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Digital Hearts Holdings (3676)

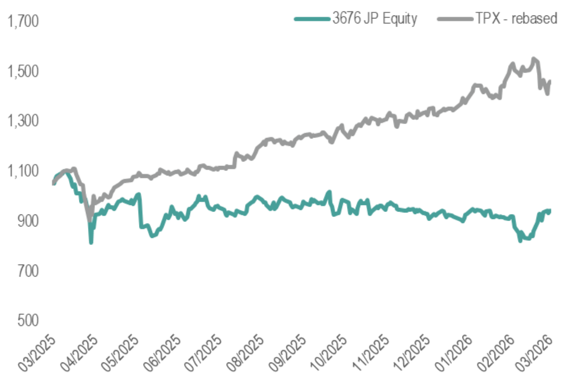
Strategic pivot in maximizing corporate value

11 March 2026

Withdrawal of AGEST Group spin-off listing initiative

Share price: ¥953 **Market cap: ¥22.7bn**

- **More robust dividend policy** – While the strategic rationale for separating the DH Group and AGEST Group remains sound, Digital Hearts Holdings has officially withdrawn its AGEST spin-off listing plan to protect enterprise value amid unfavorable market conditions. To compensate for this shift, the company has introduced a progressive dividend policy, raising the FY3/26 forecast to ¥25.0 DPS. We believe this withdrawal will not hinder its growth. AGEST's growth trajectory remains well-supported, as future capital requirements and strategic M&A can be supported by internal cash flow generation and the group's net-cash position.



Source: Bloomberg

Increased visibility into earnings

- **Getting more defensive while upside remains** – This strategic shift significantly enhances the company's earnings predictability. The DH Group serves as a defensive anchor, characterized by stable free cash flow, high-visibility earnings from its dominant gaming debugging business, and a strengthening international footprint. Supplementing this stability is a bolstered, progressive dividend policy. Simultaneously, AGEST Group offers compelling upside potential, driven by resilient testing demand and a clear pathway for inorganic growth through strategic M&A.
- **Valuations** – On our estimates, the shares are trading on a FY3/26 PER of 11.5x (with +194.4% EPS growth YoY) and EV/EBITDA of 5.3x. With gathering earnings momentum at the core business and the AGEST Group in better shape, we believe an improving earnings outlook has yet to be priced into the shares.

Year-end	3/24	3/25	3/26E
Sales (¥bn)	38.79	39.75	40.17
OP (¥bn)	2.04	2.43	2.85
NI (¥bn)	0.18	0.63	1.85
EPS (¥)	7.94	28.25	83.16
DPS (¥)	21.00	23.00	25.00
Sales growth YoY (%)	+6.2	+2.5	+1.1
OP growth YoY (%)	-32.0	+19.1	+17.4
NP growth YoY (%)	-77.9	+255.8	+194.4
EPS growth YoY (%)	-78.2	+255.6	+194.4
PER (x)	120.0	33.7	11.5
EV/EBITDA (x)	6.7	6.0	5.3
EV/Sales (x)	0.5	0.5	0.5
PBR (x)	2.7	2.5	2.2
ROE (%)	2.1	7.2	19.2
ROCE (%)	22.5	25.6	26.3
FCF yield (%)	4.2	10.5	11.0
Dividend yield (%)	2.2	2.4	2.4

Source: Company, Astris Advisory estimates

Price Performance

	YTD	1M	3M	12M
Abs (%)	+4.8	+3.4	+4.4	-9.5
Rel (%)	-3.4	+7.7	-5.3	-34.6

Company sector

Computer Services
IT Services (GICS)

Stock data

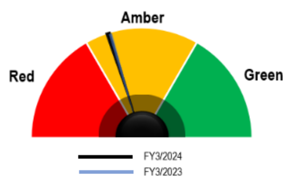
Price (¥)	953
Mkt cap (¥bn)	22.7
Mkt cap ($m)	143.9
52-week range (¥)	804-1,115
Shares O/S (m)	23.9
Average daily value ($m)	0.6
Free float (%)	47.4
Foreign shareholding (%)	14.7
Ticker	3676
Exchange	Tokyo Prime
Net Debt/Equity (x)	0.0
FFO leverage (x)	N/A
BBG BUY│HOLD│SELL	0 │ 0 │ 0

Source: Bloomberg

Business Overview

Digital Hearts Holdings provides game debugging services to entertainment companies and software testing and QA services to corporate customers.

Astris-Sustainability ESG rating



Reference Ratings	
MSCI	N/A
Sustainalytics	N/A
Refinitiv	N/A
S&P Global	1.0
Bloomberg	1.28
CDP	N/A

Next events

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Turning more prudent in maximizing shareholder return

Background of the AGEST spin-off listing initiative

Digital Hearts Holdings operates two distinct segments: the DH Group, a market leader in game debugging with stable recurring cash flow, and the AGEST Group, which focuses on QA (testing) in the high-growth enterprise domain.

In 2023, AGEST was aiming to achieve a 20-30% sales CAGR (inclusive of M&A), while its valuation trailed the high premiums enjoyed by peers such as Shift (3697 JP) and Valtes (4442 JP).

To unlock AGEST's growth potential, the company has explored a spin-off listing. This strategic separation aimed to optimize resource allocation and accelerate decision-making, ultimately driving enhanced corporate value.

Withdrawal of the AGEST spin-off listing

On March 2, 2026, Digital Hearts Holdings announced the formal withdrawal of the AGEST spin-off listing initiative.

While management reaffirms that structural separation is the optimal long-term trajectory, executing a spin-off in the current market situation would be counterproductive. Since December 2025, the IT software sector has faced a dual challenge: concerns that AI could disrupt traditional business models and the looming prospect of interest rate hikes in Japan. This bearish sentiment was exacerbated by the launch of Anthropic's new AI tools, triggering a fresh sell-off in SaaS and IT services. A key benchmark, Shift (3697 JP), plummeted 17.5% between February 3 and February 25, underscoring the severe valuation compression that currently hinders the realization of AGEST's intrinsic value.

We agree that executing a spin-off now would fail to unlock AGEST's intrinsic value, risk a permanent impairment of enterprise value, and compromise shareholder interests.

From a more technical standpoint, if the spin-off were to proceed at the current market capitalization level, there is a risk that both the new entity (AGEST Group) and the surviving entity (DH Group) could fall below the ¥10 bn market cap threshold, which could trigger DH Group's delisting from the Tokyo Stock Exchange Prime Market.

Commitment to raise shareholder returns

Meanwhile, Digital Hearts Holdings has decided to strengthen its shareholder returns, including introducing a progressive dividend policy and increasing the FY3/26 DPS by ¥2.0 to ¥25.0.

In addition, the company plans to bring in a new shareholder benefit, a ¥10,000 QUO card for shareholders with 500+ shares, which has significantly enhanced its appeal to domestic retail investors.

Dividend payout

Source: Company data

Our commentary

We view the withdrawal of the AGEST spin-off listing as a prudent strategic pivot aimed at maximizing long-term shareholder value.

Following its recent organizational restructuring, management is now better positioned to navigate the evolving AI landscape with greater agility. For the time being, the group offers a compelling risk-reward profile, anchored by high-visibility cash flows from the core gaming business and a bolstered dividend policy.

Crucially, the fundamental growth narrative for AGEST remains intact, with a projected FY3/26 OP of ¥0.63 bn. Furthermore, the cancellation removes prior regulatory constraints on M&A; backed by a ¥7.3 bn (as of December 31, 2025) cash reserve and a robust net cash position, the company is well-capitalized for accretive acquisitions and organic growth initiatives.

Conglomerate discount persists

1) Valuation multiples of AGEST Group and its Peers

Ticker	Company name	PER (x) FY26	EV/EBITDA (x) FY26
3697 JP	SHIFT	16.1	8.3
4442 JP	VALTES Holdings	22.0	7.2
Average		**19.1**	**7.8**

Source： Bloomberg

Note*: As of March 9th, 2026

Earnings forecast (estimates) for AGEST Group

(¥bn)	FY3/26E
Net income	0.44
EBITDA	0.97
Market cap (Net Income * Peer Average P/E)	**8.40**
Cash and Cash Equivalents	2.53
Debt	1.30
EV1 (Market Cap - Cash and Cash Equivalents + Debt)	**7.17**
EV2 (Peer Average EV/EBITDA * EBITDA)	**7.57**
Average EV	**7.37**

Source: Company data, Astris Advisory, Bloomberg
Note*: AGEST Group's forecast net income for FY3/26 is based on Astris Advisory's estimates.
Note*: AGEST Group's forecast EBITDA for FY3/26 is based on Astris Advisory's estimates.
Note*: Cash and cash equivalents, as well as interest-bearing debt for AGEST Group, are referenced from the disclosure document dated November 6, 2025, titled "Notice Regarding the Publication of AGEST, Inc.'s Company Presentation Materials"

Based on peer average P/E (x) and EV/EBITDA (x) multiples, the potential enterprise value (EV) of AGEST Group is estimated at approximately ¥7.37 bn.

2) Valuation multiples of DH Group and its peers

Ticker	Company name	EV/EBITDA (x) FY26
3657 JP	Pole To Win Holdings	8.2
Average		**8.2**

Source： Bloomberg

Earnings forecast (estimates) for DH Group

(¥bn)	FY3/26E
EBITDA	2.97
EV (EV/EBITDA * EBITDA)	24.36

Source: Company data, Astris Advisory, Bloomberg
Note*: DH Group's forecast EBITDA for FY3/26 is based on Astris Advisory's estimates.
Note*: Pole To Win Holdings is projected to fall into a net loss for the next fiscal year, making a P/E-based valuation unfeasible. Consequently, P/E has been excluded as a valuation metric for the analysis of this period.

Based on the calculation above, we estimate the DH Group's potential EV at approximately ¥24.36 bn.

When combined with the ¥7.37 bn valuation of the AGEST Group, the total EV of Digital Hearts Holdings is estimated at ¥31.73 bn. Compared to the current enterprise value of ¥23.95 bn (calculated as Market Cap of ¥22.58 bn - Cash and Cash Equivalents of ¥7.30 bn + Preferred Stock of ¥3.07 bn + Total Debt of ¥5.60 bn; minor discrepancies exist due to rounding), we anticipate an upside potential of approximately 32.5%.

Note*: Market capitalization is based on the closing stock price as of March 10, 2026. Figures for cash, cash equivalents, and debt are as of December 31, 2025.

While the conglomerate discount is expected to persist in the near term, it effectively establishes a valuation floor, providing meaningful downside protection. Meanwhile, it also creates asymmetric upside, where any positive operational catalyst could trigger a re-rating of the stock.

Summary

One of the larger players in a fragmented market

Digital Hearts Holdings was founded in 2013 (Digital Hearts, the predecessor of the Company and now its subsidiary, was established in 2001) as a pioneer in game debugging services and has since expanded its business around quality assurance (QA) and test services for enterprise customers. It is one of the larger companies in a fragmented market, and by market cap is the second-largest listed provider of QA test service.

The company expects growth to accelerate from this year and has set the following medium-term segment targets:

- DH Group
  - Annual growth of 10%+ including contributions from M&A
  - Annual growth in “global services” of 20%+
  - OP margins of 10%+
  - ROIC of 15%+
- AGEST Group
  - Enhancing added value in the enterprise sector by leveraging expertise as a specialized QA provider.
  - Shifting from a "man-month business model" to a "technology-driven model" through the use of the proprietary AI testing tool "TFACT" and in-house SBOM management tools.
  - Improving profitability through the strategic reduction of low-margin businesses.

Astris Advisory expects Digital Hearts Holdings to maintain its medium-to-long-term growth rates through the following:

- In DH Group, the company should be able to accelerate global growth by augmenting stable growth in game software debugging services with M&A and business alliances, as well as more solution businesses and further geographic expansion. A shift in the sales mix towards more profitable revenue streams should drive margin expansion.
- In AGEST Group, we expect corporate digitization (DX) tailwinds to support core business growth, whilst an expansion into what the company calls “shift-left” and “shift-right” segments can increase its addressable market.

The shares currently trade at an estimated FY 3/26 PER of 11.5x and EV/EBITDA of 5.3x, which represents a discount to peers with larger sales.

Company description

Overview

Digital Hearts Holdings has grown from a domestic games debugging company to a global provider of debugging and QA testing services

Digital Hearts Holdings provides debugging services to Entertainment companies and QA and testing services to non-entertainment companies.

The company was founded in 2001 as one of the first to provide game debugging services in Japan. It started to expand overseas in 2011, and the company reorganized into a holding company structure in 2013 to accelerate diversification.

That includes the launch of the enterprise businesses in 2017, supported by internal reallocation of resources and M&A. As of FY 3/24, Enterprise revenue represented 51% of sales, up from 11% in FY 3/18.

Over 20 years in software debugging and quality assurance

Timeline summary

Key dates	Details
April 2001	Established Digital Hearts Co., Ltd.
October 2003	**Became a limited liability company**
September 2007	First JP co. to receive AXTP from Microsoft for Xbox
February 2008	**Listed on TSE Mother's**
February 2011	**Listed on TSE First Section**
July -Dec 2011	Established companies in Korea, US, and Thailand
November 2012	Acquired Aetas Inc. and made it a subsidiary
October 2013	**Established holding company structure (Hearts United Group)**
April 2014	Acquired Premium Agency and made it a subsidiary
July 2016	Established Digital Hearts (Shanghai)
June 2017	Starting with a change of representative director, change of management system. Promoting business expansion in the enterprise business as a second founding phase
August 2019	Made Logigear Corp a subsidiary through acquisition of shares and third-party allocation
March 2021	Acquired all shares of Metaps Entertainment and made it a subsidiary
April 2022	**Following a group reorganization, enterprise business becomes AGEST Group, and the entertainment business becomes Digital Hearts (DH) Group** **Transferred from the First Section to the Prime Market of the TSE following a review of the TSE's market classification**
May 2023	Preparations began for a share-distribution-type spin-off and listing of AGEST, Inc., the core subsidiary of the enterprise business.
January 2024	Group reorganization of operating companies in the enterprise business to become direct subsidiaries of AGEST, Inc.,
April 2024	Investment in Turing Inc.
March 2026	Withdrawal of the spin-off listing initiative of AGEST Group

Source: Company

JGAAP Financial Summary

Income statement (¥bn)	FY 3/24	FY 3/25	FY 3/26E
Sales	**38.79**	**39.75**	**40.17**
COGS	28.70	29.61	29.60
Gross profit	**10.09**	**10.14**	**10.56**
Gross profit margin (%)	26.0	25.5	26.3
Total OP	**2.04**	**2.43**	**2.85**
OP margin (%)	5.3	6.1	7.1
Non-operating income	0.07	0.06	0.07
Non-operating expenses	-0.05	-0.21	-0.13
Recurring profit	2.06	2.28	2.79
Extraordinary gains	-	0.63	-
Extraordinary losses	-1.20	-1.26	-
Pre-tax profit	**0.85**	**1.65**	**2.79**
Tax	-0.66	-0.98	-0.89
Effective tax rate (%)	32.2	42.8	32.0
Net income	**0.19**	**0.67**	**1.89**
Non-controlling NI	0.01	0.04	0.04
Parent attributable NI	**0.18**	**0.63**	**1.85**
Sales growth YoY (%)	+6.2	+2.5	+1.1
OP growth YoY (%)	-32.0	+19.1	+17.4
Pre-tax profit YoY (%)	-57.2	+92.5	+69.3
NI growth YoY (%)	-77.9	+255.8	+194.4

Balance sheet (¥bn)	FY 3/24	FY 3/25	FY 3/26E
Cash & equivalents	6.86	7.59	8.48
Inventory	0.03	0.07	0.09
Accounts receivables	5.92	5.50	5.56
Other	0.72	0.91	0.92
Current assets	**13.53**	**14.07**	**15.05**
Tangible assets	1.49	1.48	1.65
Goodwill	2.31	1.04	0.96
Intangible assets	0.59	0.71	0.89
Long term investments	1.79	1.34	1.34
Other	1.38	1.32	1.32
Fixed assets	**7.58**	**5.88**	**6.15**
Total assets	**21.10**	**19.95**	**21.20**
Short term borrowing	7.10	5.21	5.21
Trade creditors	3.83	4.29	4.16
Other	1.09	0.97	1.00
Current liabilities	**12.03**	**10.47**	**10.37**
Long term borrowing	0.03	-	-
Other LT liabilities	0.20	0.22	0.22
Long term liabilities	**0.22**	**0.22**	**0.22**
Total liabilities	**12.25**	**10.69**	**10.59**
Shareholder's equity, accumulated other comprehensive income	**8.42**	**8.95**	**10.31**
Share acquisitions rights	-	-	-
Non-controlling interests	0.44	0.31	0.31
Total net assets	**8.85**	**9.26**	**10.62**
Total liabilities & net assets	**21.10**	**19.95**	**21.20**

Cash flow statement (¥bn)	FY 3/24	FY 3/25	FY 3/26E
Profit before tax	**0.85**	**1.65**	**2.79**
Depreciation/amortization	1.04	1.03	1.04
Changes in working capital	-0.17	0.31	-0.17
Other non-cash items	1.05	0.80	0.50
Tax paid	-1.01	-0.66	-0.89
Cash from Operating Activities	1.76	3.12	3.27
Capex	-0.81	-0.74	-0.76
Acquisitions/increase stakes	-0.16	1.43	-
Other investing cash flow	-1.40	-0.70	-1.05
Cash from Investing Activities	**-2.37**	**-0.01**	**-1.81**
Total cash dividends paid	-0.47	-0.47	-0.51
Debt issuance/(retirement)	1.99	-1.91	-
Equity financing/(buybacks)	-0.01	-	-
Other	-0.58	-0.18	-0.18
Cash from Financing Activities	**0.93**	**-2.56**	**-0.69**
FX impact	0.08	0.18	0.13
Net cash flow	**0.40**	**0.74**	**0.89**
Free cash flow	**0.95**	**2.38**	**2.50**
EBITDA	**3.08**	**3.46**	**3.90**
EBITDA margins (%)	7.9	8.7	9.7
Free cash flow margin (%)	2.4	6.0	6.2
Free cash flow conversion (%)	110.8	144.8	89.9
Capex/sales (%)	2.1	1.9	1.9
Capex/depreciation (%)	78.2	71.7	73.1
CFO margin (%)	4.5	7.8	8.1

Key metrics	FY 3/24	FY 3/25	FY 3/26E
Profitability			
Gross margin (%)	26.0	25.5	26.3
Operating margin (%)	5.3	6.1	7.1
Net margin (%)	0.5	1.6	4.6
ROA (%)	0.9	3.1	9.0
ROE (%)	2.1	7.2	19.2
ROCE (%)	22.5	25.6	26.3
ROIC (%)	9.4	9.4	13.1
Liquidity			
Current ratio (x)	1.1	1.3	1.5
Quick ratio (x)	1.1	1.3	1.4
Leverage			
Debt/Equity ratio (x)	0.8	0.6	0.5
Net Debt/Equity ratio (x)	0.0	net cash	net cash
Equity ratio (x)	0.4	0.4	0.5
Interest cover (x)	N/A	N/A	N/A
Net Debt/EBITDA (x)	0.1	N/A	N/A
Valuation			
EPS reported (¥)	7.9	28.2	83.2
PER (x)	**119.6**	**33.6**	**11.4**
Diluted PER (x)	**120.0**	**33.8**	**11.5**
DPS (¥)	21.0	23.0	25.0
Dividend payout ratio (%)	264.3	81.4	27.7
Dividend yield (%)	**2.2**	**2.4**	**2.4**
Free cash flow yield (%)	**4.2**	**10.5**	**11.0**
Diluted FCF yield (%)	**4.2**	**10.5**	**11.0**
PBR (x)	**2.7**	**2.5**	**2.2**
EV/sales (x)	0.5	0.5	0.5
EV/EBITDA (x)	6.7	5.9	5.3
EV/EBIT (x)	10.1	8.5	7.2
EV/FCF (x)	21.7	8.6	8.2

Source: Company, Astris Advisory (estimates)

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