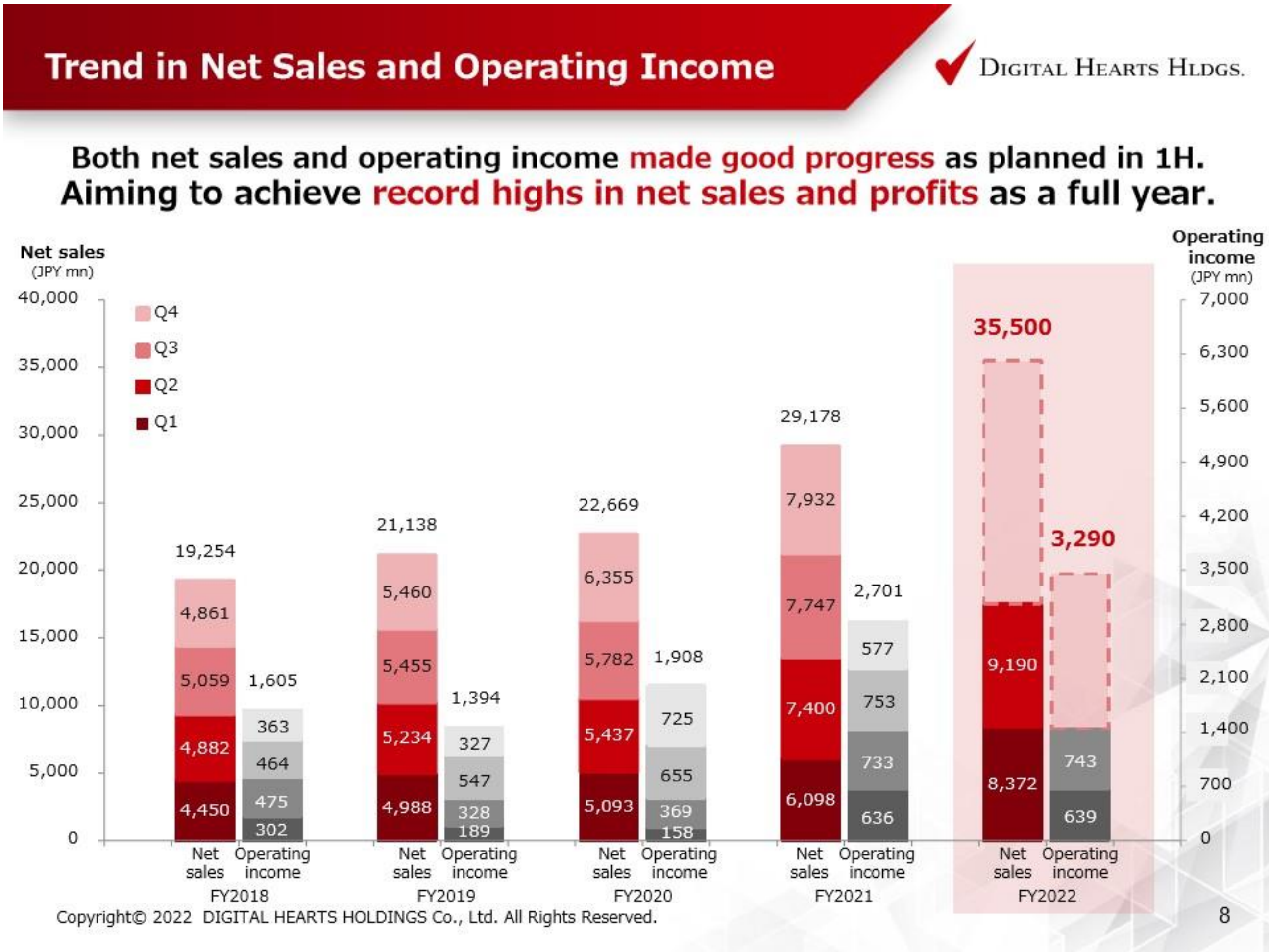


This is a waterfall analysis of YoY changes in EBITDA.

In the enterprise business, EBITDA grew significantly to 117.7% of the prior-year level due to the growth of existing businesses and the effects of M&As, while strengthening the business basement and aggressively investing in growth.

In the enterprise business, as shown in the graph, SG&A expenses increased due to the investment in business infrastructure and overall business expansion, as explained earlier. SG&A expenses for overseas operations increased in Japanese yen terms due to exchange rate fluctuations caused by the recent depreciation of the yen. However, EBITDA increased in the enterprise business, taking into account the increase in profits due to higher sales and the impact of the newly consolidated subsidiaries.

In the entertainment business, EBITDA increased significantly due to the considerable effect of increased sales, and the Company as a whole was also able to increase EBITDA solidly.



This is the trend in sales and operating income from the past.

As you can see, sales have been growing steadily and operating income has also been expanding smoothly, and we are aiming to achieve record highs in sales and operating income for a full year for the current fiscal year.

Consolidated Balance Sheets

DIGITAL HEARTS HLDGS.

(JPY mn)	Q4 FY2021 (As of March 31, 2022)	Q2 FY2022 (As of September 30, 2022)	YoY Change
Total assets	17,565	20,688	3,122
Current assets	10,392	12,182	1,790
Cash and deposits	5,208	6,850	1,641
Noncurrent assets	7,172	8,505	1,332
Property, plant and equipment	693	1,077	383
Intangible assets	5,094	5,750	655
Goodwill	4,763	5,301	538
Investments and other assets	1,384	1,678	293
Total liabilities	9,989	11,485	1,496
Current liabilities	9,679	11,330	1,650
Short-term loans	5,421	7,106	1,685
Noncurrent liabilities	309	154	-154
Total net assets	7,576	9,202	1,626
Shareholders' equity	6,776	7,779	1,002
Accumulated other comprehensive income	228	774	546
Subscription rights to shares	—	10	10
Non-controlling interests	572	638	66
Total liabilities and net assets	17,565	20,688	3,122

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Here are the consolidated balance sheets.

Total assets increased by about JPY3 billion from the end of the previous fiscal year, mainly due to an increase in cash and deposits. At the end of the previous fiscal year, we were operating a little tighter manner, so we have increased the cash and deposits portion a little. In addition, property, plant and equipment has increased due to an increase in goodwill after M&As and investments in offices and other facilities.

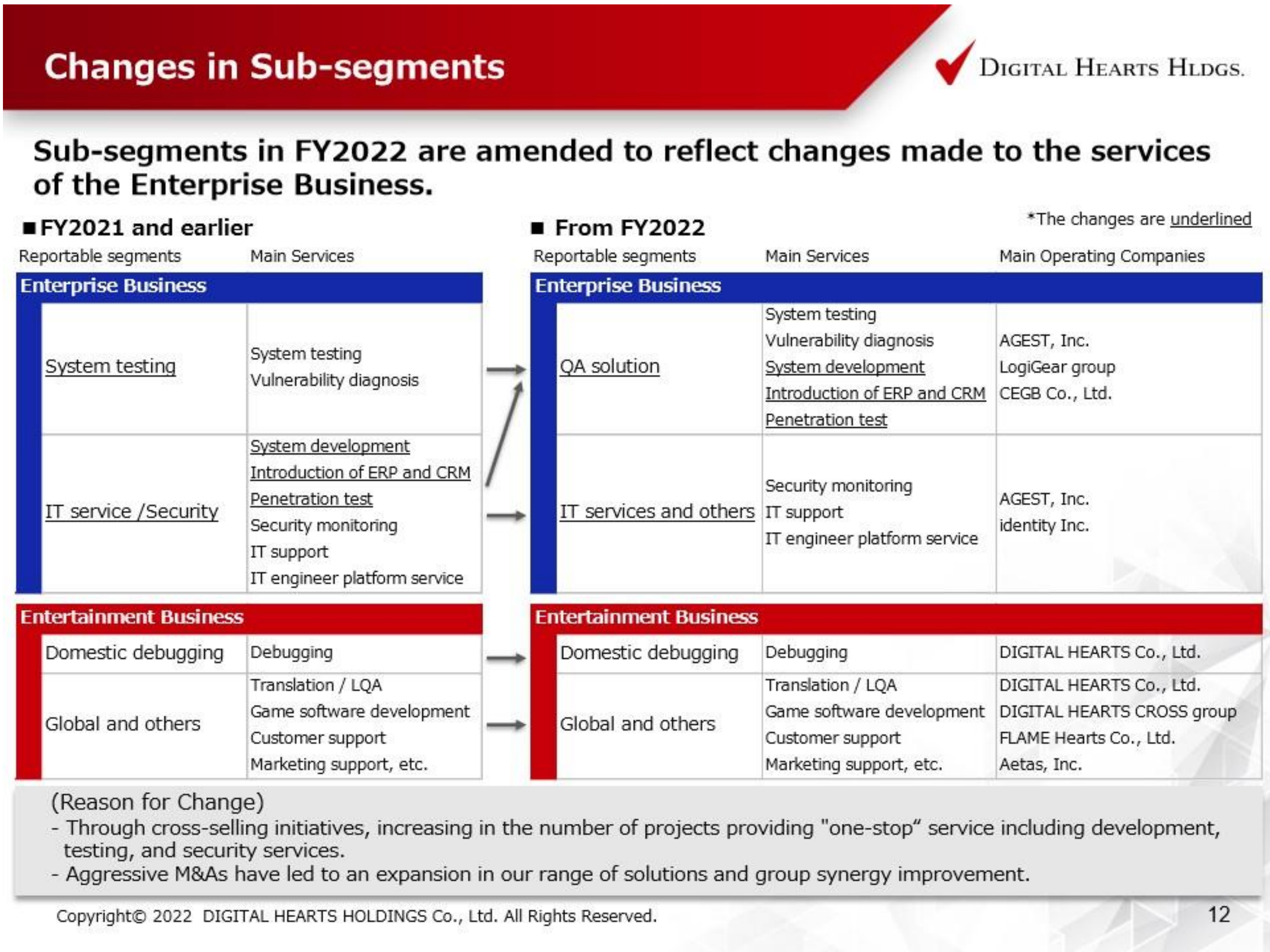
Consolidated Statements of Cash Flows

DIGITAL HEARTS HLDGS.

(JPY mn)	1H FY2021	1H FY2022	YoY Change
Net cash provided by operating activities	1,703	1,430	-273
(*Cash flows before income taxes paid)	2,053	1,843	-209
Net cash used in investing activities	-1,682	-1,496	185
Net cash provided by (used in) financing activities	316	1,488	1,171
Effect of exchange rate change on cash and cash equivalents	21	254	232
Net increase in cash and cash equivalents	359	1,676	1,317
Cash and cash equivalents at the beginning of period	5,041	5,173	132
Cash and cash equivalents at the end of period	5,400	6,850	1,449

Here are the consolidated statements of cash flows.

Net cash provided by operating activities was slightly smaller YoY due to investments in infrastructure, but net cash provided by financing activities increased significantly YoY as a result of fundraising and borrowings.



Changes in Sub-segments

DIGITAL HEARTS HLDGS.

Sub-segments in FY2022 are amended to reflect changes made to the services of the Enterprise Business.

*The changes are underlined

■FY2021 and earlier: Reportable segments	Main Services	■ From FY2022: Reportable segments	Main Services	Main Operating Companies
Enterprise Business		**Enterprise Business**		
System testing	System testing Vulnerability diagnosis	QA solution	System testing Vulnerability diagnosis System development Introduction of ERP and CRM Penetration test	AGEST, Inc. LogiGear group CEGB Co., Ltd.
IT service /Security	System development Introduction of ERP and CRM Penetration test Security monitoring IT support IT engineer platform service	IT services and others	Security monitoring IT support IT engineer platform service	AGEST, Inc. identity Inc.
Entertainment Business		**Entertainment Business**		
Domestic debugging	Debugging	Domestic debugging	Debugging	DIGITAL HEARTS Co., Ltd.
Global and others	Translation / LQA Game software development Customer support Marketing support, etc.	Global and others	Translation / LQA Game software development Customer support Marketing support, etc.	DIGITAL HEARTS Co., Ltd. DIGITAL HEARTS CROSS group FLAME Hearts Co., Ltd. Aetas, Inc.

(Reason for Change)
- Through cross-selling initiatives, increasing in the number of projects providing "one-stop" service including development, testing, and security services.
- Aggressive M&As have led to an expansion in our range of solutions and group synergy improvement.

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I will now explain the financial results by segment and the earnings forecast for the full year.

First are changes in sub-segments.

Starting from the beginning of the current fiscal year, we reclassified the sub-segments, mainly in the enterprise business. In the area of system testing in the enterprise business, the number of projects in which development, testing, security, and other services are provided on a one-stop basis is increasing due to the strengthening of cross-selling. The segmentation has been changed to reflect the situation that management is looking at sales and profits of the development, testing, and security businesses as a single entity.

Summary of Financial Results by Segment

DIGITAL HEARTS HLDGS.

(JPY mn)	1H FY2021	1H FY2022	YoY Change
Net sales	13,498	17,562	130.1%
Enterprise	4,863	7,614	156.6%
Entertainment	8,635	10,020	116.0%
Adjustments	—	-72	—
Operating income	1,370	1,382	100.9%
Enterprise	232	114	49.2%
Entertainment	1,906	2,192	115.0%
Adjustments	-768	-924	—
EBITDA	1,632	1,920	117.7%
Enterprise	376	443	117.8%
Entertainment	2,009	2,379	118.4%

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Here is a summary of the financial results by segment.

Sales in the enterprise and entertainment business segments grew steadily, and operating income in the enterprise business fell below the year-before level, partly due to the investment in business infrastructure in H1 as I explained earlier. However, operating income in the entertainment business achieved double-digit growth. On the other hand, EBITDA increased significantly YoY in each of the business segments.

Financial Result of Enterprise Business

DIGITAL HEARTS HLDGS.

- High sales growth YoY 156.6% due to continuous double-digit growth in existing businesses and the effects of M&As conducted last year.
- Achieved EBITDA increase by YoY 117.8%, while development business basement and aggressive investment in growth led by AGEST, Inc., a core subsidiary of the Enterprise Business.
- Profitability is expected to improve in the second half due to sales growth from seasonal factors and the effects of strategic investments.

(JPY mn)	1H FY2021	1H FY2022	YoY Change
Net sales	4,863	7,614	156.6%
QA solution	2,967	4,583	154.5%
IT services and others	1,895	3,030	159.9%
Segment income	232	114	49.2%
EBITDA	376	443	117.8%

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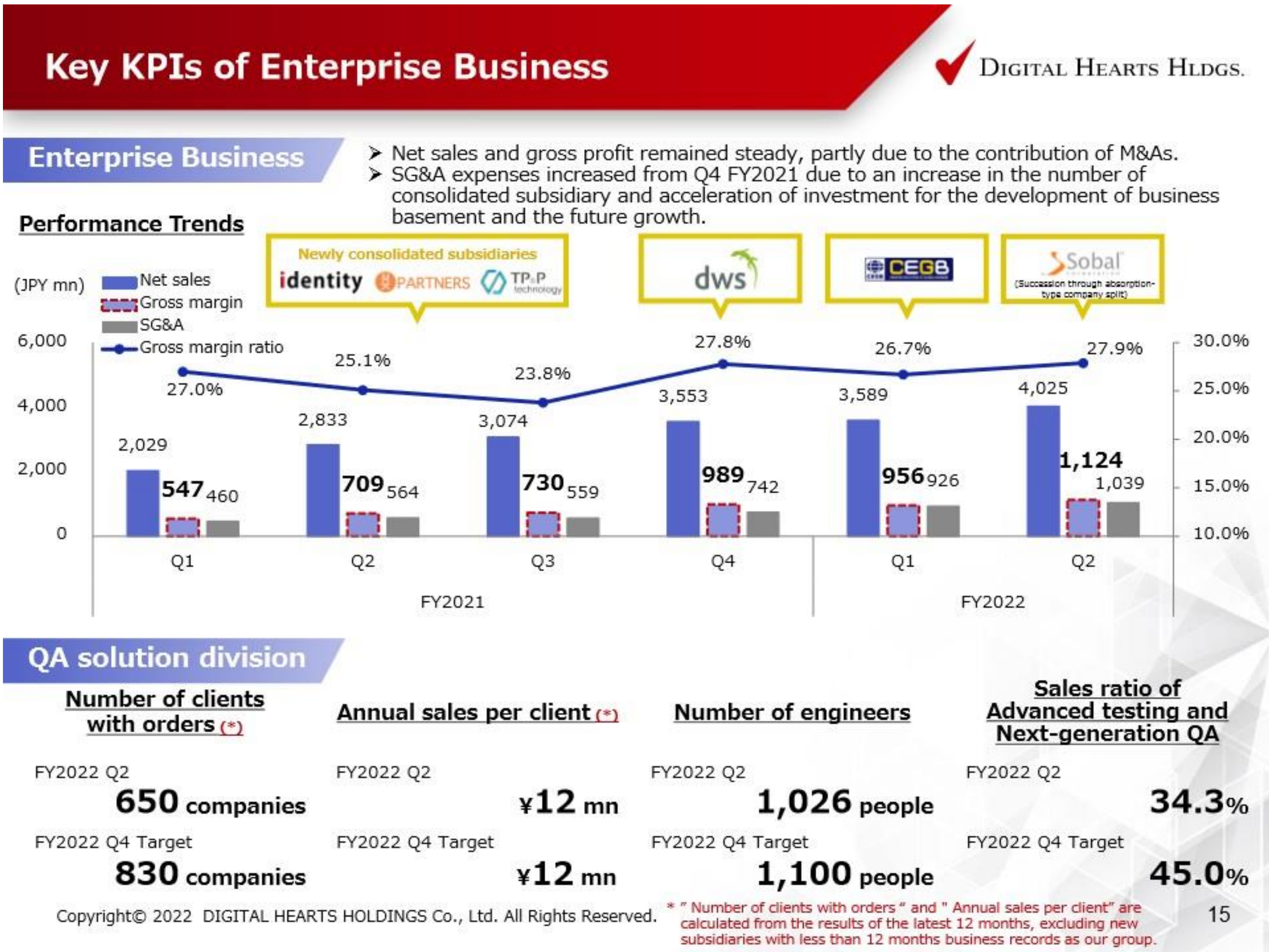
First, I will explain the enterprise business.

The business enjoyed high sales growth of nearly 1.6 times the year-before result due to continuous double-digit growth in existing businesses and the effects of M&As conducted last year. In particular, we aggressively developed our business basement and invested in growth, especially in AGEST, our core subsidiary. Nevertheless, we were able to grow EBITDA to 117.8% of the prior-year level. The enterprise business has an imbalanced revenue structure with the heavier weight in H2, so company-wide profitability is expected to improve in H2 due to sales growth from the seasonal factors and the effects of strategic investments.

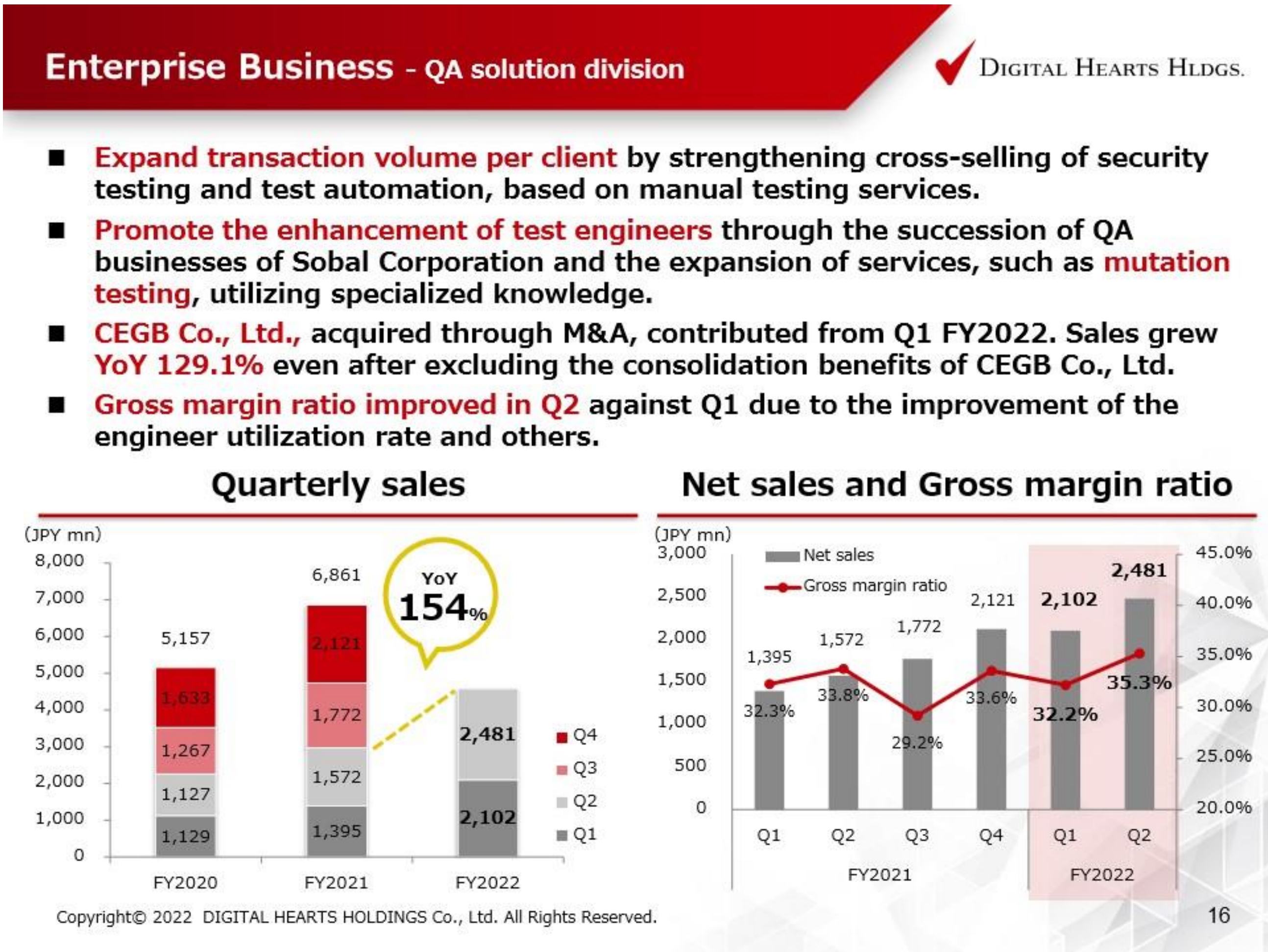


Here are the key KPIs for the Enterprise Business.

As you can see, sales and gross profit remained steady, partly due to the contribution of three to four M&A deals we had conducted in each of the past years. SG&A expenses swelled a little as we have been accelerating investment for the development of business basement since Q4 of the previous year. However, we expect business growth that can sufficiently offset this increase in the expenses.

Below are the KPIs for the QA solution business. The number of clients increased to 650 companies as of the end of Q2, against the medium-term target of 830 companies. On the other hand, annual sales per client, which are simply the average sales amount per client in the past 12 months, already reached the medium-term target of JPY12 million as of the end of Q2.

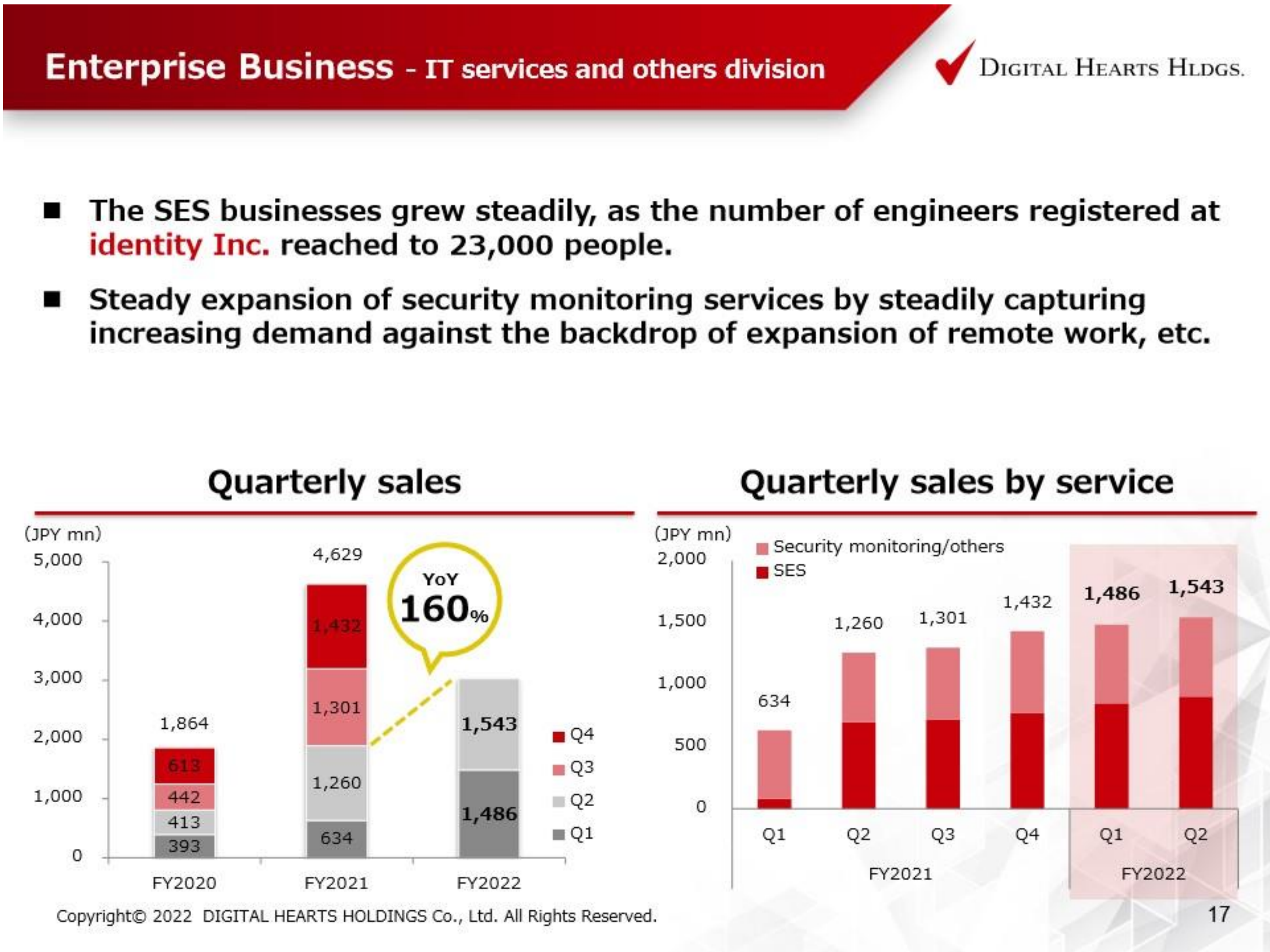
The number of engineers was 1,026 at the end of Q2, close to the medium-term target of 1,100. The sales ratio of advanced testing and next-generation QA services as part of the advanced testing business was 34.3%, slightly lower than in Q1, but this was partly due to the fact that overall sales expanded. With the sales amount of the advanced testing and next-generation QA services increasing from Q1, the sales ratio approached the medium-term target of 45%.



Here is the QA solution division of the Enterprise Business.

The division saw expansion of its transaction volume per client as cross-selling was going quite well. As I mentioned earlier, the number of engineers increased after the succession of the QA businesses from Sobal Corporation. The business also expanded the testing services, such as mutation testing, utilizing specialized knowledge, which led to a steady increase in the unit price per client.

In addition, CEGB, Co., Ltd., which was acquired through M&A in the current fiscal year, also contributed to the performance. Even excluding the effect of this consolidation, sales grew to 129.1% of the year-before result. In addition, the gross margin ratio improved in Q2 against Q1 to 35.3% due to the improvement of the engineer utilization rate and others.



Next is the IT services and others division of the enterprise business segment.

Sales here also increased significantly YoY to 160% of the year-before level. As the division consolidated identity Inc., an engineer dispatching company, the sales growth effect emerged in Q2 of the previous fiscal year. The identity businesses grew steadily as the number of registered engineers reached 23,000 people. The security monitoring services also saw steady expansion, capturing increasing demand due to the recent trend toward remote work.

Financial Results of Entertainment Business

DIGITAL HEARTS HLDGS.

- **Achieve double-digit growth** in both the Domestic debugging and the Global and others, by steadily capturing growing demand against the backdrop of the booming console game market and accelerated overseas expansion of game content.
- **Generate record-high segment income** for 1H, with maintaining **a high profit margin of 21.9%**, due to the sales expansion and gross margin improvement in Domestic debugging division.

(JPY mn)	1H FY2021	1H FY2022	YoY Change
Net sales	8,635	10,020	116.0%
Domestic debugging	5,961	6,896	115.7%
Global and others	2,674	3,124	116.8%
Segment income	1,906	2,192	115.0%
EBITDA	2,009	2,379	118.4%

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Next, I will explain the entertainment business.

The console game market has been extremely strong, and game companies have been aggressively promoting overseas expansion. Against this backdrop, the business achieved double-digit growth in both domestic debugging and global and others. The profit margin remained high at 21.9%, due to sales expansion and gross margin improvement in the domestic debugging division.

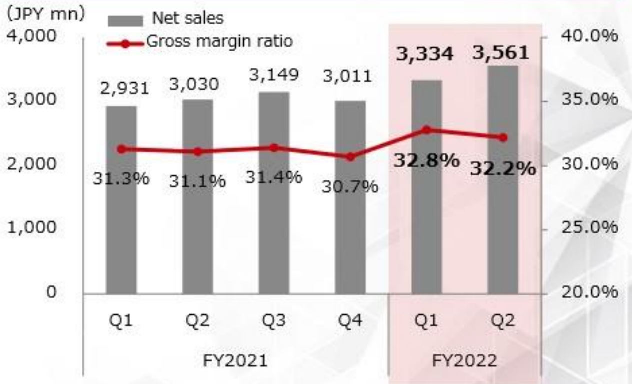
Entertainment Business - Domestic debugging division

DIGITAL HEARTS HLDGS.

- **High sales growth in the Domestic debugging driven by around YoY 1.5 times expansion of service for game consoles with increase in developments of new game titles.**
- **Remain gross margin ratio at a high level of over 32%, reflecting the efforts to improve operational efficiency and the impact of higher sales.**
- **Aiming to further increase market shares as a leading gaming Debugging company and improve unit prices in response to rising personnel costs.**

Quarterly sales

Net sales and Gross margin ratio



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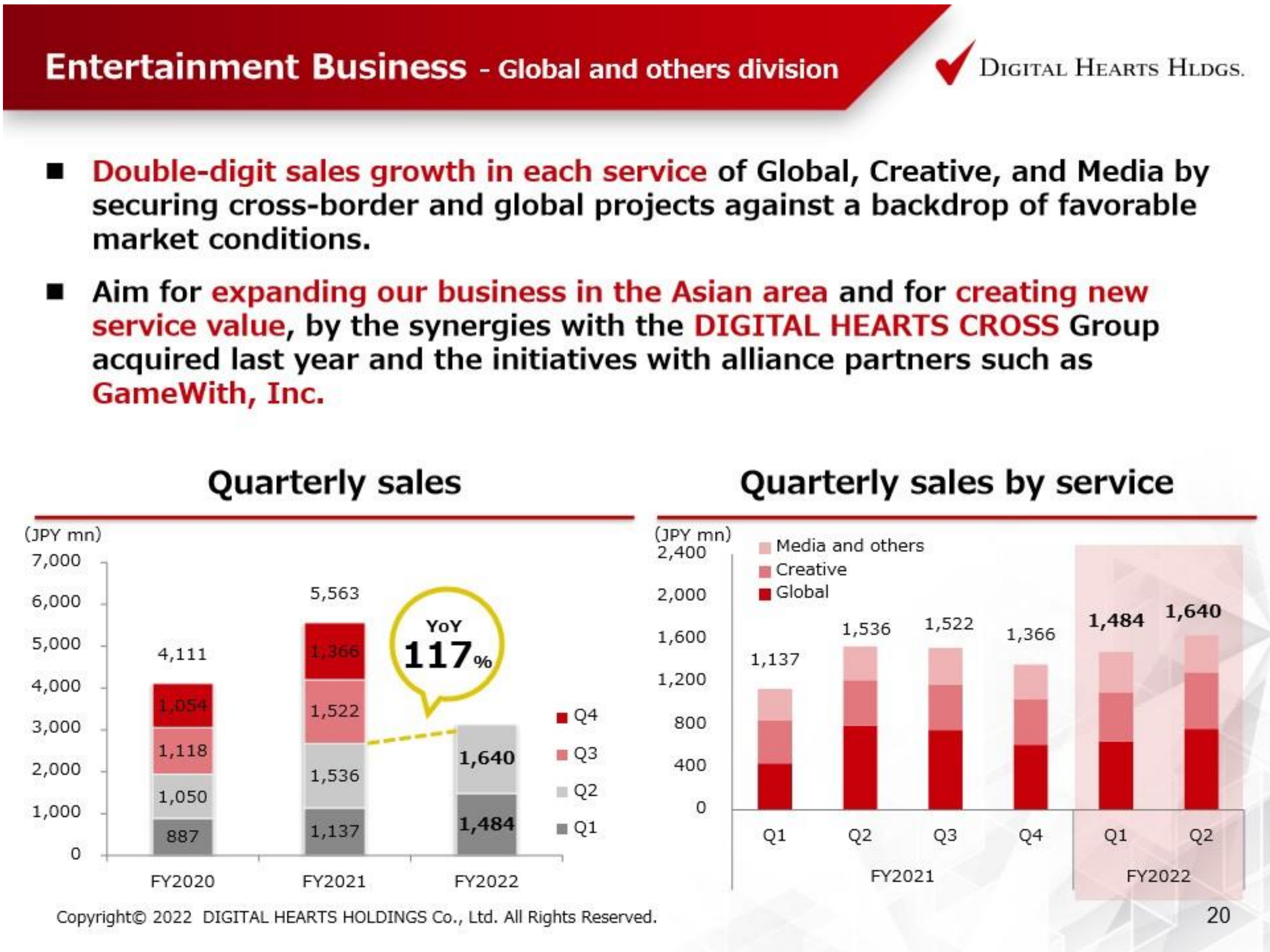
As I explained earlier, the development of new domestic console game titles has been very active, and sales increased 1.5 times over the year-before level, driving the growth of the domestic debugging division.

The efforts to improve operational efficiency have completely been established, the gross margin remained high above 32% for a long time. As a leading game debugging company, we will continue to strive to further increase our market share. At the same time, since labor costs have tended to rise recently, we will aim to increase our unit price and other items in response to this trend and maintain and improve profitability.



On the other hand, in the global and others division of the entertainment business, each service of global, creative, and media marked double-digit growth against a backdrop of aggressive overseas expansion by each client company.

In addition, we aim for expanding our business in the Asian area and for creating new service value, by the synergies with the DIGITAL HEARTS CROSS Group acquired last year and the initiatives with alliance partners such as GameWith, Inc., which became our partner in H1.

FY2022 Consolidated Financial Forecast

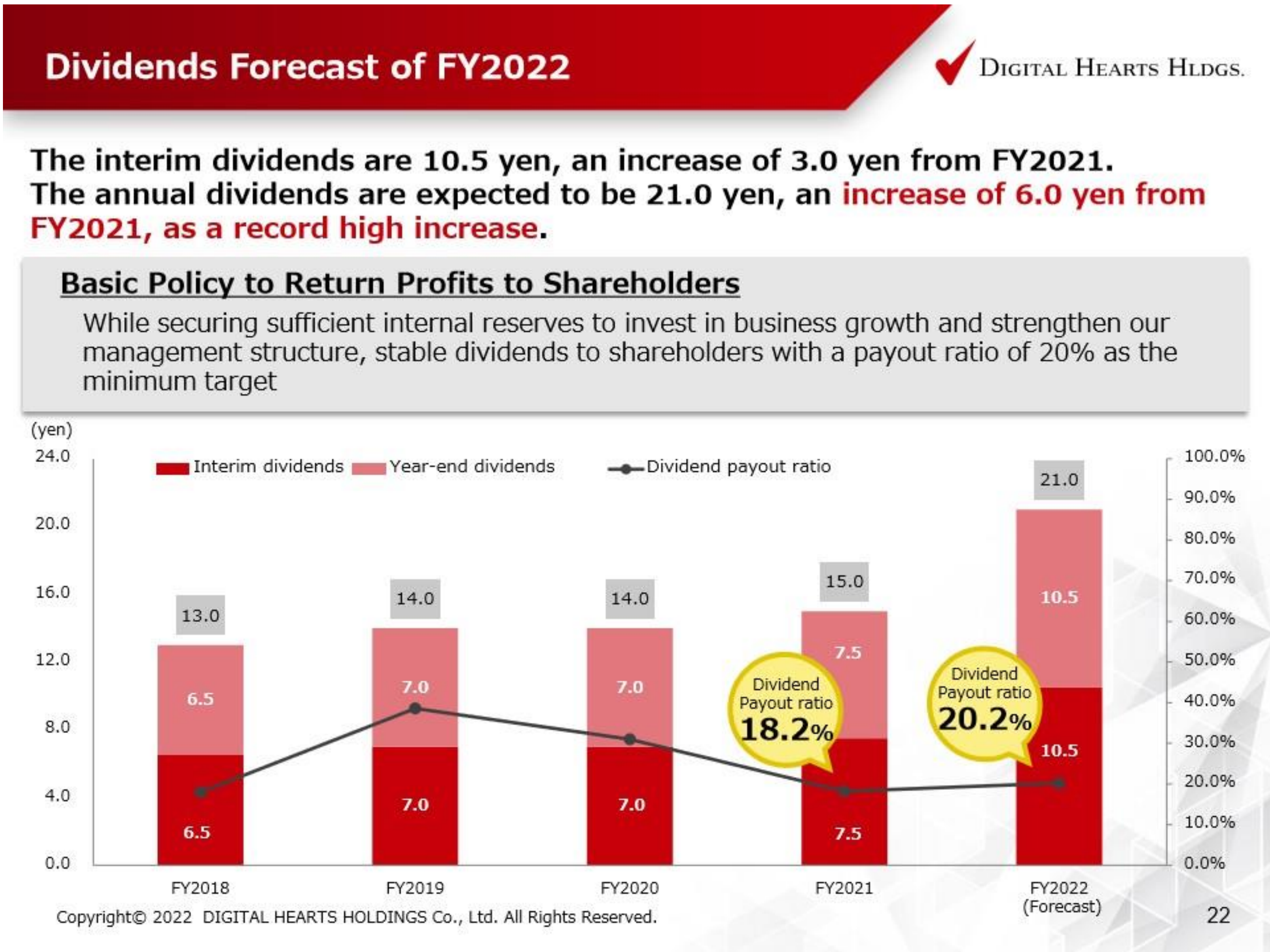
DIGITAL HEARTS HLDGS.

- Aim for record-high net sales and operating income while accelerating investment for future growth.
- The Enterprise Business will keep driving the growth of the group.

(JPY mn)	Full-year FY2021 (Actual)	Full-year FY2022 (Forecast)	YoY Change
Net sales	29,178	35,500	121.7%
Enterprise	11,491	15,375	133.8%
Entertainment	17,687	20,125	113.8%
Operating income	2,701	3,290	121.8%
Operating income margin	9.3%	9.3%	+0.0points
Ordinary income	2,778	3,290	118.4%
Profit attributable to owners of parent	1,780	2,250	126.4%
EBITDA	3,430	4,240	123.6%

This is the full-year consolidated financial forecast for FY2022.

We will continue to aim for record-high sales and operating income, while accelerating our investment for future growth, especially in the enterprise business.

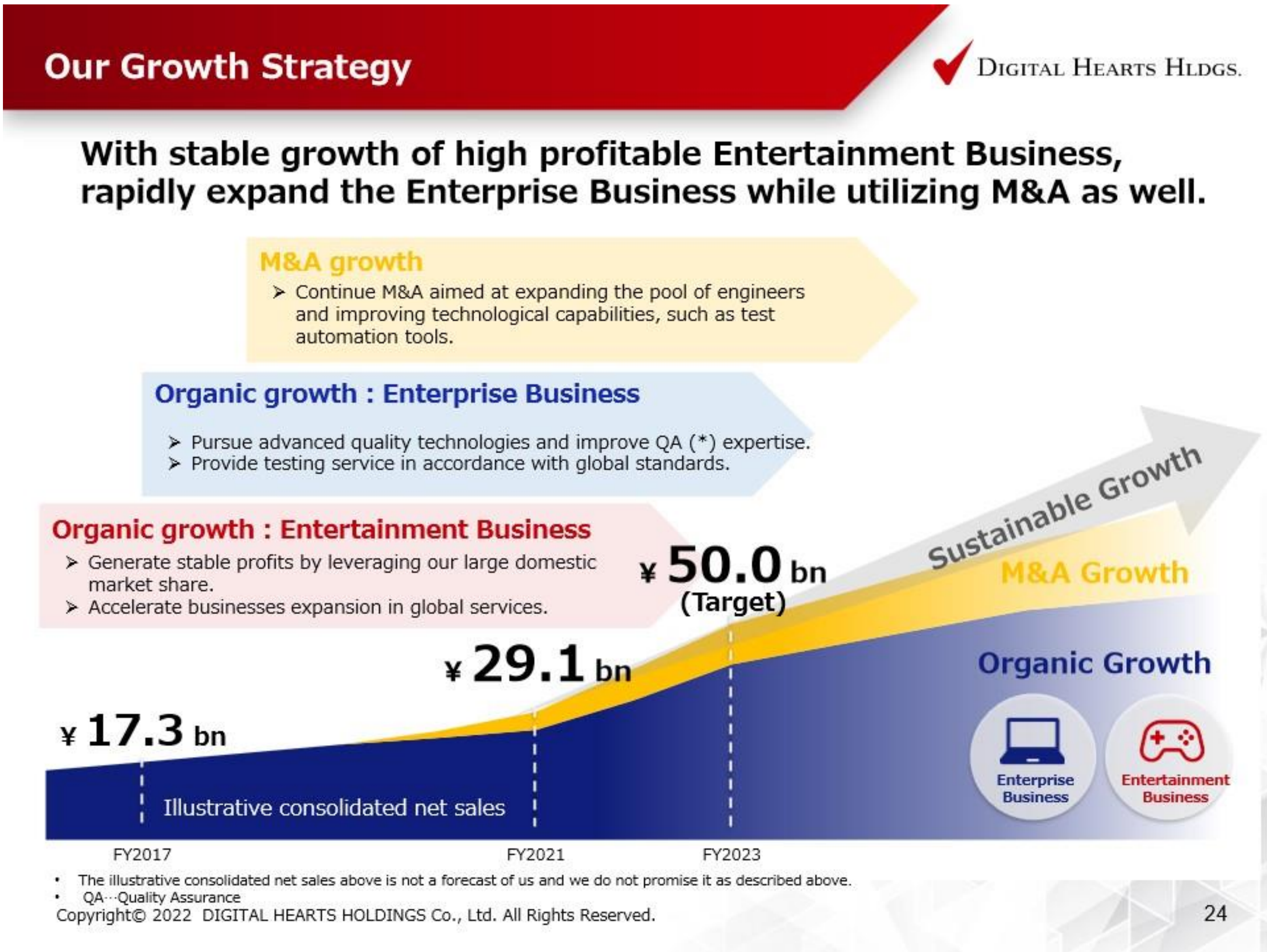


Finally, I would like to explain the dividends forecast.

For the current fiscal year, we forecast annual dividends of JPY21 per share, a record full-year figure. As the H1 performance remained favorable in comparison with the annual plan, the Board of Directors has decided to pay interim dividends of JPY10.5 per share, an increase of JPY3 from the year-before result.

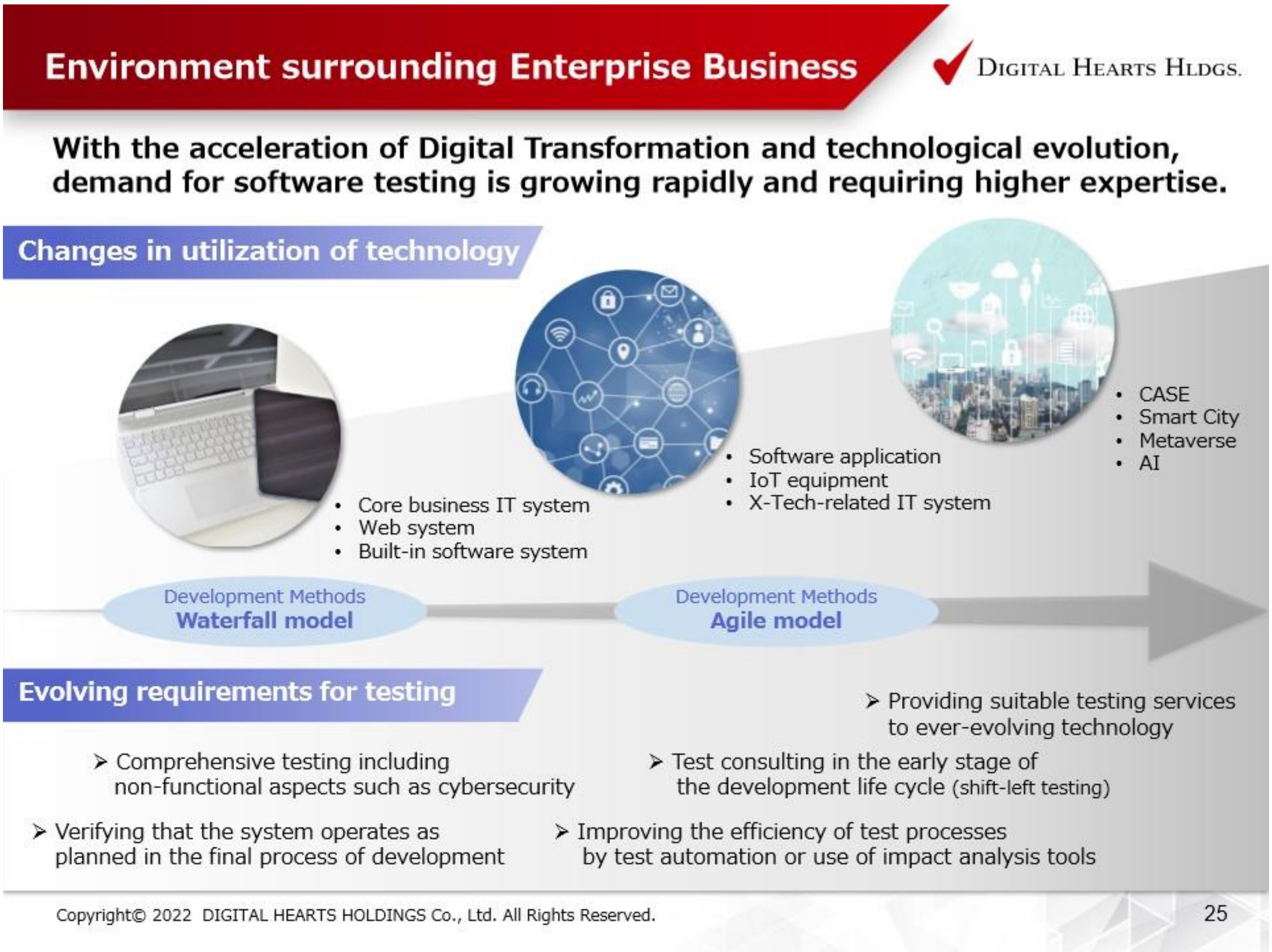
This concludes my explanation.

Next, President Ninomiya will explain our growth strategy and its progress.



Ninomiya: This is Yasumasa Ninomiya, President and CEO. Thank you for joining us today. I would like to talk about our growth strategy.

First of all, as a general view, we own an entertainment business that has an overwhelming share of the domestic market. Based on the stable growth of our entertainment business, we are aiming to rapidly expand our enterprise business, which we started in the fiscal year ended March 2018, our second founding period, and have been working on since then. By adding M&A to the above, we will greatly accelerate the expansion, and we are now aiming to achieve JPY50 billion in sales in the fiscal year ending March 2024 and growth beyond that.



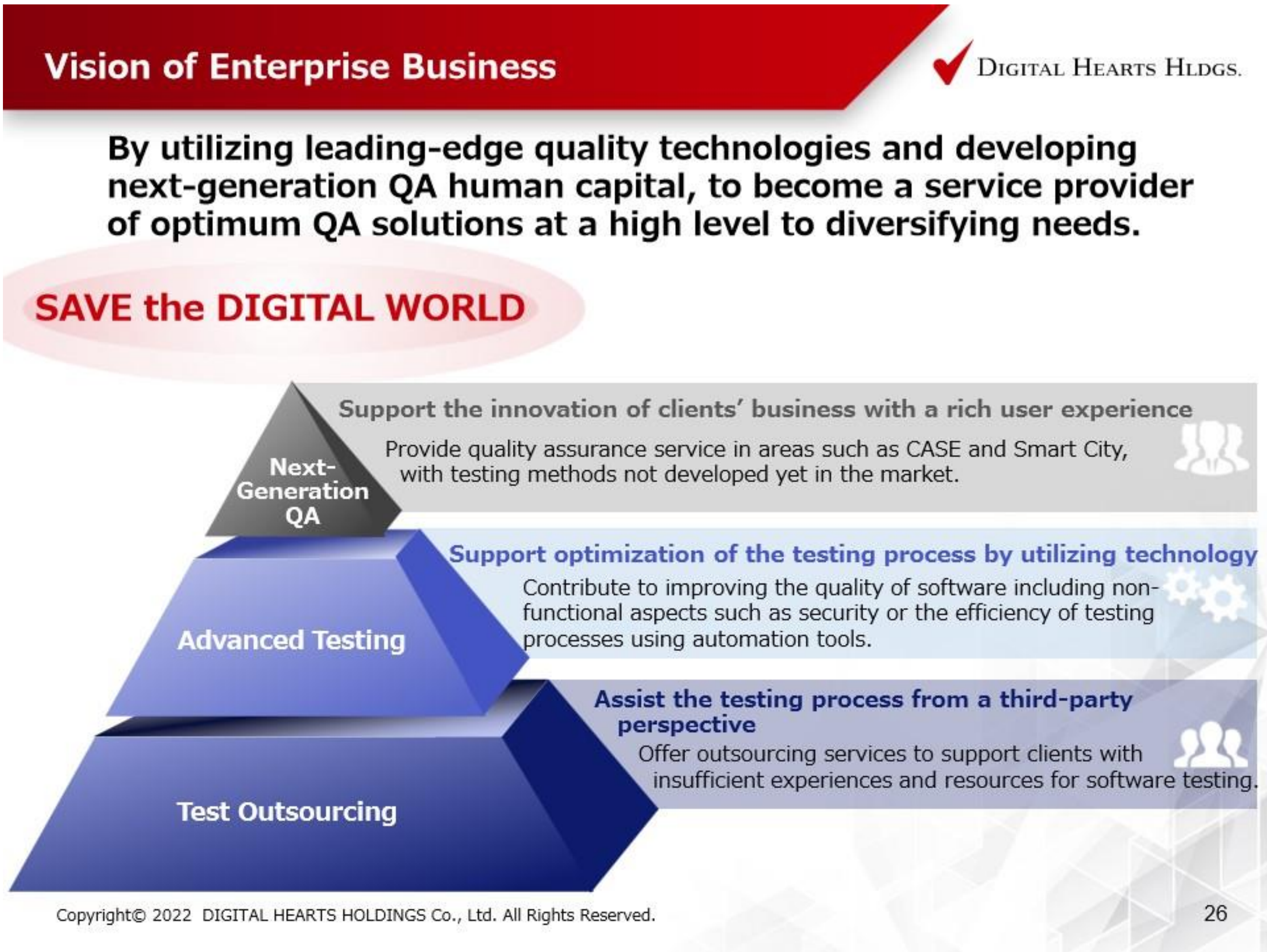
This is the environment surrounding this rapidly expanding Enterprise Business.

First of all, the development of digital transformation and technological evolution are occurring at an extremely fast pace. In this context, there is a large number of advanced and complex systems, ranging from the so-called core business systems and web systems that utilize conventional technologies to more advanced IoT devices, X-tech systems, and beyond them, CASE and Smart City systems.

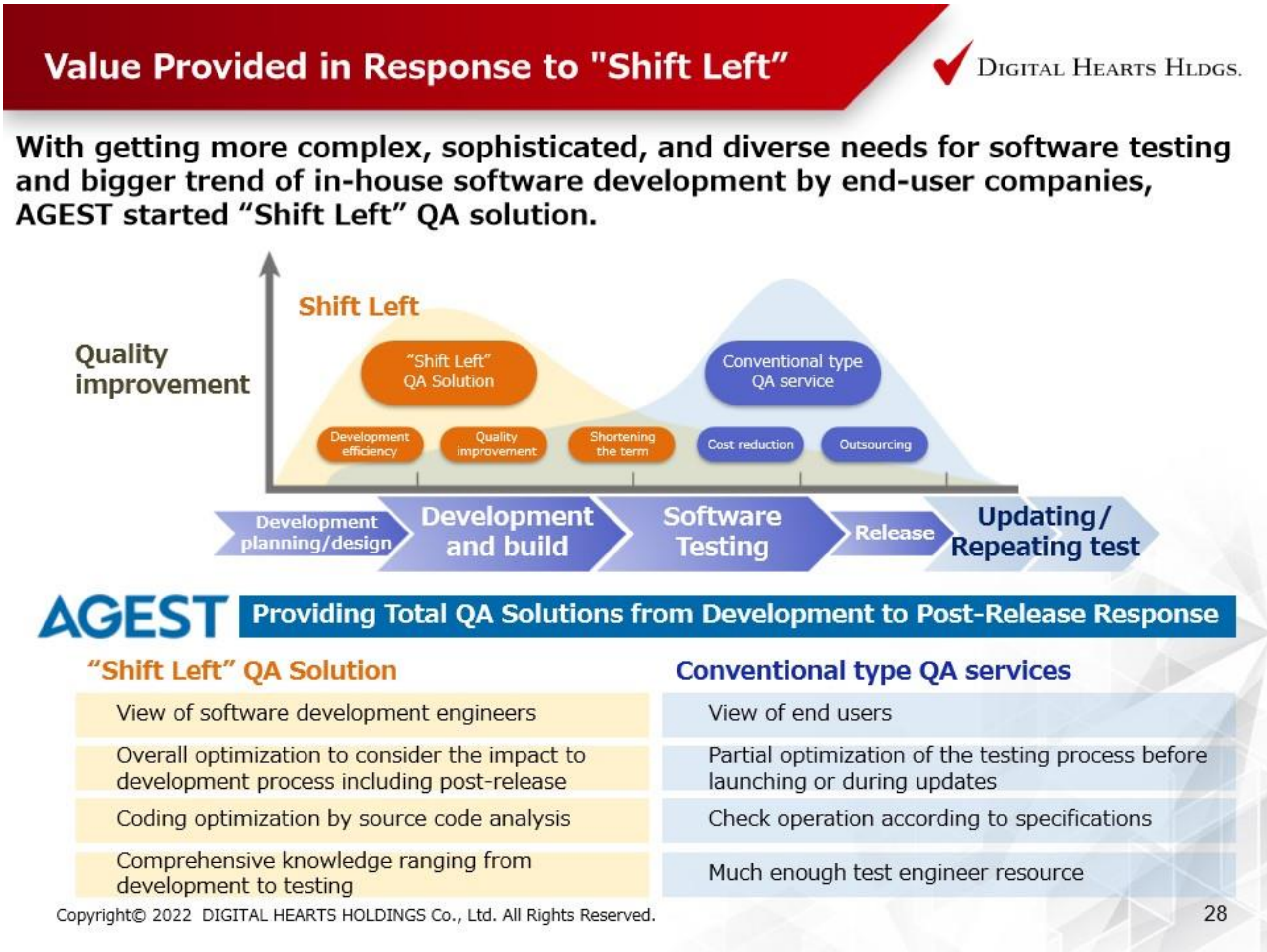
In terms of development methods, not only the traditional waterfall development model, but also the agile development methodology is being adopted. Therefore, we believe that testing needs themselves will continue to expand significantly in the future.

On the other hand, we believe that the requirements for testing companies will change dramatically as a result of this growing complexity. As stated here, conventional testing is to verify that the system operates as planned according to the specifications in the final process of development. During this process, there are the requirements for comprehensive testing including non-functional aspects such as cybersecurity. In the future, we will be required to further increase the speed and further improve the quality of our testing.

What is happening here is what is called "shift-left testing," which is test consulting in the early stage of the development life cycle. Shift-left testing requires eliminating defects and improving quality not in the final process, but as early as possible in the preliminary stage of development, and then promptly operating the system after the release. In addition, new technologies and testing methods that are compatible with the new needs are also required, and we believe that the market is becoming more specialized.



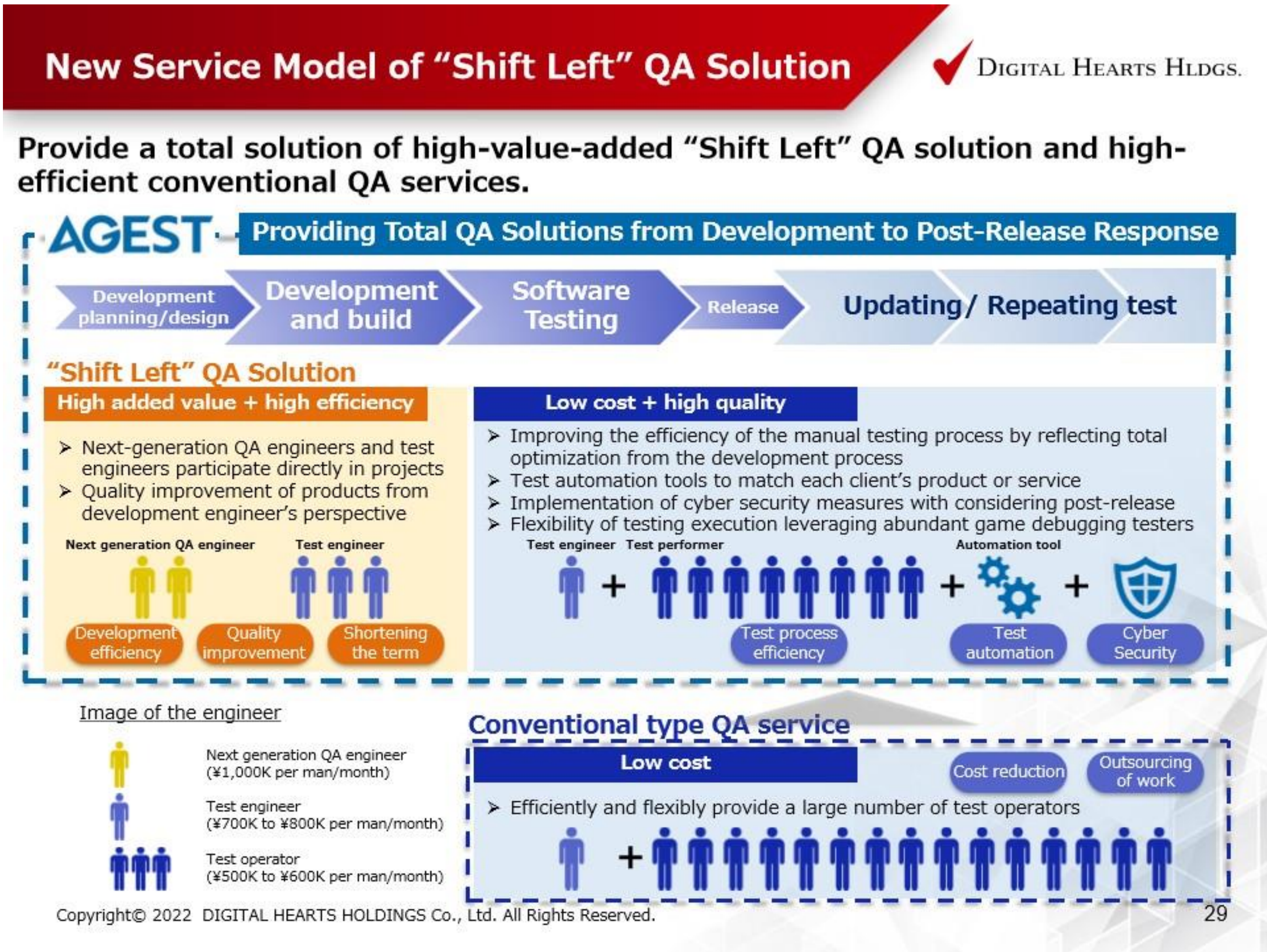
In this changing environment, in order to achieve our corporate philosophy to save the digital world, we are working to catch up with these new needs and provide optimum QA solutions by utilizing leading-edge quality technologies and developing next-generation QA human resources.



In this context, we continued to expand and evolve the value we offer in our enterprise business over H1 of the current fiscal year.

Conventional QA testing, as I mentioned earlier, is shown in blue boxes here, which is the testing phase in the final development process, checking the operation according to the specifications. We are strengthening our efforts, of course, from the design stage, but especially in the stage of development and build.

In this stage, it will be necessary to analyze and verify the source code and others, with the knowledge of development engineers and from their perspective. By doing so, it is possible to prevent products from redoing development and delaying the release of products, and to create more advanced, higher quality products.

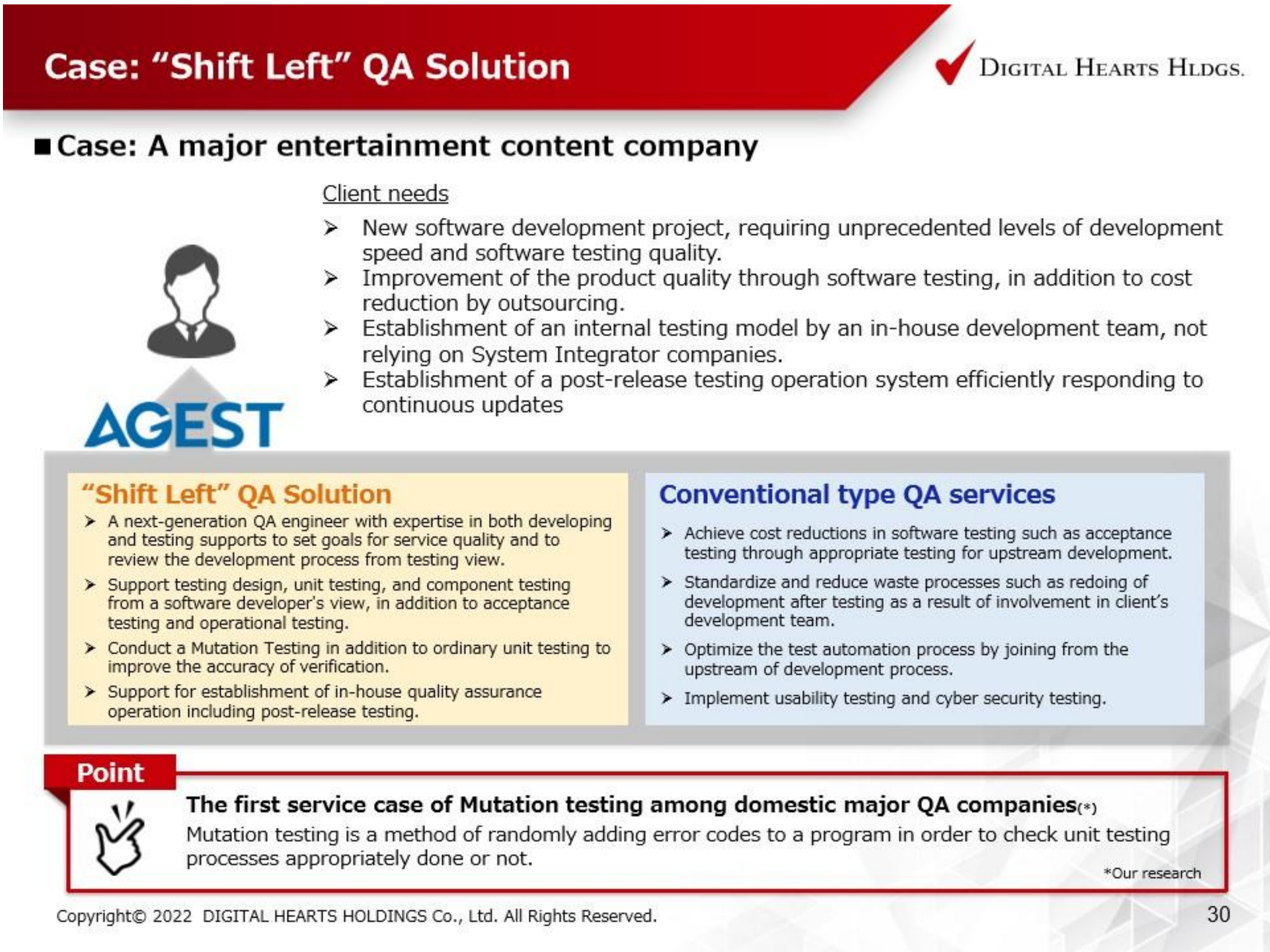


We are offering a new service model in this stage.

What is called the conventional QA service model, which I mentioned earlier, is described as low cost here. It is a model where you have a test designer, and through a lot of people, you test the product in the final process. What we are doing now is to further brush up on this conventional type of QA testing to improve efficiency, and at the same time, to provide total QA solutions from the upstream development stage, including the conventional QA testing services. We are aiming for this shift left QA solution.

Therefore, as we state in the shift left QA solution, our structure is that next-generation QA engineers and test engineers participate directly in projects and support quality improvement of products from the development engineer's perspective. Unlike in the conventional QA services, this will result in a very high unit price for the next generation QA engineers. As they are full-stack engineers who naturally possess development expertise, we can therefore charge our clients high fees for dispatching them.

In addition, we will also add test engineers to the team to conduct conventional testing as well. At the same time, by joining the upstream development stage, we will be able to quickly provide test automation and non-functional security services. We are promoting this type of service model.



This is an example of a major entertainment content company.

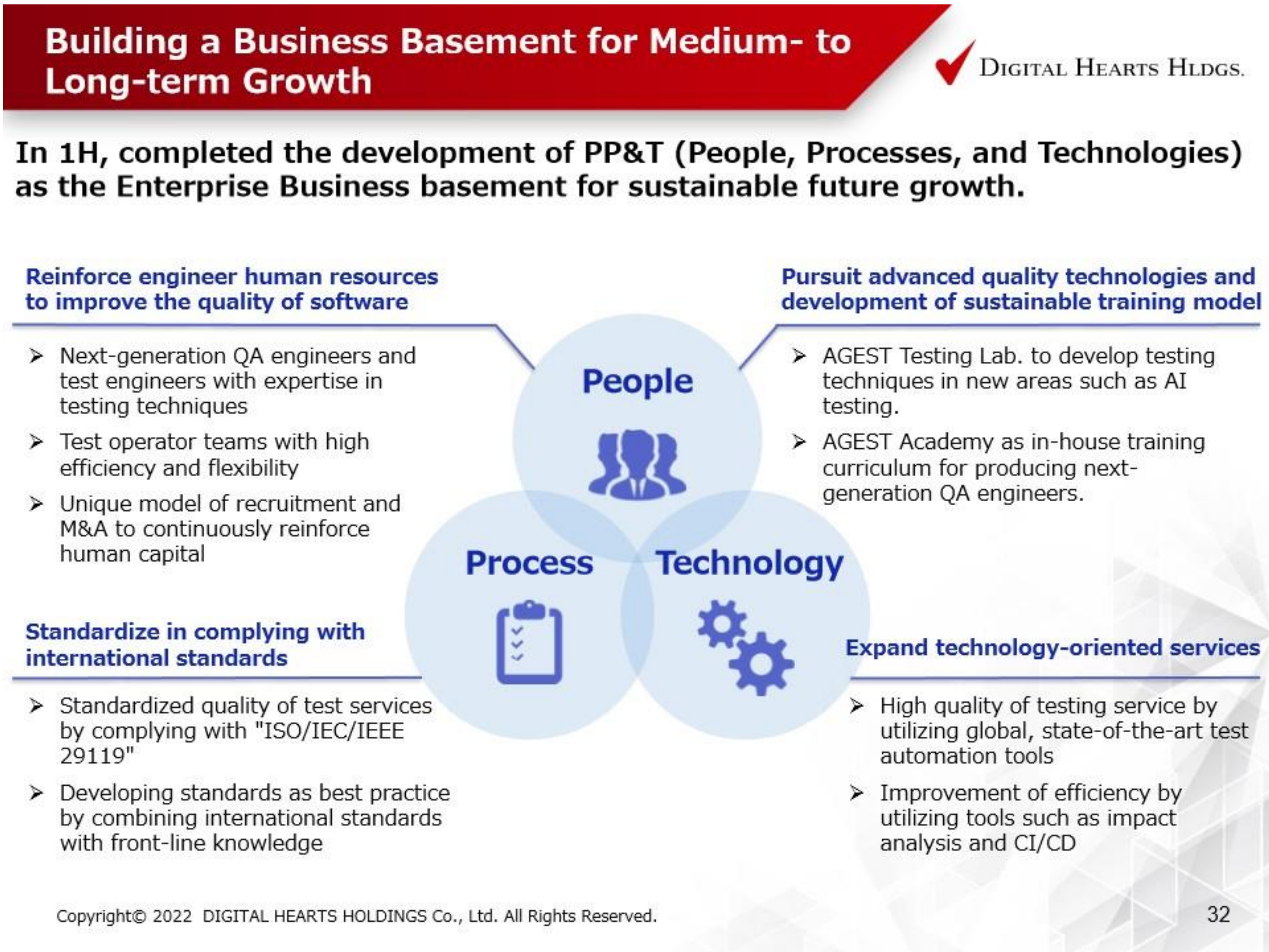
Excuse me , but I will not mention the name of the company because it is still before the release. This company used to employ a QA vendor since previously. They were a test vendor company that provides the conventional type QA services. However, the client company naturally needs to be competitive in the future, so they need to speed up their development, and at the same time, they need high QA standards.

In addition, by launching their software product fast, additional development will occur more and more after the release. Thus, they need to establish a QA implementation system after the release of the product.

What we proposed was to provide next-generation QA engineers with knowledge of both development and QA, and to propose a review of the development process itself, and to provide support in the areas of unit testing and component testing, i.e., testing that examines codes traditionally conducted by development engineers.

In addition, we are probably the first in Japan to introduce a new method called mutation testing. This is a form of unit and code testing in which error codes are intentionally planted to increase the accuracy of unit testing. This initiative is designed to reduce the number of defects in the latter stage of development.

In addition, there is the establishment of a QA system after the release. The test automation process contributes to this post-release testing. By proposing this type of service, we are promoting an approach that is different from the services that the client had received in the past. We believe that this need will continue to grow very rapidly.



In order to build this value and continue to provide it, we were building a business basement during H1.

We have an internal term called PP&T, the business basement that we have set forth. PP&T refers to “people, process, and technologies”. We believe that we will be able to further expand the value we provide by firmly establishing these three elements.

I will discuss them in more detail later, but first, let's look at the people. This is to expand next-generation QA engineers and test engineers with expertise not only in the conventional QA testing model, but also in the methodology held by the developer. During H1, with the aim of reinforcing these human resources, we conducted recruitment and built a new M&A model. In addition, we are building a training model that pursue the ever-evolving technologies and continue to produce the human resources needed to sustain the expansion .

As I discuss it later, we have established a laboratory called AGEST Testing Lab. This allows us to continue to research new testing technologies. In addition, we have established AGEST Academy as the in-house training curriculum for producing next-generation QA engineers.

Next, regarding the process of PP&T, in many cases, each testing company conducts its testing based on its own standards. We are not looking for that kind of quality, so we have standardized the quality of test services by complying with ISO/IEC/IEEE 29119, the international standard that allows any engineers to provide a certain quality.

Furthermore, in terms of expanding technology-based services, we aim to provide high quality, state-of-the-art automation tools on a global basis, tailored to the needs of our clients. We completed this structure in H1 of the current fiscal year.

In order to establish PP&T as the enterprise business platform, we have assembled a group of experts who share our approach to testing and who are from the frontline of the software testing industry on a global scale.

Dr. Juichi Takahashi, CTSO, or chief test solution officer, of AGEST, our subsidiary, is one of the leading test engineers in Japan, is the driving force behind our education and research.

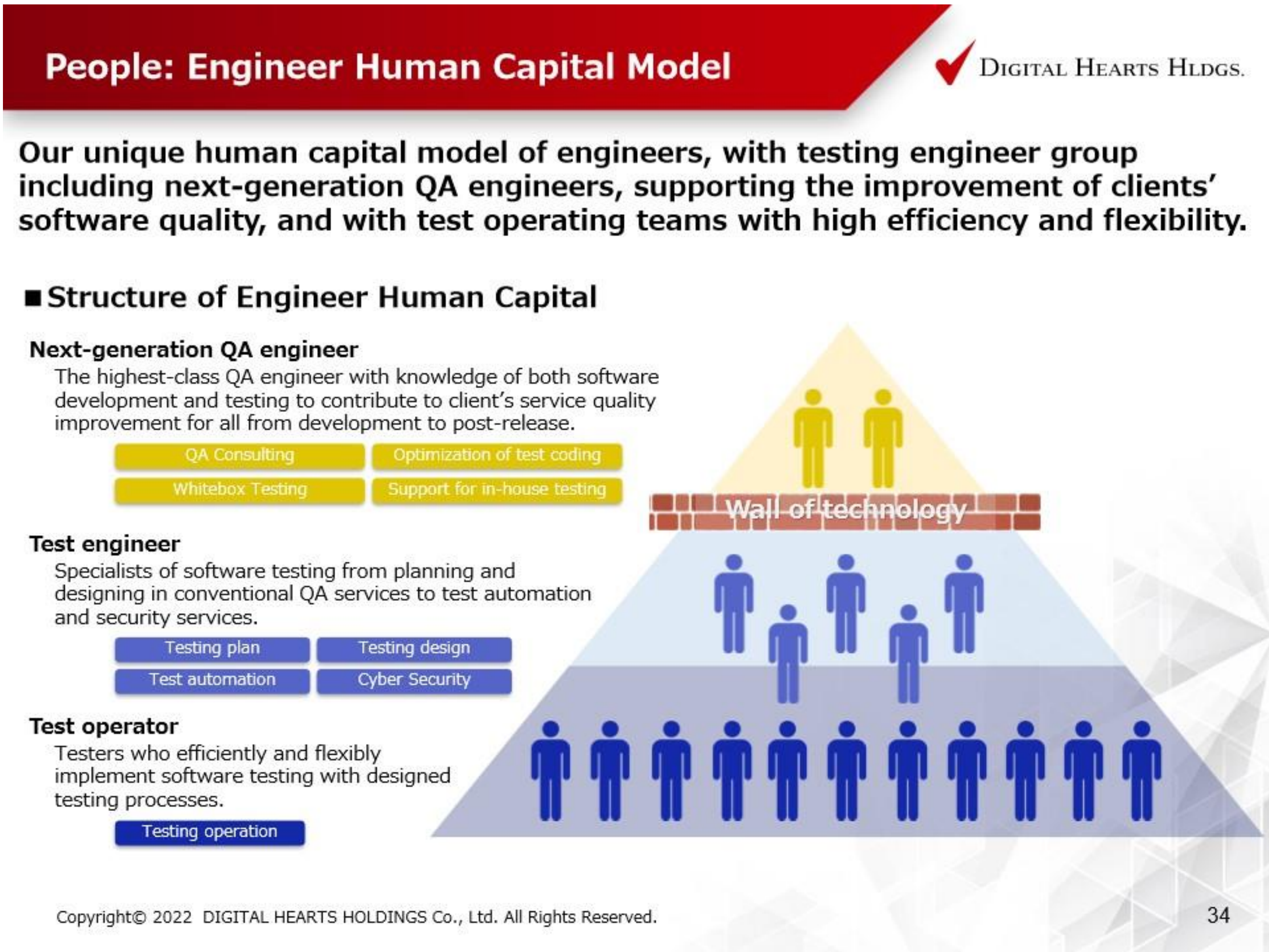
To support this, we have succeeded in getting a curriculum from Mr. Rex Black, who was the president of the ISTQB, the International Software Testing Qualifications Board.

At the same time, in the education and process-related area, we are getting help from Dr. Stuart Reid, who was the founder of the ISTQB, and acted as chair of ISO Software Testing Working Group 26, which has published software testing standard, ISO/IEC/IEEE 29119. From Dr. Reid, we have succeeded in obtaining the ISO 29119 process and educational curriculum.

Regarding the Process, Mr. Yohei Takagi, Executive Officer of AGEST, is playing a central role in expanding education and research.

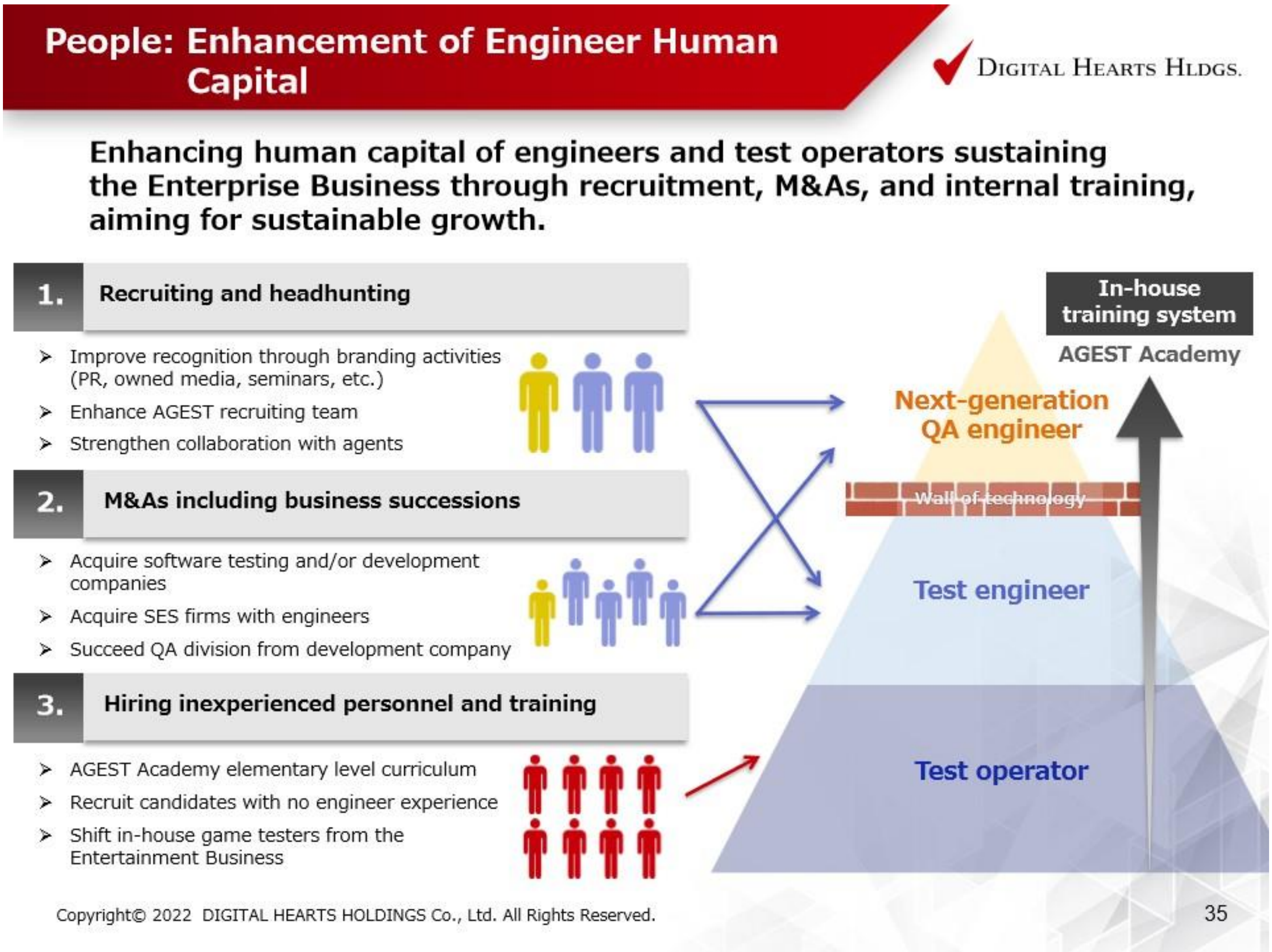
In addition, regarding the Technology, we need to use the best global tools. We have a subsidiary company, LOGIGEAR CORPORATION, located in Silicon Valley. Mr. Hung Nguyen, representative of LogiGear, has been at the forefront of test automation for more than 20 years. Mr. Nguyen and our CTO, Mr. Kazutaka Jokura, are working together to acquire cutting-edge technologies.

In addition, research on new techniques is also necessary, so together with the University of Electro-Communications, Waseda University, and University of Nagasaki, we are researching correct testing techniques for products using AI, agile testing techniques, and security techniques that conduct analysis at the code level. We are building a system to make this into curricula for the academies and to link them to our services.



In line with this, we have drawn up our own human capital model.

This is based on an idea that fostering full-stack engineers, who are considered being next-generation QA engineers, will be important. With these next-generation QA engineers at the top, we will have a thick layer of test engineers who conduct conventional testing as well as functional and non-functional testing. In addition, there is a group of test operators who efficiently and flexibly implement software testing. We have defined these three layers of human resources as our image of human capital structure, and we will work to strengthen these layers.



This model of enhancement is divided into three main parts.

First, we are promoting recruiting and headhunting for immediate mid-career talent by strengthening our branding.

Second, I will explain this later, but through M&As, we will strengthen our engineers by acquiring testing companies or SES companies.

Thirdly, this is nurturing human resources. We have a talent pool in the entertainment business, so we are looking for in-house testers in a career change from that pool. In addition, we have not done much potential hiring until now. We have not done this much, partly because we did not want to lower the level of our services. However, now that the number of senior engineers has increased, we would like to hire potential employees, including inexperienced ones, in order to scale up the relevant human resources in the future.

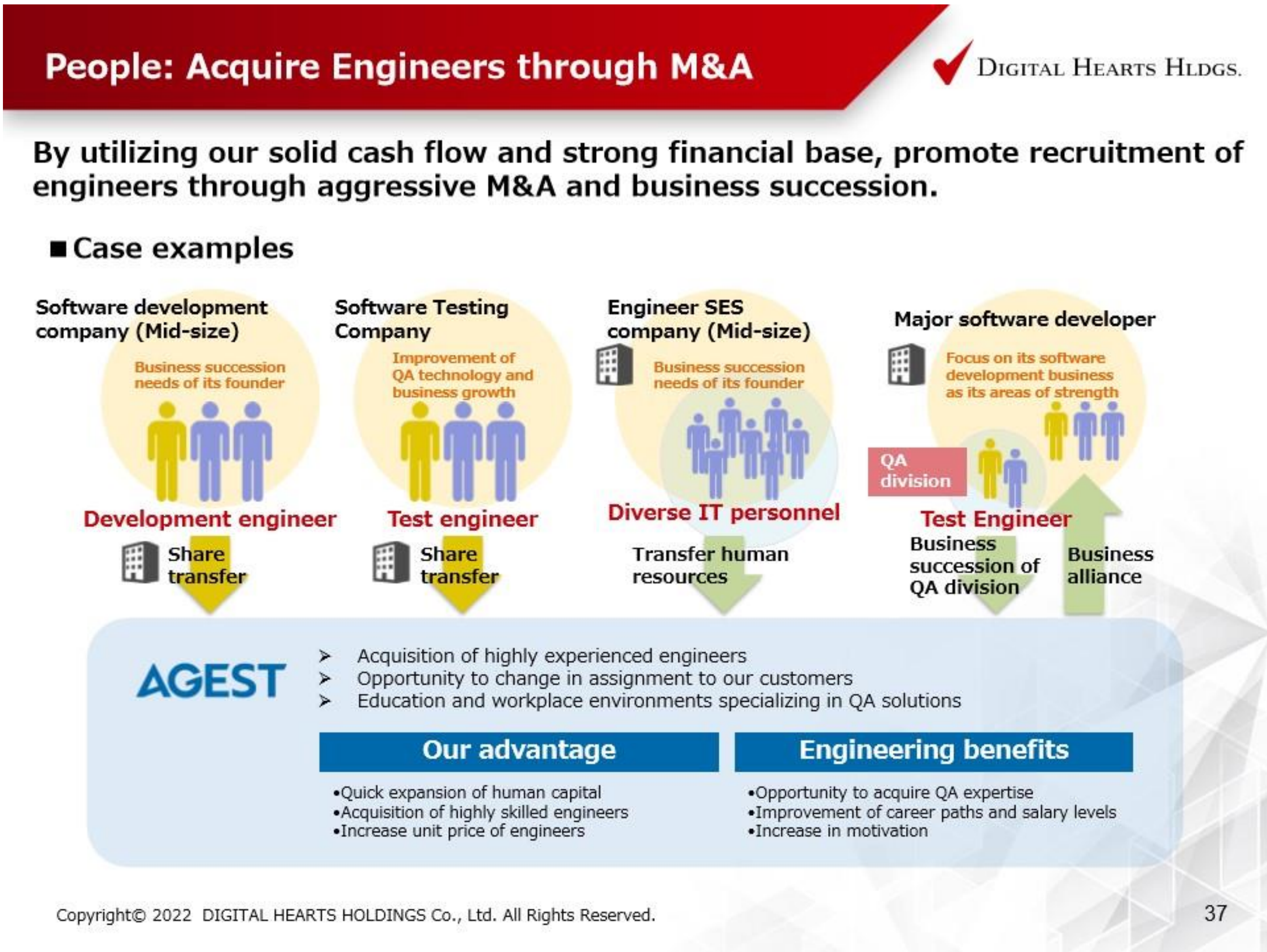
Our goal is to build a system that these three layers will lead to sustainable growth through in-house training.

Specifically, the first one is to strengthen recruitment in the People.

We spun off AGEST in April this year. DIGITAL HEARTS HOLDINGS tended to be recognized as an entertainment-oriented company. However, this spin-off of AGEST has allowed us to brand ourselves as a tech company. As the CTSO actively participated in seminars and the Tech Blog was opened on the AGEST website, the market is finally beginning to recognize us as a tech company.

As a result, while we used to have difficulty in recruiting employees through referrals and through media, the situation greatly improved in H1 of the current fiscal year.

In addition, although this may have been an effect as a byproduct, separating the entertainment business has increased employees' motivation and there is growing awareness of providing a higher level of entertainment services. As a result, we believe that the business was able to steadily increase sales in H1.



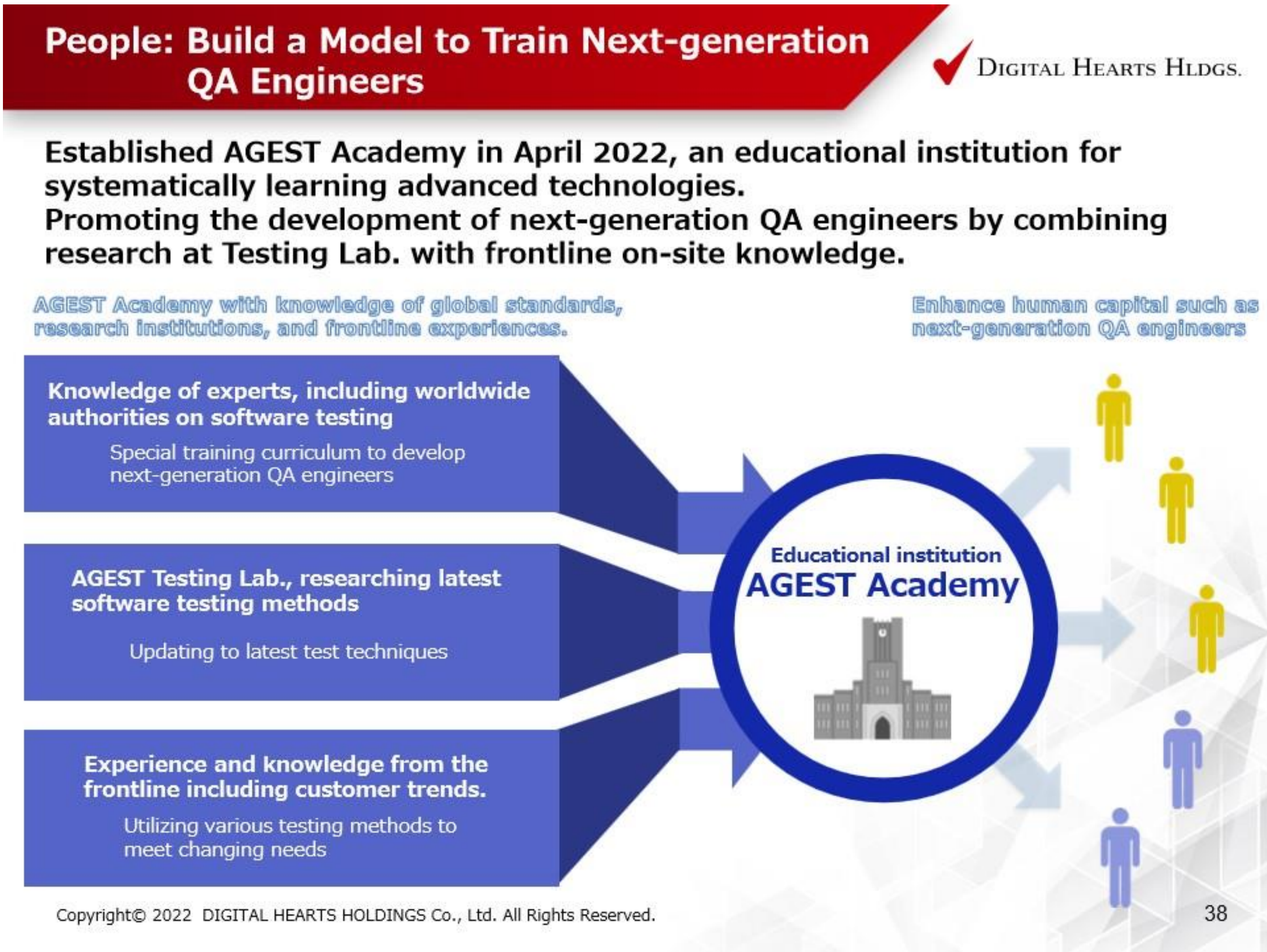
Next is the M&A strategy.

We have been involved in a variety of M&A activities, and I believe we have established a model for M&A. First, at mid-sized software development companies, we can obtain development engineers, and from there, according to our model, they will change their career to next-generation QA engineers through our educational curriculum.

We are also strengthening our approach to software companies and SES companies. On the far right, there is the succession of the QA division of a major software development company. I think this was the biggest factor in H1. As a matter of course, major software developers have their QA divisions. However, since their core businesses are development and SI, each development company focuses its investment on the development division.

Meanwhile, the QA unit needs increasingly complex and sophisticated technologies, and growth cannot be envisioned without a well-developed education curriculum and a career path to these technologies. As our needs of these areas matched those of Sobal, and we took over the QA business from Sobal to expand our growth.

As a result, we were able to expand human capital in such a short period of time. At the same time, from Sobal's point of view, they came to be able to improve engineers' career paths and raise their salary levels. We will continue to strengthen these efforts.



Thirdly, we will build a model to train next-generation QA engineers.

As I mentioned earlier, we have gathered a group of experts, including world-class authorities. By H1 of the current fiscal year, we have generally developed a curriculum and begun education. At the same time, AGEST Testing Lab. is updating various cutting-edge technologies, including new testing techniques, such as the mutation testing I mentioned earlier.

In addition, since we are engaged in a maximum of nearly 3,000 projects a year, we will inject the knowledge we have cultivated through these projects into AGEST Academy, our educational institution, and through the special training curriculum there we will develop next-generation QA engineers. We believe that this will allow us to sustainably enhance our human capital.

(Reference) AGEST Academy Curriculum

DIGITAL HEARTS HLDGS.

A curriculum to train next-generation QA engineers in addition to supports for the basic knowledge and ISTQB qualifications.

Curriculum	Contents		Qualification
	Testing methods	Software Development and others	
Next-generation QA	Leading-edge QA technology	Case, Smart City, AI, corporate management, accounting and industry knowledge	—
Agile testing	Knowledge of TDD/BDD/ADD	Agile knowledge Team management	Certified scram master
Advanced QA technology	Software quality methods / Test Process Improvement	Project management (In accordance with PMBOK)	Project Management Professional
Test automation	Tools for test automation building Coding knowledge	General cloud knowledge (AWS/GCP/Azure knowledge)	—
Testing methods	Quality-related development technology	Programming/System Design/Infrastructure/DB/Security	System Architect (IPA)
Basic Lv.3	Test management (in accordance with PMBOK)	Introduction to Programming	ISTQB TM /IVEC Lv.5
Basic Lv.2	Software quality methods basic/ Application of Testing Technologies	—	ISTQB TA/ IVEC Lv.3-4
Basic Lv.1	Software quality methods basic/ Basis of testing techniques	—	ISTQB FL/IVEC Lv.1-2

Topic

Commenced sales of AGEST Academy elementary education programs to clients

Provided to a major telecommunication company and a electronic component trading firm as part of new graduate training and basic training programs for mid-career recruitment

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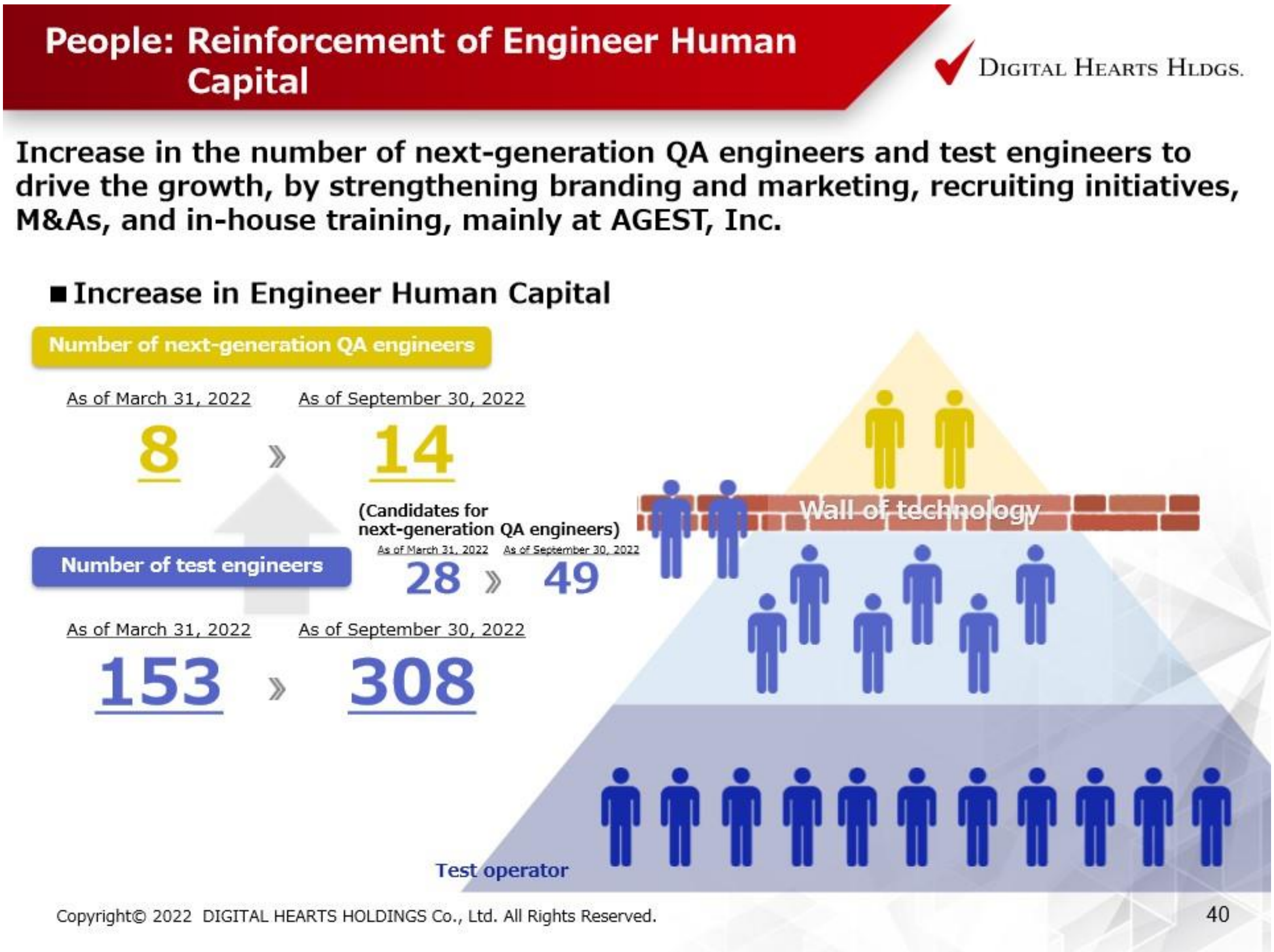
For your reference, we will show you what kind of education is done in the elementary course of the AGEST Academy Curriculum.

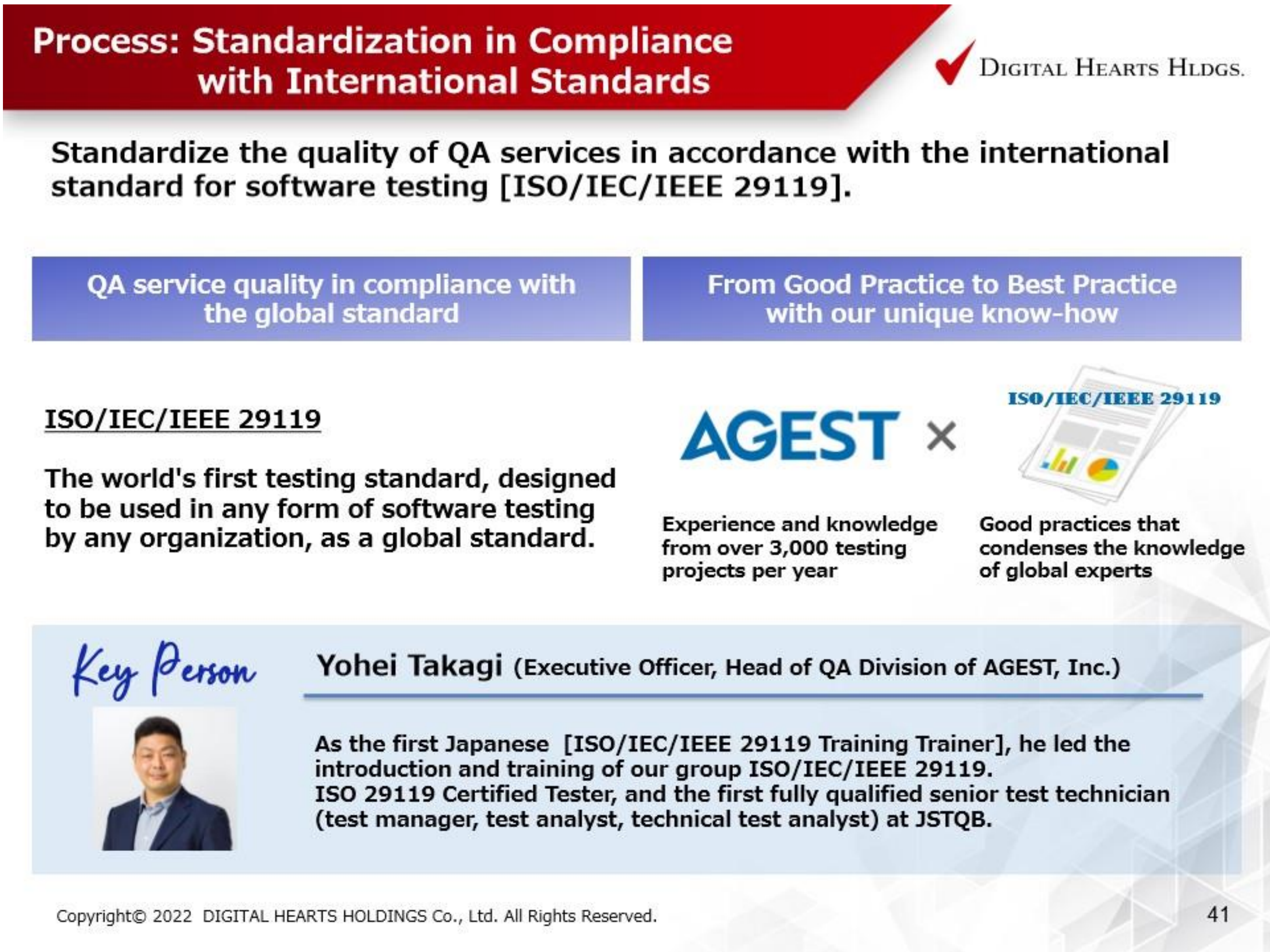
All employees will do this, and from there, they will gain additional expertise. As they have to acquire expertise in quality and testing techniques and aim to be full-stack engineers, the curriculum will inject the knowledge about development or the industry in order to offer solutions that are available only from to our Company.

As is shown in the topic below, the AGEST Academy's educational curriculum has been well received and external sales of its elementary education programs have already begun to several client companies. Reacting to the good reputation, as we announced yesterday, we plan to launch the external sales program in a full-fledged way.



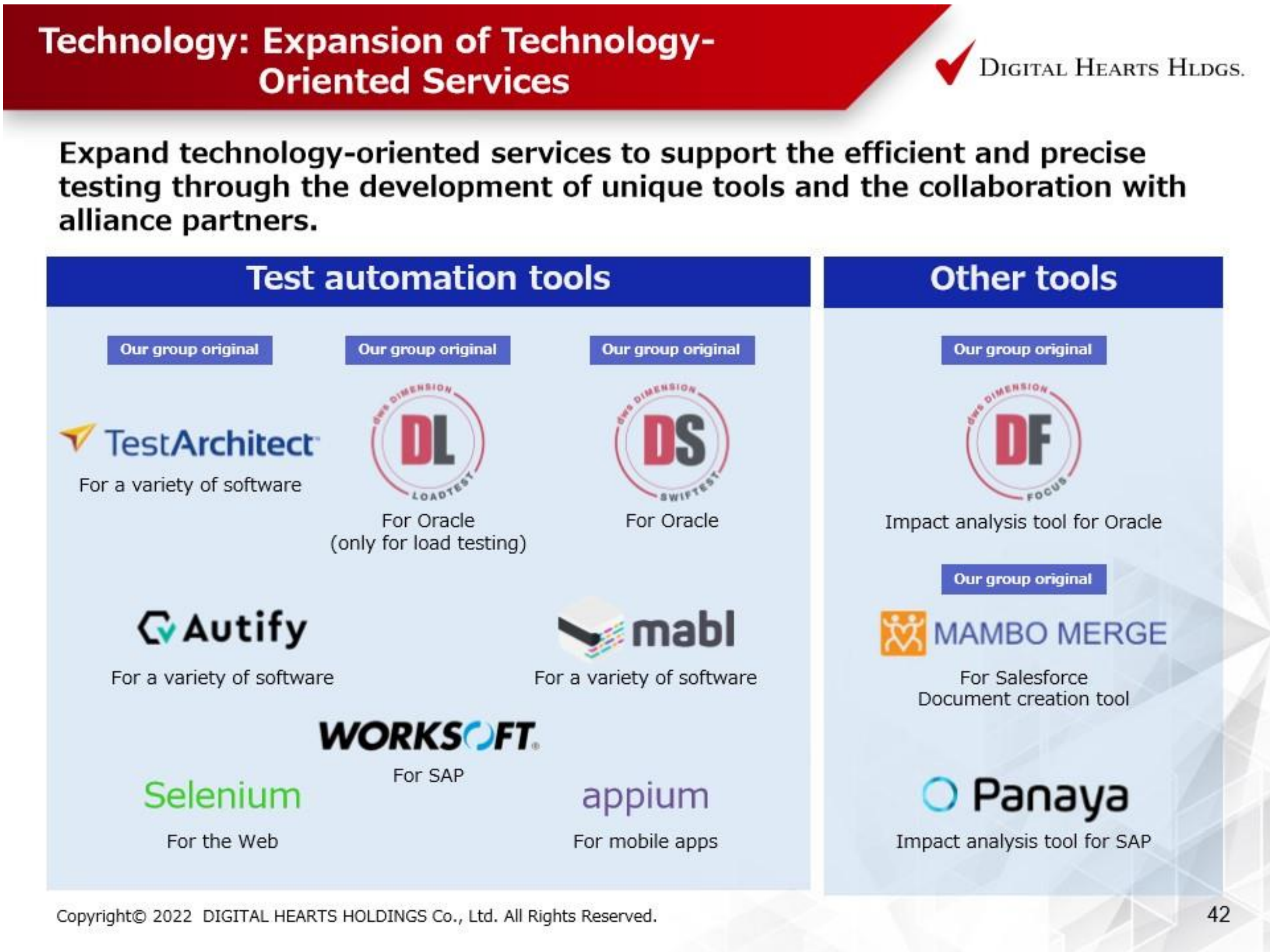
As a result, in H1, we increased the number of next-generation QA engineers, who are quite high-level engineers, from eight at the end of March to 14 at the end of September.

Furthermore, through this academy, we have been developing our engineers, and the number of candidates for next-generation QA engineers increased from 28 at the end of the previous fiscal year to 49, and the number of test engineers as the base nearly doubled the end-March figure. We are gaining confidence that our efforts have been shown by the numbers.



Next, the process of PP&T.

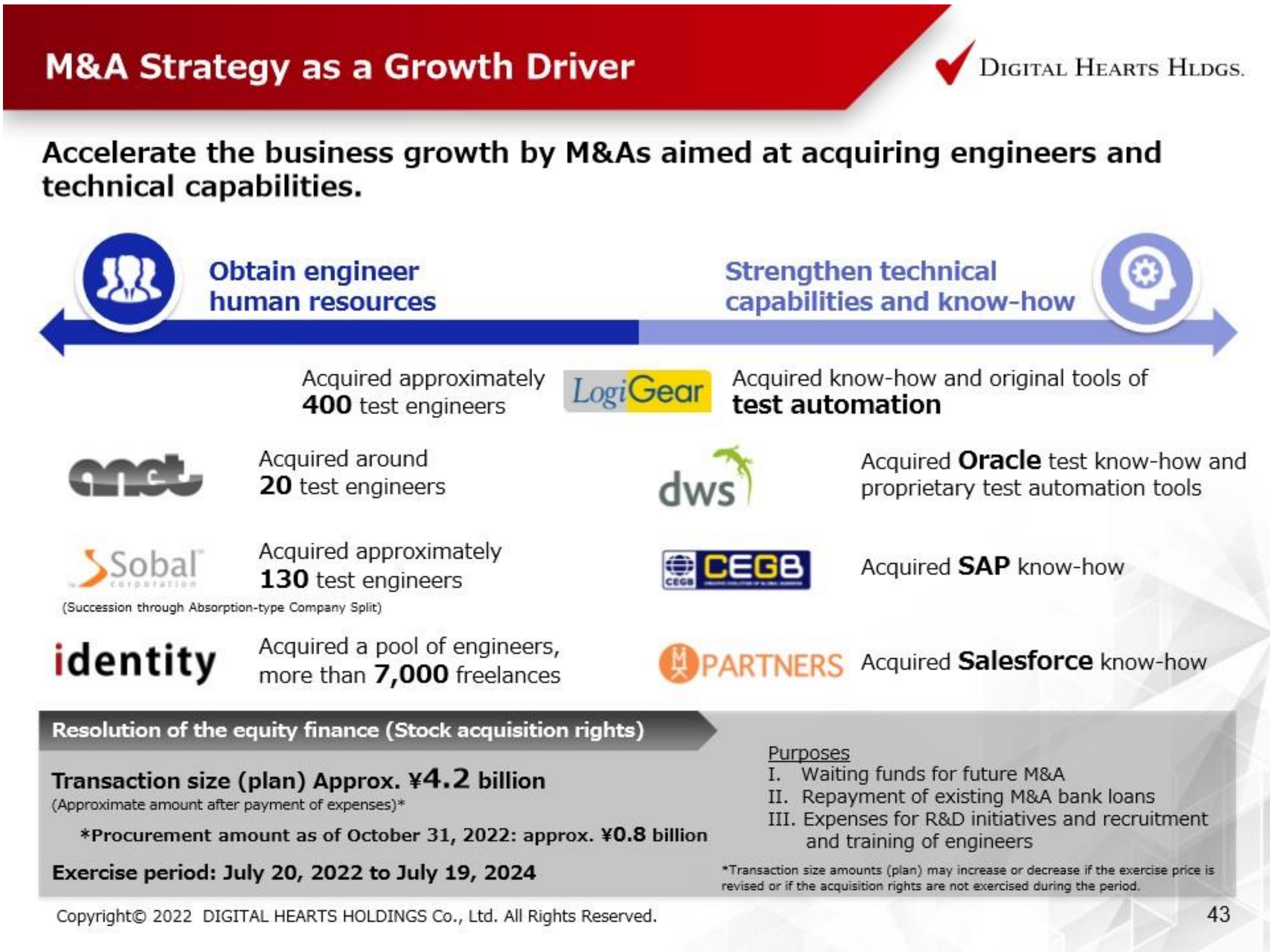
In this process, Mr. Takagi, as I mentioned earlier, is leading the standardization in compliance with ISO 29119. In addition, we would also like to customize our services by leveraging our unique knowledge and experience to provide best practices.



Regarding tools in the Technology, we are unique in that we have our own in-house test automation tools. We have our original test automation tools like TestArchitect, which we have been talking about for some time, and other unique ERP related tools of test automation and load diagnostic tool, for Oracle. Since we need to use the world’s most advanced tools, we have formed collaboration with our alliance partners.

These Autify and mabl are said to be the best tools in the world. We are now working as a strategic partner with each of them. There are actually cases where client companies that want to implement mabl or Autify ask us to help them to introduce the tools. We believe that this is also a positive byproduct of the alliances.

There is also another tool for impact analysis for Oracle and others. This tool seeks a very high grade of efficiency. So, we can provide the best solutions for our clients by using this impact analysis tool and other tools.



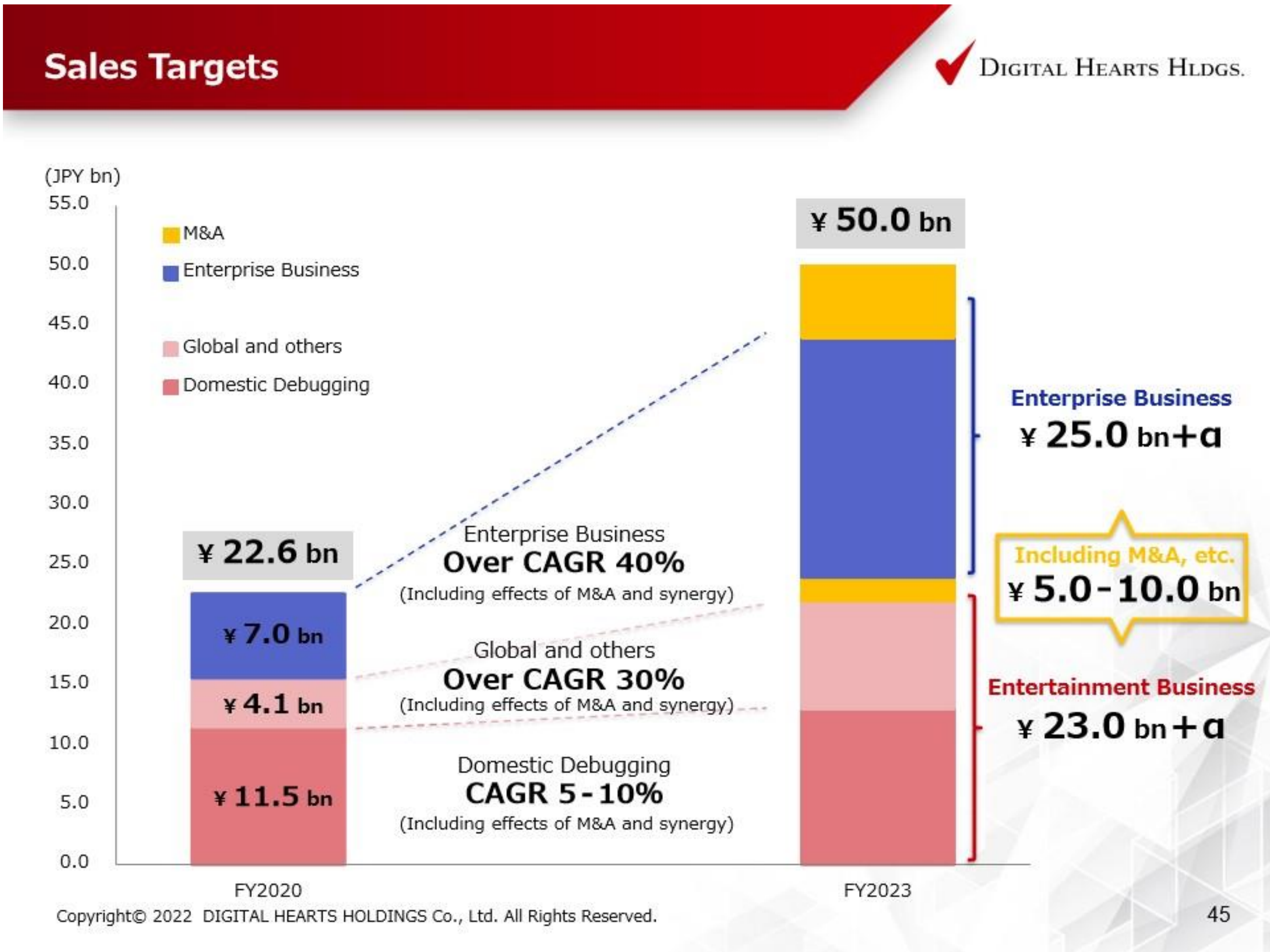
Moreover, the M&A strategy will become even more important as a growth driver.

We have already conducted M&As with several companies in the past. Basically, we seek to quickly acquire engineering personnel and strengthen our technical capabilities and expertise. We intend to concentrate on these two points in our M&A activities.

In the past, we have acquired 20 test engineers from ANET, 130 from Sobal, and 400 people from LogiGear. We have also consolidated identity, a pool of freelancers.

We have succeeded in acquiring new know-how in our weak areas of enterprise resources planning and customer relationship management by obtaining all shares of DEVELOPING WORLD SYSTEMS LIMITED, or DWS, which is strong in Oracle test know-how. We also acquired CEGB, which is strong in SAP know-how, and MK Partners, Inc., which is strong in Salesforce know-how. As we have succeeded in acquiring such new expertise through M&As, we will continue to accelerate our efforts in this area.

For your information, as we have repeatedly put this out, but our basic policy for M&As is to make appropriate investments while maintaining good governance.



With these growth strategies, we will continue to aim to achieve our medium-term sales target of JPY50 billion, of which the key components are the rapid expansion of the enterprise business and M&As. We aim for JPY25 billion and some addition for the enterprise business, and JPY23 billion and some addition for the entertainment business.

Medium-Term Targets (FY2021-FY2023)

DIGITAL HEARTS HLDGS.

FY2023 Target

Group Business	<FY2020 Result>	<FY2021 Result>	<FY2023 Target>
Consolidated Sales	¥22.6 bn	¥29.1 bn	¥50.0 bn
ROIC (*1)	16.8%	22.0%	over 15%
M&A and Alliances	3 projects	3 projects	5 projects (in 3years)
Number of Clients in Japan as a Group	878 companies	1,005 companies	2,000 companies
SDGs			
Number of IT Human Resources incl. Qualitist (*2)	4,517 people	10,660 people	20,000 people
Female Managers Ratio (ratio to total managers) (*3)	10.7%	11.8%	over 20%

*1 ROIC=EBITDA×(1-effective tax rate)÷(interest-bearing debt+shareholders' equity)
*2 Qualitist...Our original term for specialists contributing to quality incl. engineers
*3 Calculated from the data of our group companies in Japan

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These are the specific numerical medium-term targets.

For the fiscal year ending March 2024, we aim at sales of JPY50 billion, ROIC of over 15%, five M&A projects, and 2,000 client companies in Japan.

As for the SDGs, we would like to achieve steady growth with a pool of IT human resources of 20,000 people and a female management ratio of over 20%. We look forward to your continued support.

That is all from me.

[END]