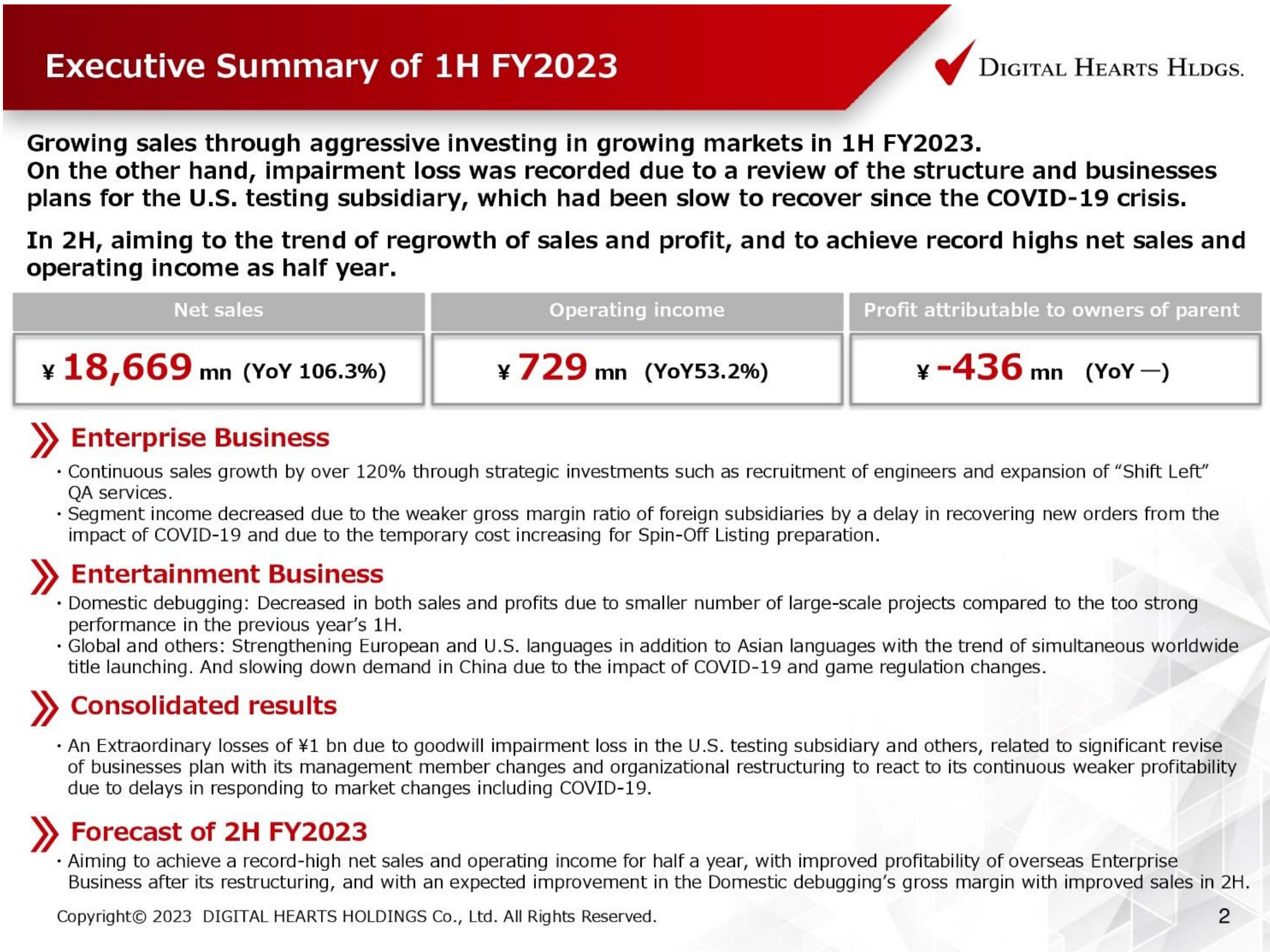
DIGITAL HEARTS HOLDINGS Co., Ltd.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 10, 2023

Presentation

Ninomiya: Thank you very much for participating in our financial results briefing today. I will now explain the financial results for 1H.



As for the 1H results, net sales were JPY18,669 million, 106% of the previous year's level; operating income was JPY729 million, 53.2% of the year-before level; and profit attributable to owners of the parent was negative JPY436 million, partly due to the impact of the impairment loss, which will be discussed later in this section.

In the Enterprise Business, we have made strategic investments, including hiring engineers in 1H. Furthermore, through the expansion of our services, we have been able to maintain high sales growth of more than 120% from the previous year.

On the other hand, the recovery of new orders was significantly delayed, partly due to the negative impact of the COVID-19 pandemic on our overseas subsidiaries. This has resulted in a decline in gross margin ratio, which is a major reason for this downturn.

Also, there are temporary costs to prepare for the Spin-off Listing, which has recently been announced. As a result, segment income has decreased.

In the Entertainment Business, there was a fairly strong performance in 1H of last fiscal year. There was a reaction to this in 1H, resulting in a decrease in both sales and profits, mainly in Domestic debugging, due to a decline in a number of large-scale projects.

In Global and others division, there has been a considerable number of titles simultaneously released around the world in recent years. In response to this, we have strengthened our capability to deal with languages in Europe and the US other than Asian languages, whereas in China, the impact of the COVID-19 pandemic and regulatory restrictions on games caused a temporary slowdown in the market.

As for the consolidated results of the entire company, the profitability of the US subsidiary and others, which I mentioned earlier, has been worsening, and we are therefore undertaking a renewal of their management structure and reorganization of their business operations. As a result of this, we have drastically revised our business plan and have recorded a goodwill impairment of JPY1 billion under extraordinary losses.

Although the situation in 1H was quite difficult, we expect a significant improvement in gross profit in 2H as a result of the recovery of our overseas subsidiaries in the Enterprise Business and the shift to higher revenues in Domestic debugging.

Therefore, while making use of the lessons learnt from 1H, we hope to achieve record-high sales and operating profit for 2H.

Revision of Consolidated Earnings Forecast of Full Year of FY2023

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- **Full year consolidated financial forecast is revised based on 1H results.**
- **Plan to achieve a record-high operating income of ¥1.7 billion as half a year with continuous investing for growth.**

(JPY mn)	FY2022	FY2023 (Initial (A))	FY2023 (Revised (B))	B÷A
Net sales	36,517	40,750	40,000	98.2%
Operating income	3,000	3,120	2,500	80.1%
Operating income margin	8.2%	7.7%	6.3%	-1.4 points
Ordinary income	3,152	3,160	2,560	81.0%
Profit attributable to owners of parent	799	2,100	550	26.2%

Reasons for Revision

Net sales	・Weaker sales in 1H compared to too strong market trend of domestic game development and bigger negative impact coming from environment changes in the game industry of China. ・Delay of sales recovery from COVID-19 crisis compared to the initial forecast of overseas subsidiaries in Enterprise Business especially in acquiring new project orders.
Profit	・Worse profitability with smaller sales in high margin segments such as debugging in Japan and testing in U.S. ・Strong investing in global services such as translation/ LQA and marketing support in game industry. ・Extraordinary loss of impairment losses, ¥1 billion for goodwill of LOGIGEAR CORPORATION and others.

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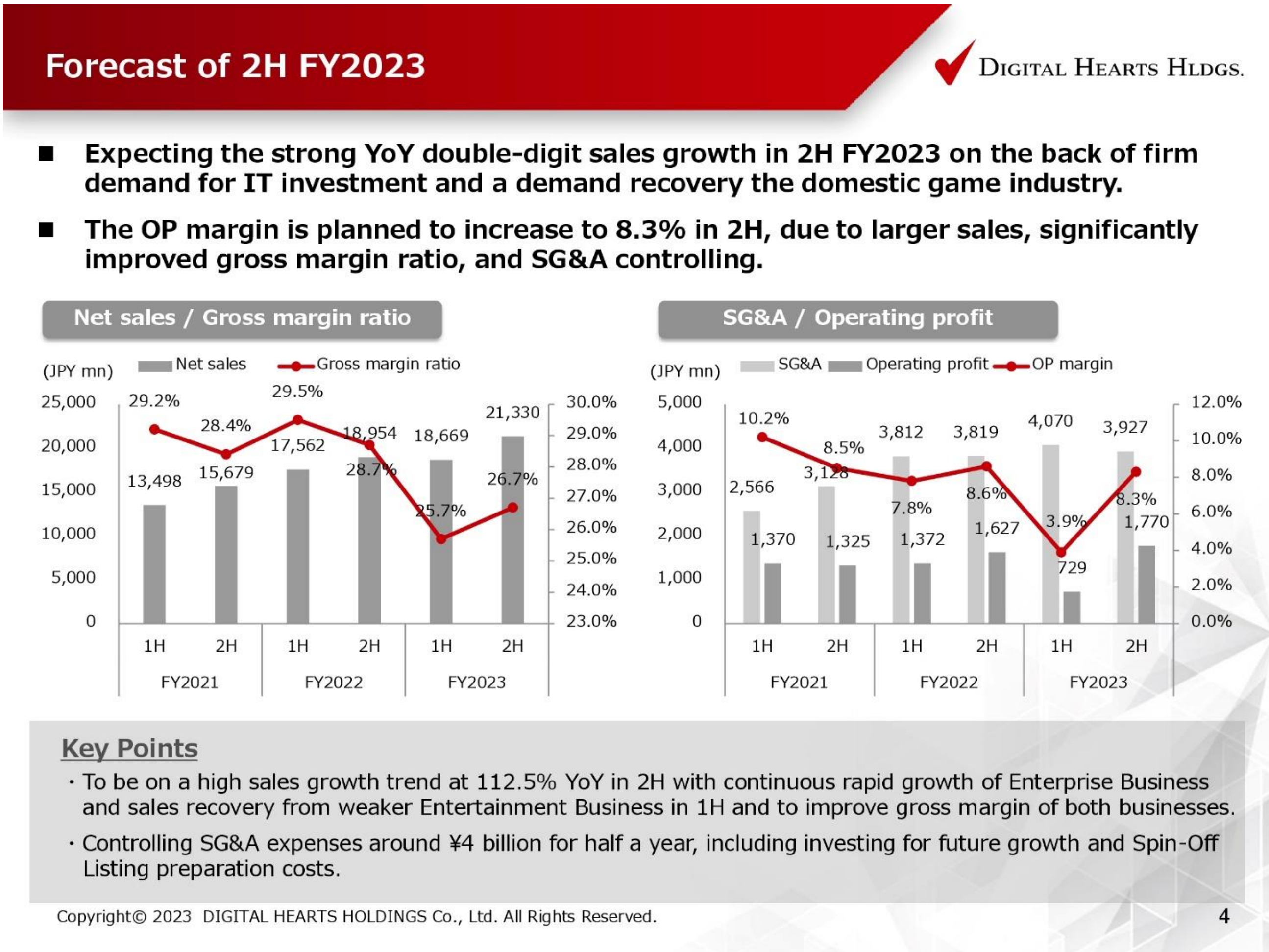
In terms of the specific amount, we are planning to achieve a half-yearly record of JPY1.7 billion in operating profit in 2H.

Meanwhile, we have revised our financial forecast for the full year in light of the very difficult performance in 1H. The specific revisions are as follows: sales of JPY40 billion, operating profit of JPY2.5 billion, ordinary profit of JPY2.56 billion, and profit attributable to owners of the parent of JPY550 million due to the impact of impairment losses, as mentioned earlier.

The main reason for the revision, overlapping with my previous point, is that there was a reaction to the strong performance in 1H of the previous fiscal year in the domestic game debugging business. One factor here is that the reaction was much larger than expected.

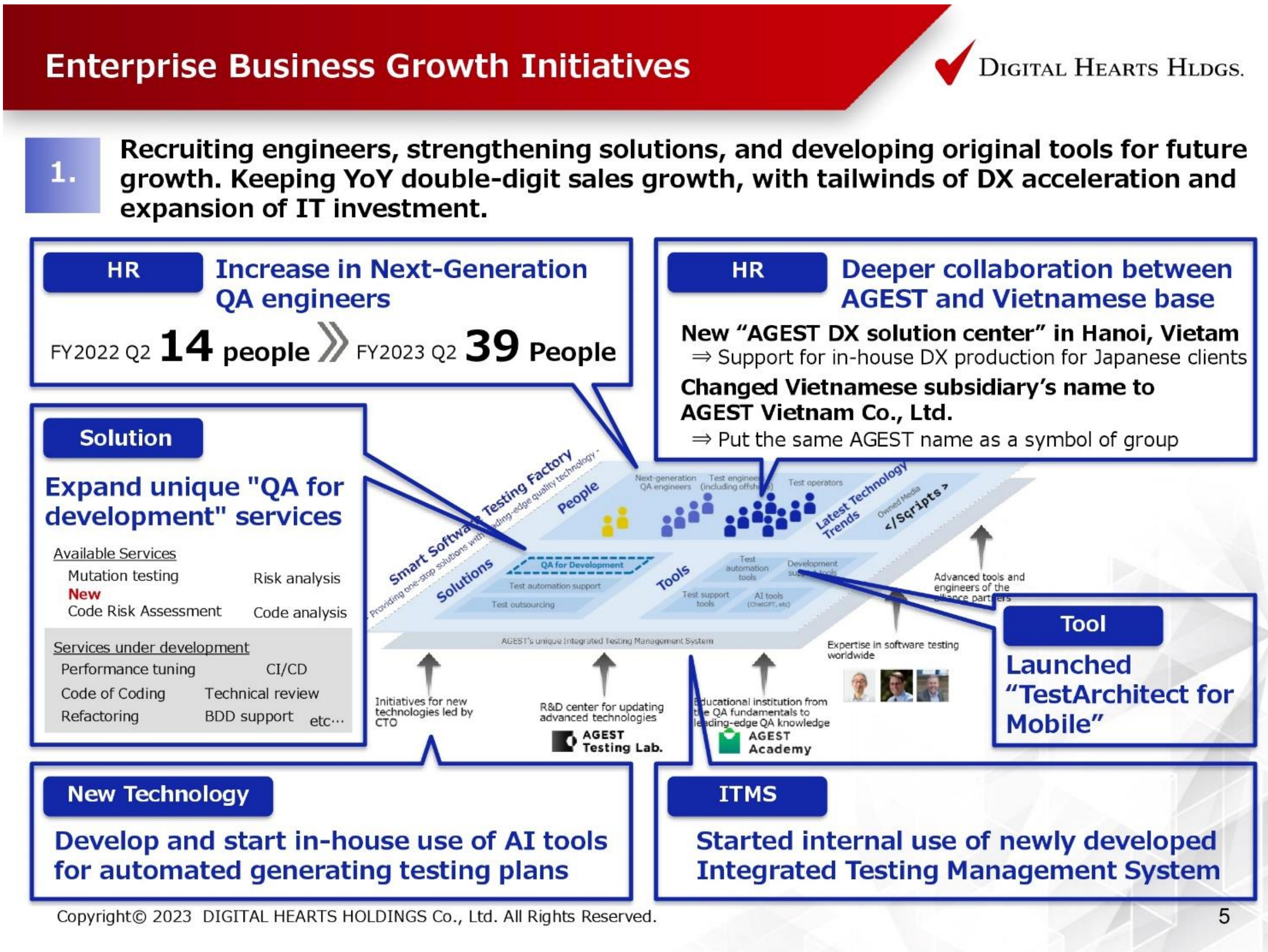
In the Enterprise Business, earnings from overseas subsidiaries and the acquisition of new orders were slower than expected, which were the main factors behind the sales performance.

In terms of profit, Domestic debugging, or the US testing business, is quite a profitable business. The decline in sales in this area has resulted in a deterioration in profitability. In addition, we have made an impairment loss on LOGIGEAR CORPORATION, resulting in an extraordinary loss of JPY1 billion, and this is the main reason for the revision.



Meanwhile, in 2H, the QA solution business in Japan, led by AGEST, has been quite strong. We believe that there will continue to be strong demand for IT investment in the future, so we expect to see a significant upturn. We also expect a recovery in demand in the domestic games market, so we hope to return to a high-growth trend with double-digit YoY growth in sales.

While sales and gross profit will naturally improve, we will also keep SG&A expenses down to around JPY4 billion over the six months in 2H. As a result, the operating profit margin for 2H will rise to 8.3%, and we would like to promise to make a solid profit in 2H.



I would like to explain our specific initiatives. Firstly, in the Enterprise Business, we have been working on measures to accelerate our growth in 1H, 2H, and beyond.

First of all, human resources. This is where we are strengthening the most: QA engineers with the skills of system development. We call these next-generation QA engineers, and they are our forte in areas where other companies and testing companies are not.

These are engineers who can improve quality at the time of writing code, which is called build, in the development process. This area has grown significantly compared to the previous year.

The unit price of these sales is actually quite high in the testing industry, with the unit price per order reaching more than JPY1.5 million per engineer. Furthermore, since various engineers are working under these engineers, which will be discussed in the latter part of the CFO section, sales per client have improved significantly.

Next, on the right, human resources. We had an offshore center in Vietnam called LOGIGEAR as a subsidiary. We have shifted this center to a hub for the Japanese market. Of course, we have ones in the US, but we are working to significantly increase the volume of orders from Japan, which has been low up to now.

We have therefore established the AGEST DX solution center in Hanoi, Vietnam, and have also unified our brand name as AGEST Vietnam for enhanced cooperation. We already have more than 50 Japanese-speaking engineers with N2 or above Japanese language qualifications. As such, it will fulfil its bridge function well, so we have built a system that enables us to provide services for orders from Japan with the same quality as Japanese delivery.

Next is the service side. We are also expanding our services in areas such as test outsourcing and test automation support, which are also provided by general testing companies.

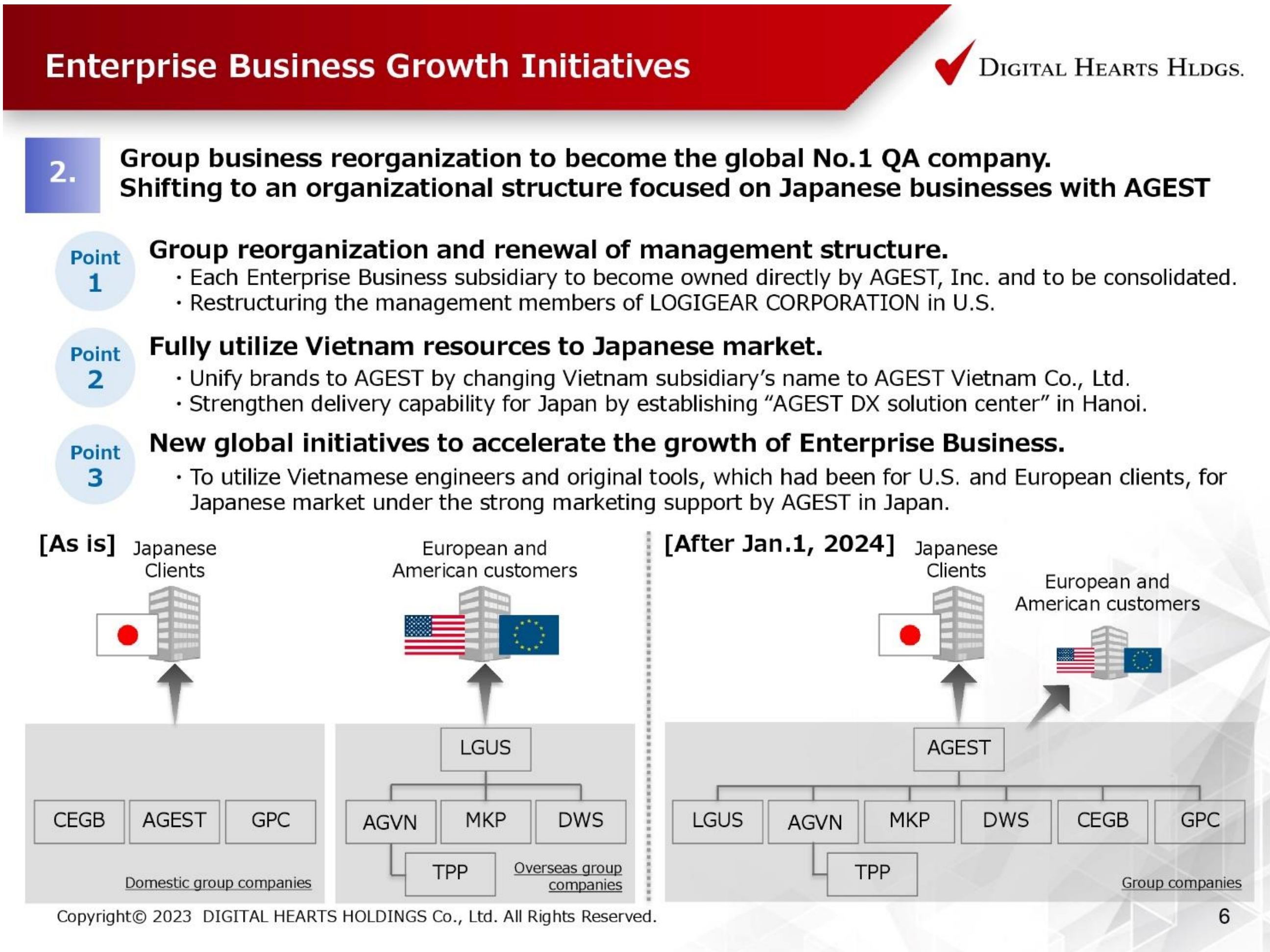
Our most important differentiator, however, is the solution to improve quality during the building process, which I mentioned earlier. We call it “QA for Development”, and we are expanding this unique service.

We announced it the other day, so we have now expanded to about five services. We are entering into areas where other companies are not doing much, so we believe that we will be able to build a competitive advantage among testing companies. In 2H and beyond, we will have a line-up for the services under development listed here, and make the most of these services for further expansion in the next fiscal year.

Furthermore, in 1H, we have started to utilize new technology. This is a tool for generative AI, which has become a hot topic recently. This is a system that automatically generates quotations from specifications by adding generative AI to the test data we originally created. Furthermore, we are now ready to create a test perspective.

In the future, we will use generative AI to generate testing plans, output reports, and this kind of thing. We will conduct a thorough demonstration experiment in the next six months, leading to improved productivity and an expanded delivery system in the next fiscal year and beyond.

In addition, we have been developing an integrated testing management system (“ ITMS”), during this period. We have started its internal use. This is a tool that combines AI tools and automation tools to enable integrated management by the client. We would like to start external sales in April next year, so we will first brush it up internally in 2H.



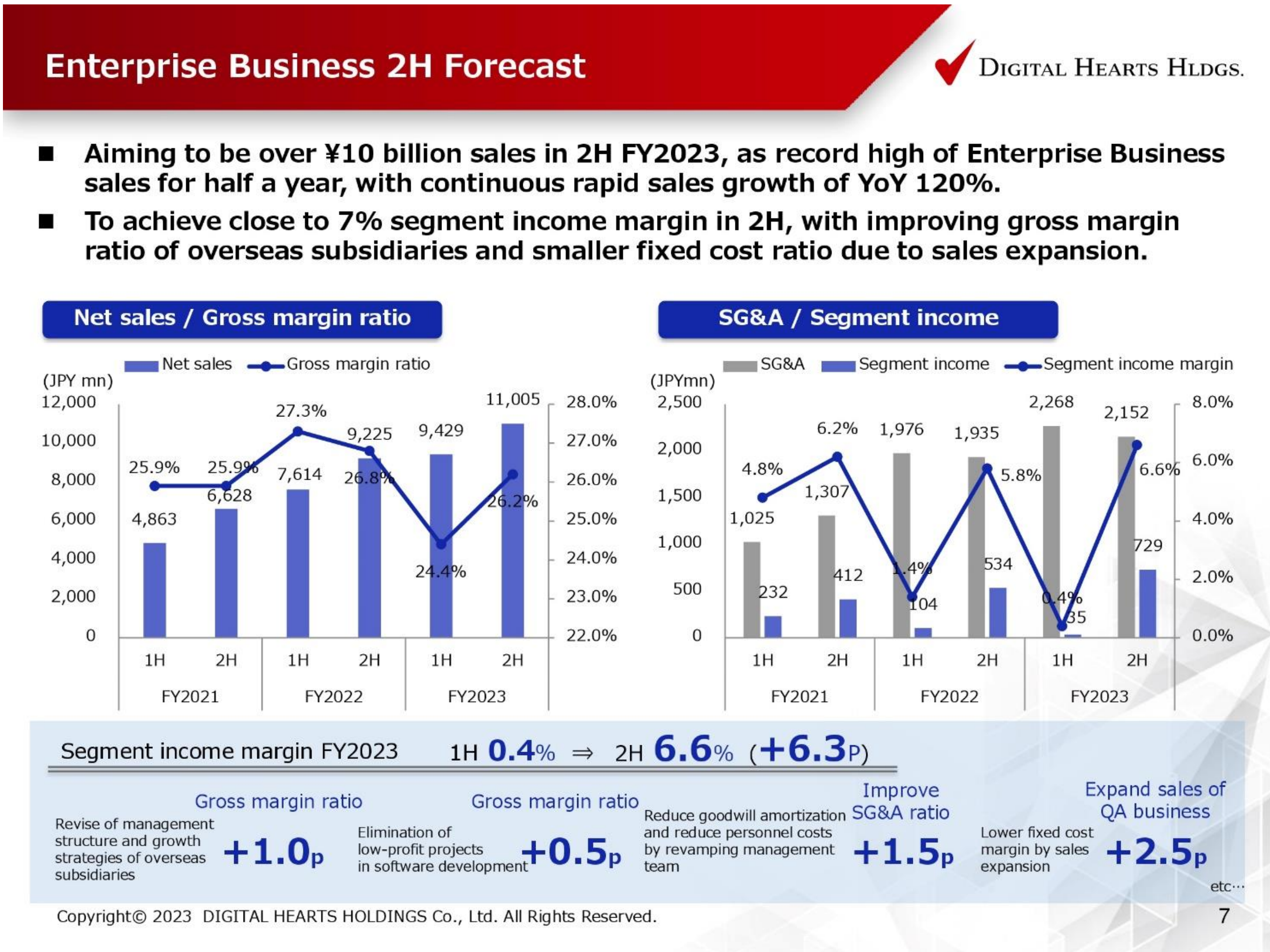
Second point. This is a major reorganization based on the reviews of 1H. Up until now, we had overseas subsidiaries as part of LOGIGEAR US, but since January 1, we have shifted to a management structure in which AGEST will take control of these subsidiaries as consolidated subsidiaries of AGEST.

The management structure of LOGIGEAR CORPORATION in the US has already been renewed, and we are now building a structure to expand our Enterprise Business, centered on AGEST.

Secondly, as I mentioned earlier, we are now fully utilizing resources in Vietnam for the Japanese market. This has two meanings: firstly, the delivery capability in Japan is inevitably insufficient. Therefore, by utilizing resources in Vietnam, we will increase our capacity to receive orders.

The other point is the profit margin of LOGIGEAR US. To improve this, we need to improve the utilization rate in Vietnam. This time, we are working on improving the utilization rate in Vietnam by increasing the volume of orders from Japan. Therefore, the gross margin ratio in the US will also improve.

Furthermore, in the Enterprise Business, each subsidiary has its own tools and engineering resources. We provide these services to our customers in Europe and the US, but in the future, we will also strive to expand these sales based on AGEST's strong marketing support.



We will continue to make active investments while carrying out these initiatives. In terms of sales, we will continue to achieve sales growth of 120% of the previous year's level. In 2H, we hope to achieve half-yearly sales of JPY10 billion in the Enterprise Business.

In terms of profit, as I mentioned earlier, the profit margin of our overseas subsidiaries is expected to improve, and fixed costs are also expected to fall as a result of sales expansion. Therefore, the segment profit margin is expected to recover to a record high level of 7%.

Specifically, as written below, first of all, we will improve the utilization rate in Vietnam, as mentioned earlier. We also improved the profit margin by 1 percentage point by changing the business strategy of our overseas subsidiaries.

In 1H, there were unprofitable or low gross margin projects in system development in Japan. These will be eliminated in 2H, resulting in an improvement of 0.5 percentage points in the profit margin.

The impairment loss has been carried out this time, which will reduce goodwill amortization of foreign subsidiaries. Furthermore, we have performed a restructuring in the form of a renewal of the management team. This will reduce personnel costs, which are expected to improve by 1.5 percentage points.

Furthermore, since sales will expand mainly in the QA business, the fixed cost ratio will fall. This is an improvement of 2.5 percentage points. We hope to achieve a profit margin level of 7% in 2H.

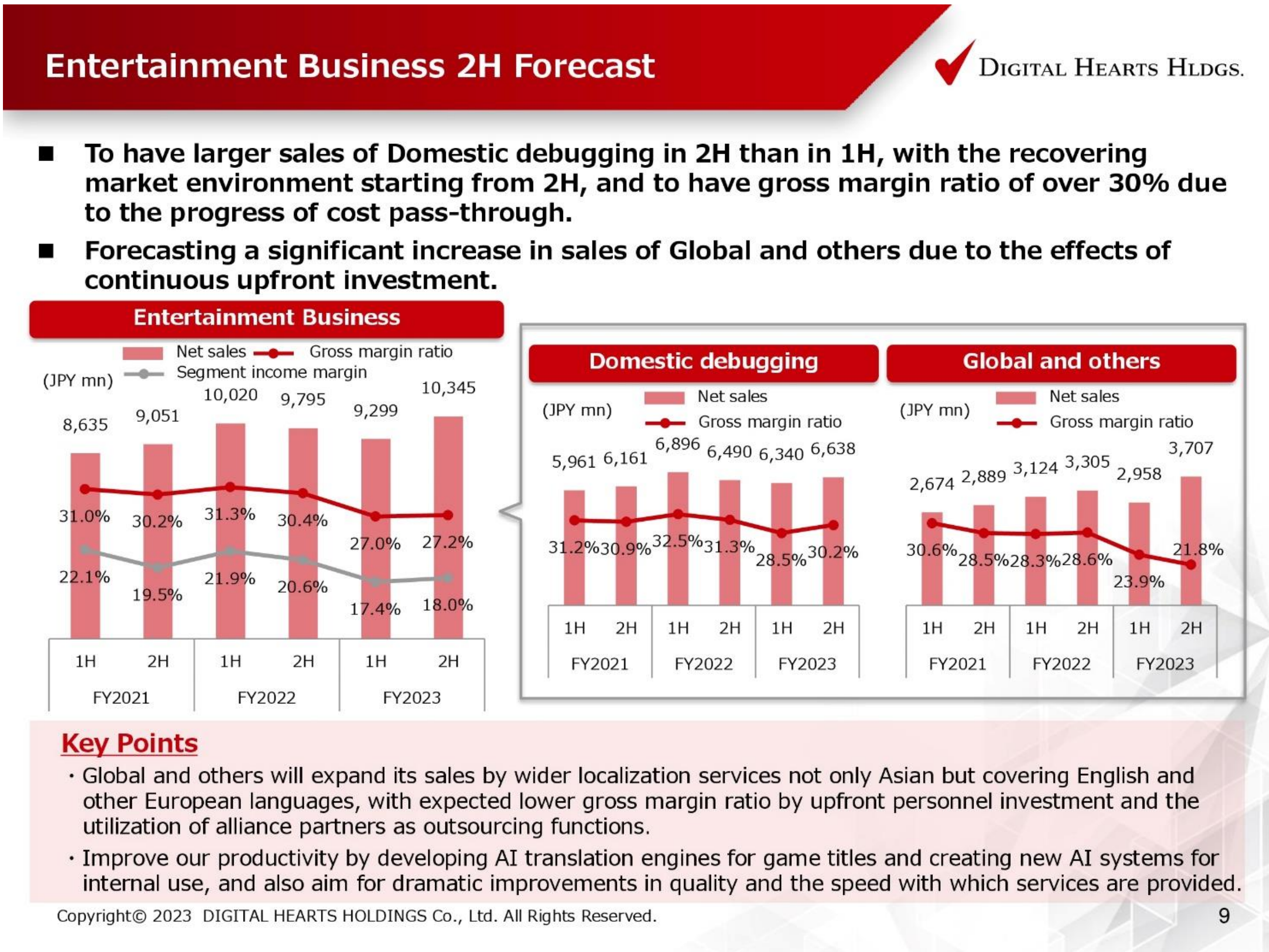
Next is about the Entertainment Business. In the Entertainment Business, we have been striving to improve productivity and the quality of our services in 1H. We will continue to promote initiatives in these areas, which naturally include outperforming the competitors, strengthening the system for accepting large-scale projects, and improving gross margin ratio.

Secondly, I believe that this will be one of the pillars of our growth strategy in the Entertainment Business, not just in 2H, but also in the future. I believe that it is becoming essential to expand our business with an eye on the global market. We have made investments in this area in 1H. Specifically, the number of titles released simultaneously around the world is increasing considerably. Therefore, we are not only debugging, but also strengthening our one-stop solutions for translation, LQA, and these types of services.

We are also working to strengthen the resources of our overseas subsidiaries. Furthermore, by strengthening our service capabilities for global market, we are aiming to increase sales for our clients not only in Japan but also in other countries.

Finally, we have been active in utilizing new alliances and investing in new technologies. By doing so, we aim to expand sales, which we have not been able to achieve until now.

Specifically, as the first topic, we are proud of our strength in translation, particularly in Asia, but we have not been able to push forward in Europe and the US, relatively a late starter. This is natural, because we did not have a base. We have now entered into a business alliance with Localsoft, a localization company in Spain. This will accelerate business expansion in Europe as well as in the US. Secondly, we have started developing the AI translation engine for game titles with Rozetta, a company that develops and operates AI automatic translation. Actually, I think we have the largest market share in debugging in Japan, but we are latecomers in the field of translation/LQA. Therefore, by utilizing AI, we would like to build a service that provides overwhelming capacity on a large scale. This is our plan to grow our translation/LQA business significantly. Thirdly, in addition to debugging and LQA, we are also strengthening marketing and promotion support. By forming a business alliance with TNK Factory this time, we are working to expand our marketing-related business in South Korea.



While implementing these initiatives, the outlook for 2H is that, firstly, in 2H, regarding debugging, there was a reaction to 1H of the previous fiscal year. This was more than expected. On the other hand, orders for 2H are generally in line with the plan. Therefore, following the reduction in sales in 1H as a reaction to the previous year, we expect to see a significant turnaround in sales growth in 2H.

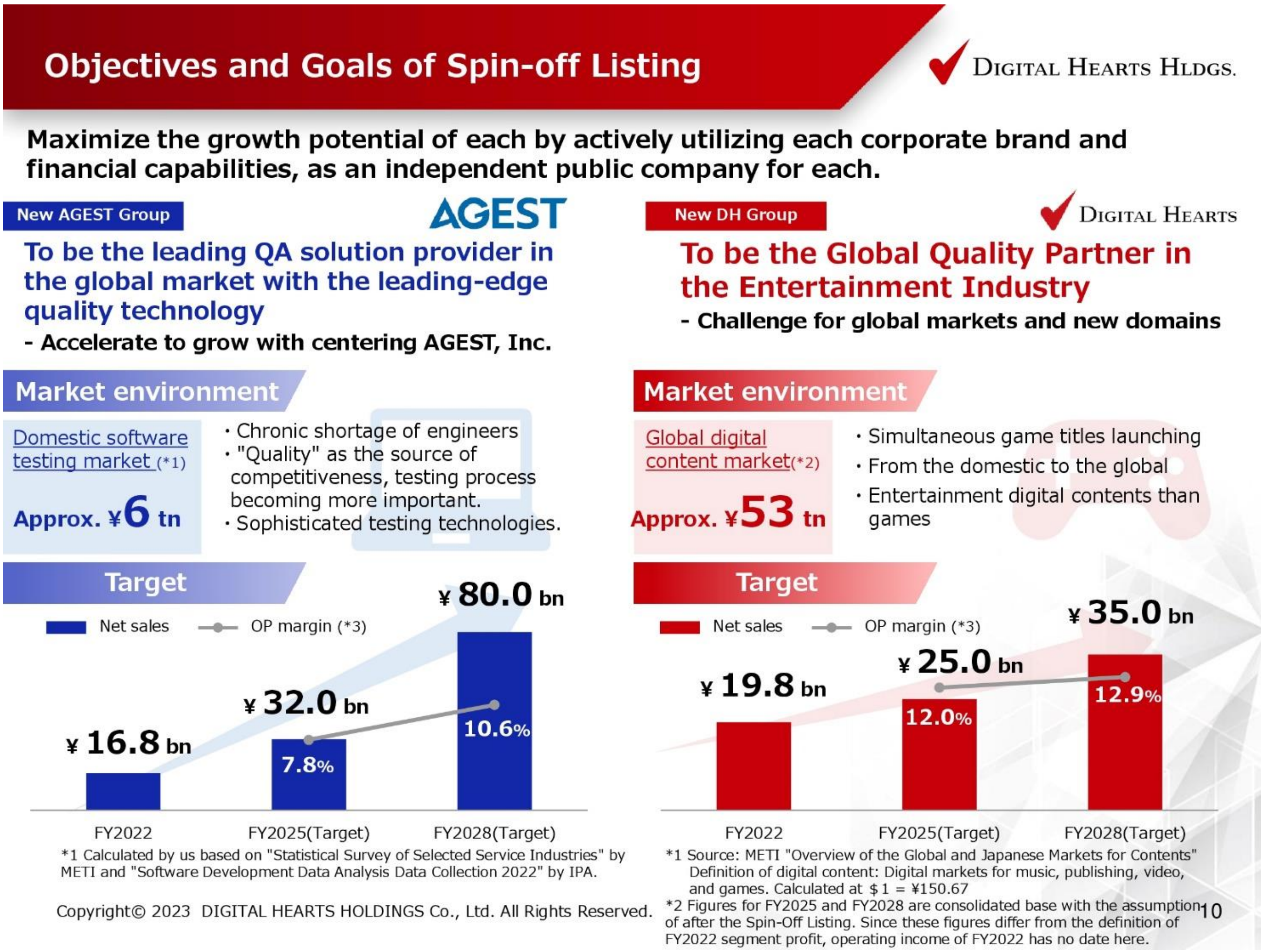
In addition, in April, we will be substantially revising the unit prices paid to our employees, temporary staff, and testers. We have revised the unit costs paid to employees, temporary staff, and testers significantly and raised their wages first. In previous years, we would have raised wages and passed on prices in 2H, but for 1H, we took the initiative to raise wages ahead of time. The reason for this is that in 1H, we were ahead of schedule in order to create a scheme for price pass-through in April, starting next year.

Therefore, in 2H, price pass-through will be carried out as in previous years, and the gross margin is expected to recover to 30% without fail.

In the global and others division, we are making upfront investments, as I mentioned earlier. As the effects of these investments are realized, we hope to achieve a significant increase in sales, amounting to JPY3.7 billion in 2H.

On the other hand, we are making an upfront investment, so we will need to invest in human resources, mainly in Europe and the US, and we will also need to utilize our business partners as a first step. Therefore, although the gross profit amount is expected to increase, its ratio is expected to decline temporarily.

In conclusion, we regret that our results for 1H were very disappointing. We will take these results seriously, and in 2H, we are confident that we will be able to take the necessary steps to achieve record sales and record profits.



Last but not least, I would like to talk about the Spin-off Listing. The reason why we are doing this Spin-off Listing is that we believe that there is a market with great potential for both the Enterprise and Entertainment businesses. Therefore, we are planning this Spin-off Listing in order to maximize the growth potential of both businesses.

With regard to AGEST, first of all, the domestic software testing market is worth more than JPY6 trillion. In addition, there is a chronic shortage of engineers, and as is often said these days, there are quite a lot of business errors caused by software defects.

Therefore, quality has become a source of competitiveness for all businesses. So, testing is becoming very important. Furthermore, as testing is becoming more sophisticated, the need for outsourcing to specialists is increasing.

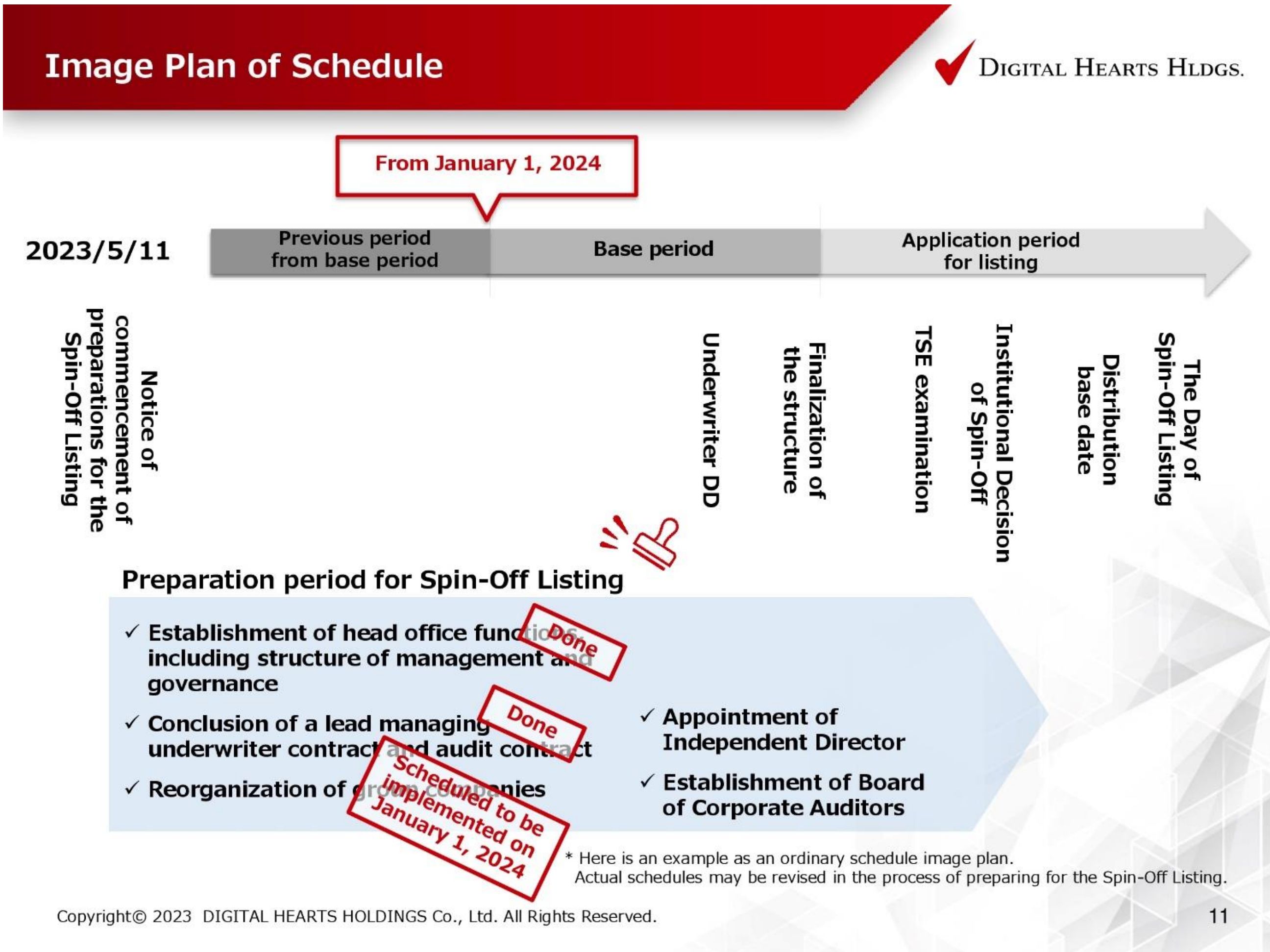
We believe that such a large market is expected in the future. As I mentioned earlier, we have our unique testing process and QA solution, and we are ahead of competitors in the use of AI and automation tools.

Therefore, we believe that we have sufficient potential and capability to win out over our competitors. Thus, we believe that we can achieve significant growth by introducing such products to this market. We are therefore aiming for JPY80 billion in net sales and operating profit margin of more than 10% in the fiscal year ending March 2029.

In the Entertainment sector, we also have a sizeable market here. As I mentioned earlier, the simultaneous global release of game titles is accelerating. Therefore, it is necessary to expand our business globally and not just domestically, as we have done in the past. From this perspective, the global digital content market size is said to be valued at JPY53 trillion. Furthermore, the amount of digital content for entertainment other than games has been increasing significantly.

In fact, we are in an environment and culture where entertainment lovers get together. In addition, we have skills and knowledge in the entertainment industry that we have cultivated over the past 20 years. We see great potential in developing them in the global market. We have been restraining our investment in this area up to now, but we are now committed to invest in business growth in this area as well.

Therefore, in the year ending March 2029, we are aiming to maximize the potential of both businesses, with net sales of JPY35 billion and operating profit margin of 12.9%. We hope that you will support us in this endeavor.



Finally, I would like to explain the schedule. During this period, we have been preparing for the listing, using temporary costs for the listing. We have already completed the establishment of management structure, governance, and head office function. We have also concluded a lead managing underwriter contract and audit contract. The reorganization of group companies is scheduled to take place on January 1, 2024.

Therefore, we would like to proceed with the listing of the company in 2025, with the base period starting on January 1, 2024.

That is all from me. Thank you very much for your attention.

Summary of Business Results for the Six Months Ended September 30, 2023

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- Enterprise Business, with the strong trend of IT investment in Japan, contributed the consolidated net sales, though the weaker sales of Entertainment Business comparing with the too strong previous year.
- Decrease in operating income due to the impact of lower sales of Entertainment Business, higher Spin-Off Listing costs and others.
- Extraordinary losses of ¥1 billion mainly due to goodwill impairments of U.S. testing subsidiary, which had been delayed in recovering from the COVID-19 crisis.

(JPY mn)	1H FY2022	1H FY2023	YoY Change	
Net sales	17,562	18,669	1,106	106.3%
Cost of sales	12,376	13,868	1,491	112.1%
Cost of sales (%)	70.5%	74.3%		+3.8 points
Gross profit	5,185	4,800	-385	92.6%
SG&A	3,812	4,070	257	106.8%
Operating income	1,372	729	-642	53.2%
Operating income margin	7.8%	3.9%		-3.9 points
Ordinary income	1,517	792	-724	52.2%
Profit attributable to owners of parent	945	-436	-1,382	—
EBITDA	1,920	1,279	-640	66.6%

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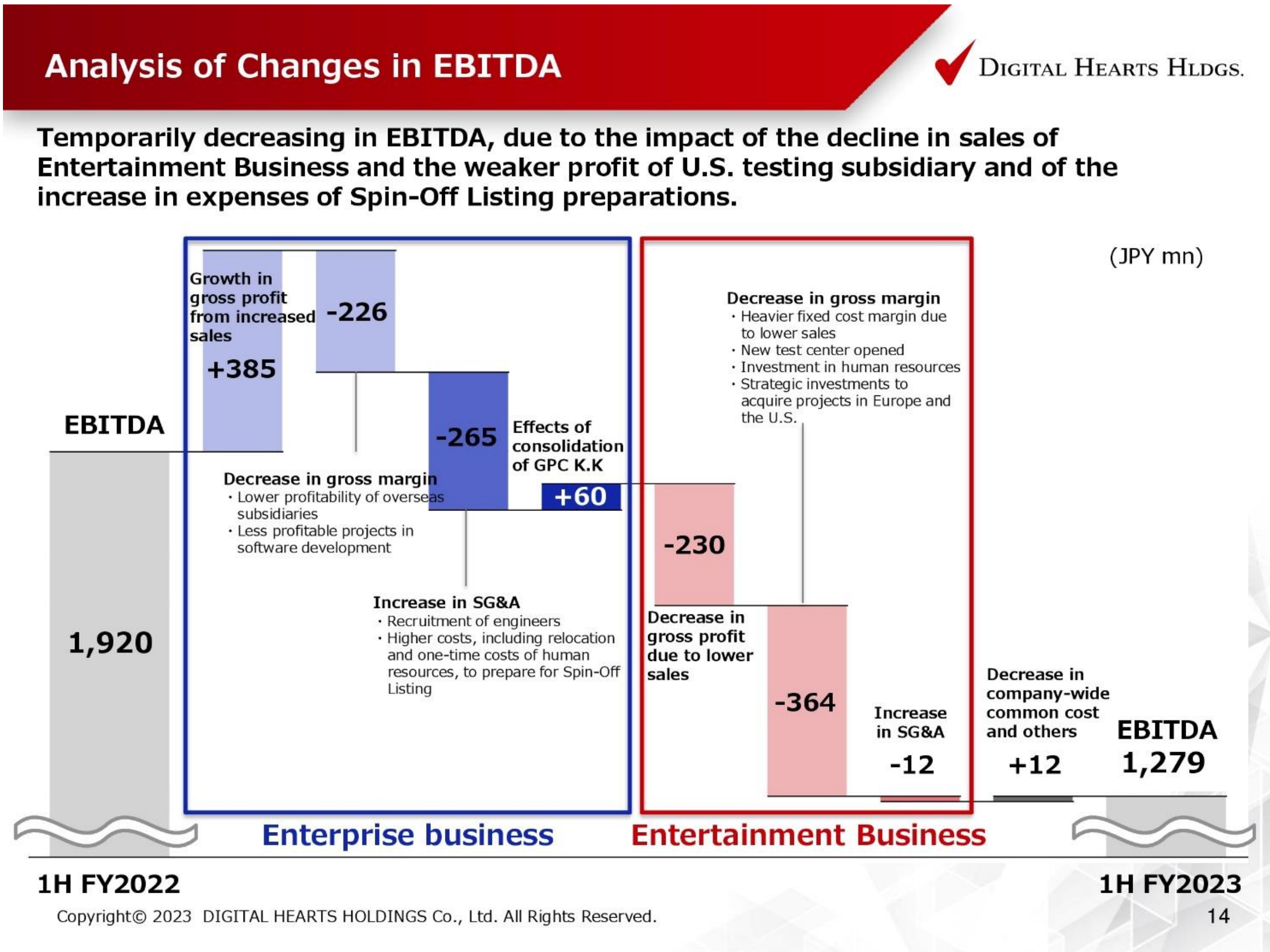
Itami: Next, I, Itami, will briefly explain the results for 1H.

First of all, here is the consolidated P/L. Consolidated net sales were JPY18.6 billion, an increase of 106% from the previous year's level, driven by sales in the enterprise business.

Consolidated operating income was JPY729 million. As Mr. Ninomiya has just explained, there was a decrease in sales in Entertainment, especially debugging, the impact of overseas business in Enterprise, and the impact of Spin-off Listing preparation costs, resulting in a decrease in income compared to the previous year.

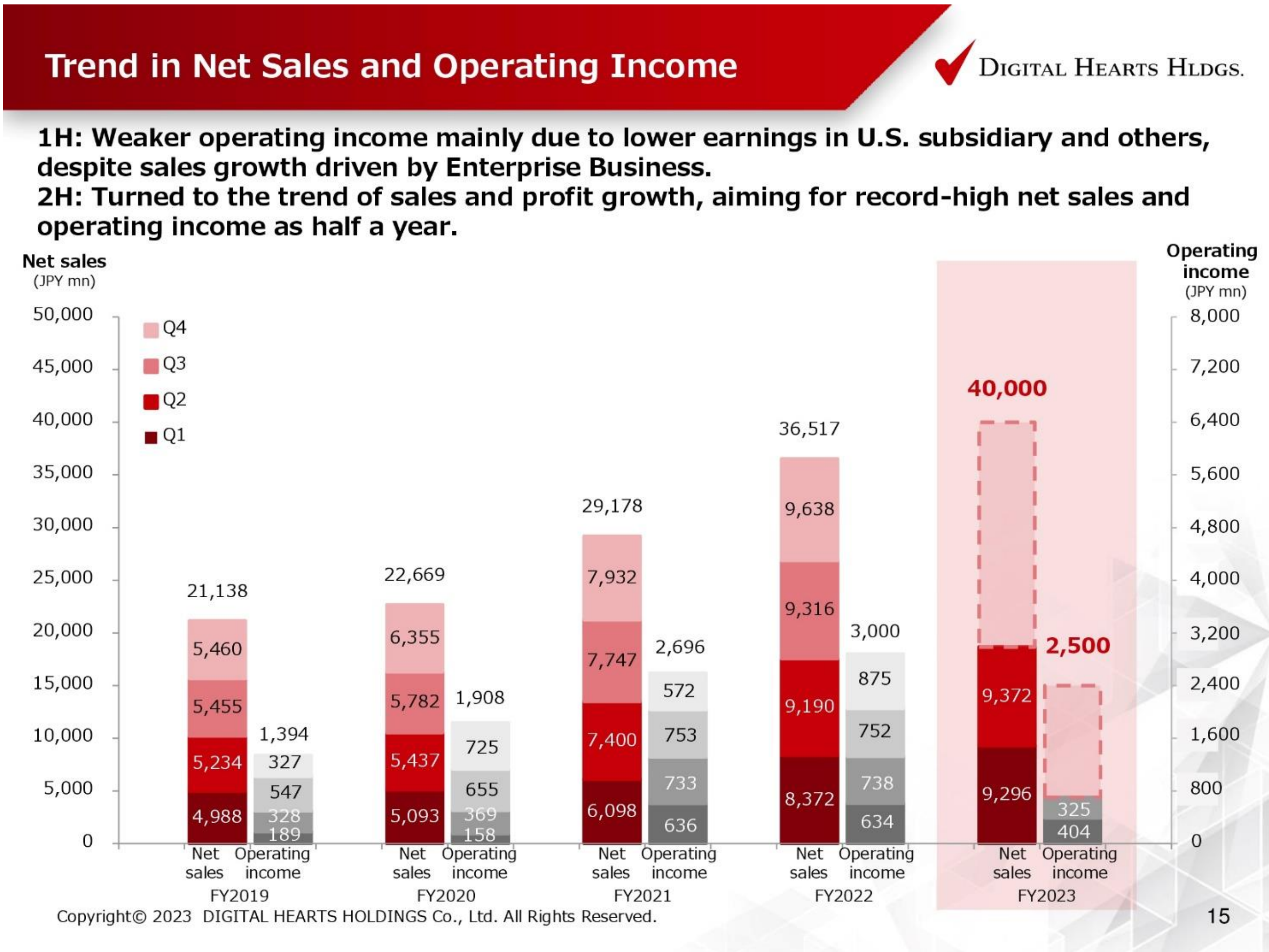
In addition, there was an impairment loss of goodwill in our US subsidiary. This resulted in an extraordinary loss of JPY1 billion, so profit attributable to owners of the parent was a negative JPY400 million. As for EBITDA, it amounted to JPY1,279 million.



I will now explain the analysis of changes in EBITDA. First, I will explain the Enterprise Business shown on the left. Here, gross profit increased by JPY385 million in line with the increase in revenue. On the other hand, the gross margin declined slightly, resulting in negative JPY226 million. In SG&A expenses, there was a negative EBITDA of JPY265 million due to investments in growth, such as hiring engineers and increased costs for the spin-off listing preparations. There was a positive EBITDA of JPY60 million due to GPC, a newly consolidated company from this spring.

In the Entertainment Business, as explained earlier, gross profit decreased by JPY230 million due to the decline in revenue. The gross margin ratio was affected negatively due to investments in human resources, such as an increase in testers' hourly wages, and strategic investments to acquire projects in Europe and the US, resulting in a decrease in gross margin of JPY364 million.

SG&A expenses remained almost at the same level as in the previous year, with an increase of JPY12 million, and company-wide common expenses were also at the same level as in the previous year, with a slight downward trend, resulting in an overall EBITDA of JPY1,279 million.



In light of these results, as explained by Mr. Ninomiya, we have revised our full-year forecasts, and we aim to achieve consolidated net sales of JPY40 billion and consolidated operating profit of JPY2.5 billion, as well as an upturn in sales and profits in 2H.

Consolidated Balance Sheets

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(JPY mn)	Q4 FY2022 (As of March 31, 2023)	Q2 FY2023 (As of September 30, 2023)	Change from Q4 FY2022
Total assets	19,581	19,291	-290
Current assets	12,528	13,072	543
Cash and deposits	6,456	6,997	540
Noncurrent assets	7,052	6,218	-834
Property, plant and equipment	1,169	1,335	165
Intangible assets	4,188	3,021	-1,166
Goodwill	3,468	2,423	-1,045
Investments and other assets	1,694	1,861	166
Total liabilities	10,107	10,842	735
Current liabilities	9,930	10,644	713
Short-term loans	5,106	5,606	500
Noncurrent liabilities	176	198	22
Total net assets	9,474	8,448	-1,025
Shareholders' equity	8,283	7,310	-973
Accumulated other comprehensive income	522	713	190
Subscription rights to shares	6	—	-6
Non-controlling interests	661	424	-236
Total liabilities and net assets	19,581	19,291	-290

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Now let's look at the balance sheet. As you can see here, total assets decreased by approximately JPY300 million, from JPY19.5 billion at the end of March to JPY19.2 billion. Cash and deposits, as a point of reference, amounted to JPY6.9 billion, an increase of JPY0.5 billion compared to the end of March. Goodwill was JPY2.4 billion, a negative impact of JPY1 billion, due to the impairment of goodwill as explained earlier.

On the liabilities side, short-term loans payable amounted to JPY5.6 billion, an increase of JPY0.5 billion. Net assets amounted to JPY8.4 billion due to the impairment of goodwill, resulting in a decrease of JPY1 billion.

Consolidated Statements of Cash Flows

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(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net cash provided by operating activities	1,430	1,156	-273
(*Cash flows before income taxes paid)	1,843	1,532	-310
Net cash used in investing activities	-1,496	-592	904
Net cash provided by (used in) financing activities	1,488	-200	-1,688
Effect of exchange rate change on cash and cash equivalents	254	176	-77
Net increase in cash and cash equivalents	1,676	540	-1,135
Cash and cash equivalents at the beginning of period	5,173	6,456	1,283
Cash and cash equivalents at the end of period	6,850	6,997	147

Here is the consolidated cash flow. Net cash provided by operating activities was positive JPY1.1 billion, net cash used in investing activities was negative JPY0.59 billion, and net cash used in financing activities was negative JPY0.2 billion. As a result, cash and cash equivalents at the end of period was up JPY0.54 billion from the previous fiscal year.

Summary of Financial Results by Segment

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(JPY mn)		1H FY2022	1H FY2023	YoY Change
Net sales		17,562	18,669	106.3%
	Enterprise	7,614	9,429	123.8%
	Entertainment	10,020	9,299	92.8%
	Adjustments	-72	-58	—
Operating income		1,372	729	53.2%
	Enterprise	104	35	33.5%
	Entertainment	2,192	1,618	73.8%
	Adjustments	-924	-923	—
EBITDA		1,920	1,279	66.6%
	Enterprise	443	397	89.6%
	Entertainment	2,379	1,772	74.5%

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Next, I would like to explain the financial results by segment. Enterprise and Entertainment segments have grown to almost the same size, with Enterprise sales of JPY9.4 billion and Entertainment sales of JPY9.2 billion out of total net sales of JPY18.6 billion.

Operating income was JPY729 million, of which JPY35 million was from the Enterprise segment and JPY1.6 billion was from the Entertainment segment. EBITDA was JPY1.2 billion, of which approximately JPY0.4 billion was from the Enterprise segment and JPY1.7 billion was from the Entertainment segment.

Financial Result of Enterprise Business

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- **Continued to achieve high sales growth of YoY123.8% against the tailwind of the increase in domestic IT investment, with recruitment of engineers, enhancement of technological capabilities, and expansion of services offered.**
- **Expenses related to Spin-Off Listing preparations, such as the subsidiary reorganization to a group-wide structure centered on AGEST, Inc., the increase of HQ’s personnel, and the relocation of HQ functions, were incurred.**
- **Reforming the management structure and renewing the growth-strategy of the U.S. LOGIGEAR CORPORATION, which had been slow to recover since the COVID-19 crisis.**

(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net sales	7,614	9,429	123.8%
QA solution	4,583	6,287	137.2%
IT services and others	3,030	3,141	103.7%
Segment income	104	35	33.5%
EBITDA	443	397	89.6%

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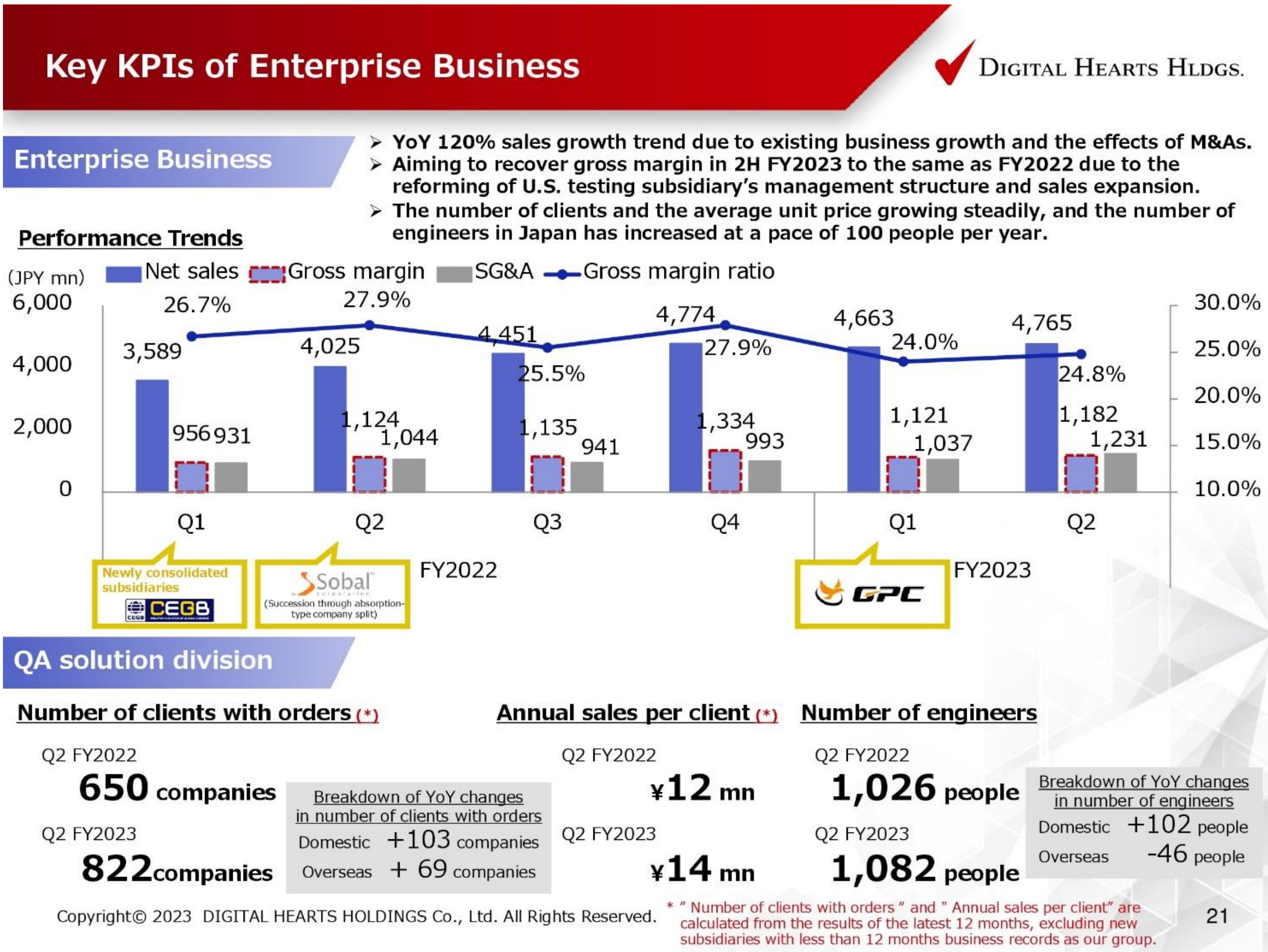
I will now give a brief summary of the Enterprise Business. Firstly, with regard to sales of JPY9.4 billion, our core business, QA solution, grew 137% from the previous year's level to JPY6.2 billion.

Meanwhile, IT services and others maintained stable sales of JPY3.1 billion, up 103% from the previous year's level, with segment income of JPY35 million.



I would like to continue with a brief explanation of the key KPIs.

Firstly, with regard to quarterly sales, the bar graph on the far-left shows that in Q1 last year, sales were at the level of JPY3.5 billion, and as seen in the three months of Q2 this year, sales were JPY4.7 billion, continuing to expand at an annual rate of 1.2 times.

Gross margin, which was at around 27% last year, fell to the 24% range in both Q1 and Q2, partly due to the impact of our overseas business. As explained by Mr. Ninomiya, we expect a recovery in 2H, and forecast that the gross margin will recover to 26% or 27%.

In QA solution, the number of clients with orders has increased by more than 100 companies, mainly in Japan, to 822 companies, and annual sales per client has increased from JPY12 million a year ago to JPY14 million. The increase in both the number of clients with orders and annual sales per client has led to an increase in net sales.

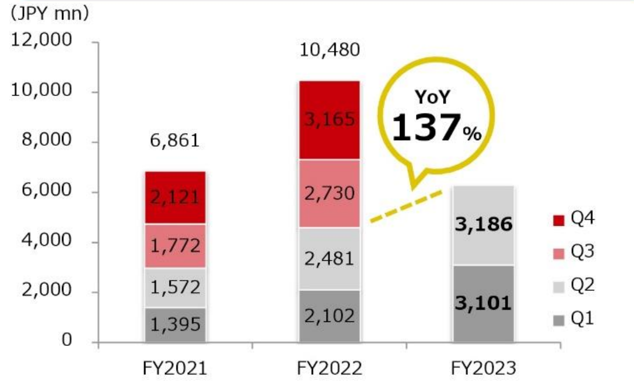
As for the number of engineers, we had 1,082 engineers at the end of Q2, increasing at an annual rate of 100 engineers in Japan.

Enterprise Business - QA solution division

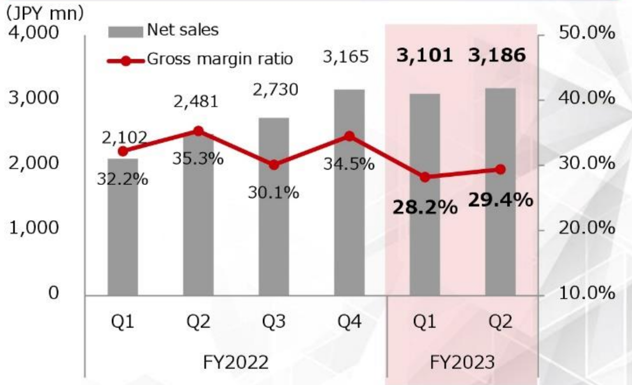
DIGITAL HEARTS HLDGS.

- **YoY increase of 127.6% in sales excluding the effects of M&A, with continuous increase in demand for software testing in Japan with the acceleration of DX.**
- **Changed to a policy of utilizing a testing base in Vietnam and a unique tools of overseas subsidiaries, which had been used for U.S. and European markets, for servicing the domestic clients using the marketing capabilities of AGEST.**
- **The number of engineer has reached to 1,082 by strengthening recruitment by utilizing the 'Tech' brand image of AGETST for wider range from QA engineers to unexperienced engineer candidates.**
- **Gross margin ratio, declined by overseas business, is expected to recover to the 30% from Q3 onward.**

Quarterly sales



Net sales and Gross margin ratio



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Next, I will explain the QA solution division of the Enterprise Business. Net sales were up 137% from the previous year's level. In Q1, we acquired a company called GPC and added it to the Group, so even if we exclude the effect of M&A, we still achieved a significant increase in sales of 127% from the year-before level.

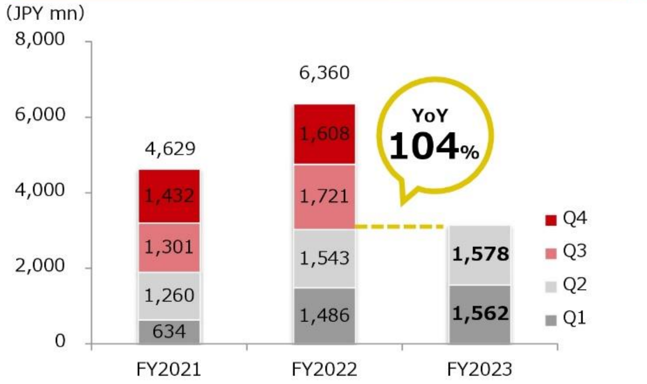
As I mentioned earlier, the gross margin ratio. The gross margin ratio for QA solution is relatively high, and as you can see in the graph to the right, the gross margin ratio, which was around 30% last year and slightly below 30% in Q1 and Q2, is expected to recover to 30% for QA solution in 2H.

Enterprise Business - IT services and others division

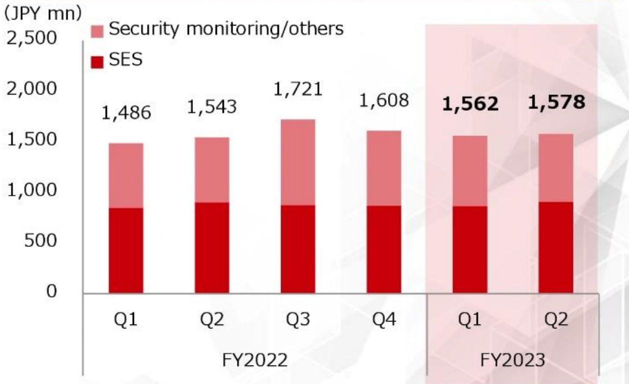
DIGITAL HEARTS HLDGS.

- **Security monitoring services reached a strong sales growth of 113.2% YoY, by steadily capturing increasing demand against the backdrop of expansion of remote work.**
- **The SES businesses of registered engineers in identity Inc. reached 32,000 people.**

Quarterly sales



Quarterly sales by service



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Next is IT services and others division. Security monitoring services. This service has remained stable and recorded a strong sales growth of 113% from the year-before level. In the SES business, the number of registered engineers at identity Inc., our subsidiary, reached 32,000 people, and this number is also growing steadily.

Financial Results of Entertainment Business

DIGITAL HEARTS HLDGS.

- Domestic debugging sales in 1H remained at a high level of 6.3 billion yen, despite a weaker sales against the too strong sales in the previous year. In 2H, as a period of recovering demand, both sales and income are expected to be trending upward.
- In Global and others segment, actively investing in growth such as strengthening utilization of external resources and development of translation-related tools, despite the lingering effects of COVID-19 and regulation changes in the China.
- Segment income is expected to recover in both net sales and profit margin in 2H, despite a temporary profit decline in 1H, due to the lower sales and the wage hike for testers.

(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net sales	10,020	9,299	92.8%
Domestic debugging	6,896	6,340	91.9%
Global and others	3,124	2,958	94.7%
Segment income	2,192	1,618	73.8%
EBITDA	2,379	1,772	74.5%

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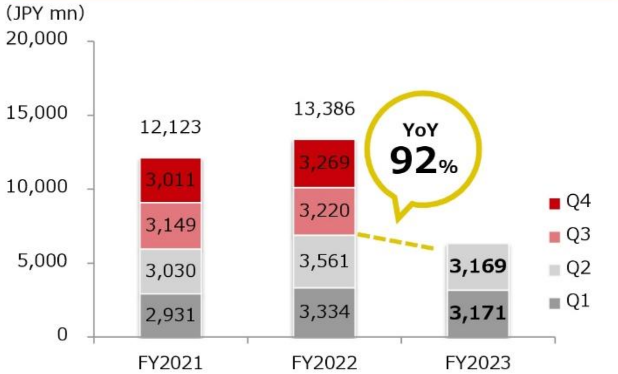
Next is about the Entertainment Business. Net sales were JPY9.2 billion, 92% of the previous year's level. Domestic debugging accounted for JPY6.3 billion, and Global and others, JPY2.9 billion.

Entertainment Business - Domestic debugging division

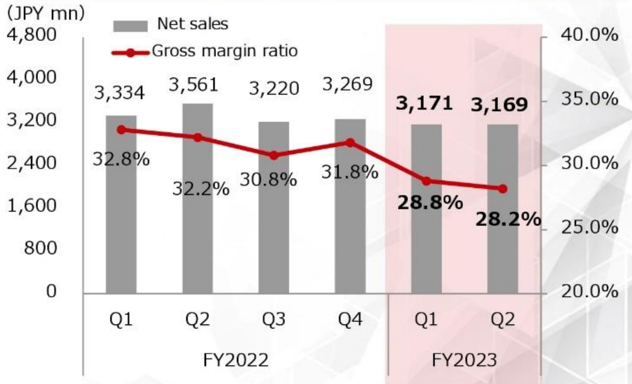
DIGITAL HEARTS HLDGS.

- **Domestic Debugging maintained its high level of quarterly net sales of ¥3.1 billion in Q1 and Q2 by strengthening the service quality through "DHQ", although a significant decline in sales from the previous year, when large-scale titles were successively launched in console games.**
- **Gross margin ratio is expected to recover to around 30% due to the penetration of cost pass-through from October onward and the sales expansion in 2H, although the temporary decline due to the effects of lower sales, the wage hike for testers, and opening cost of a new testing center.**

Quarterly sales



Net sales and Gross margin ratio



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Next, I would like to explain the details of the Domestic debugging division. The graph on the lower left shows that sales in Q1 and Q2 of FY2021 were around JPY3 billion, while sales in Q1 and Q2 of FY2022 were JPY3.3 billion and JPY3.5 billion, respectively, which were quite high.

Sales in Q1 and Q2 of FY2023 were 92% of the previous year's level. However, compared to two years ago, sales were JPY3.1 billion, which is not so bad, and we intend to maintain this high level and further increase sales in 2H.

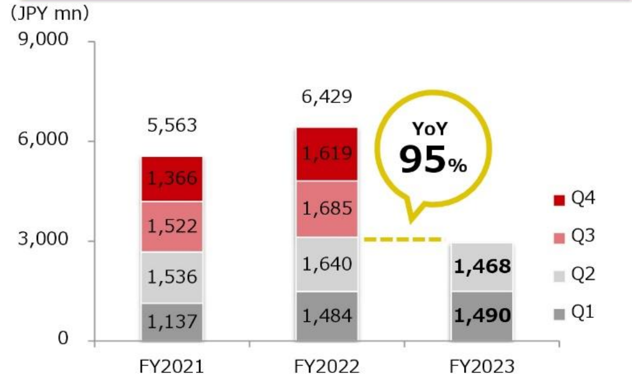
The gross margin ratio also declined slightly to the level at 28% in 1H due to the wage hike for testers and the opening costs of new business sites, but we expect the progress of price pass-through to be made from October onward. Thus, the gross margin ratio for domestic debugging is expected to recover to the level of 30%.

Entertainment Business - Global and others division

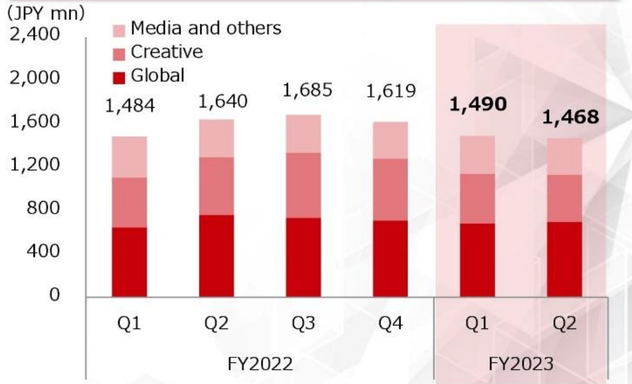
DIGITAL HEARTS HLDGS.

- **Despite the decline in sales due to the impact of COVID-19 and regulation changes in the Chinese game industry, sales of Global Services (translation, LQA, and marketing support) recorded high growth 110% YoY after excluding the impacts of businesses restructuring, such as the separation of local advertising agency service in Taiwan.**
- **Promoting initiatives with an eye to growing markets, such as business alliances with localization companies in Spain aiming to expand businesses for the U.S. and Europe, and start developing translation engines for video games by utilizing AI.**

Quarterly sales



Quarterly sales by service



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Next is the Global and others division. Excluding the impact of COVID-19 and gaming regulations in the Chinese market and the separation of the local advertising agency in Taiwan, sales of global services grew at a high rate, 110% over the previous year, and we believe that the market is still in a strong growth phase.

As Mr. Ninomiya explained, we have entered into a business alliance with a localization company in Spain and have started joint development of a game translation engine utilizing AI with Rozetta, and we will continue to invest in this growth area.

FY2023 Consolidated Financial Forecast

DIGITAL HEARTS HLDGS.

- Full year consolidated financial forecast is revised by reflecting the 1H results.
- Net sales of ¥40 bn, operating income of ¥2.5 bn (assuming ¥0.3 bn in Spin-Off Listing preparation expenses)
- Net income of ¥0.5 bn due to the impact of the subsidiary impairment losses in U.S.
- Aiming for recovering in 2H with a record-high operating income of ¥1.7 bn for half a year.

(JPY mn)	FY2022	FY2023 (Initial (A))	FY2023 (Revised (B))	YoY	B÷A
Net sales	36,517	40,750	40,000	109.5%	98.2%
Enterprise	16,840	20,650	20,435	121.3%	99.0%
Entertainment	19,815	20,100	19,645	99.1%	97.7%
Operating income	3,000	3,120	2,500	83.3%	80.1%
(Excluding costs to prepare for the Spin-Off Listing of AGEST, Inc.)	3,000	3,370	2,800	93.3%	83.1%
Operating income margin	8.2%	7.7%	6.3%	-2.0 points	-1.4 points
Ordinary income	3,152	3,160	2,560	81.2%	81.0%
(Excluding costs to prepare for the Spin-Off Listing of AGEST, Inc.)	3,152	3,410	2,860	90.7%	83.9%
Profit attributable to owners of parent	799	2,100	550	68.8%	26.2%
EBITDA	4,176	4,180	3,460	82.8%	82.8%

*Due to inter-segment adjustments, the sum of net sales for both businesses does not correspond to the figures for consolidated net sales.

Next comes the forecast for the full year. As explained by Mr. Ninomiya, net sales were JPY40 billion, of which the Enterprise Business accounted for JPY20.4 billion, or up 121% from the previous year's level. The Entertainment Business recorded sales of JPY19.6 billion, almost the same level as the previous year. We have revised our forecasts for operating income and profit attributable to owners of the parent to JPY2.5 billion and JPY550 million, respectively.

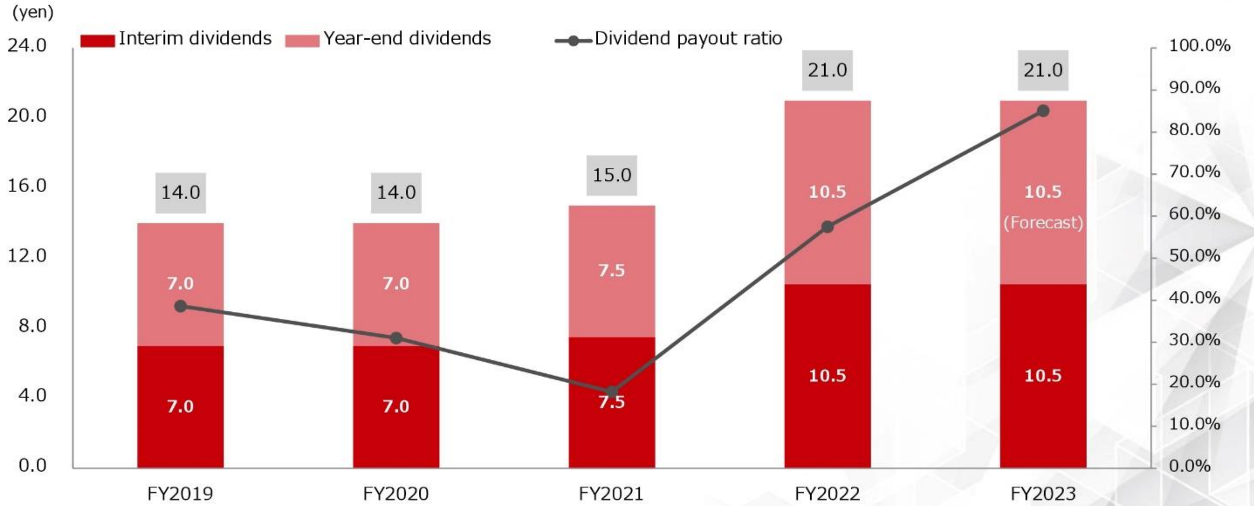
Dividends Forecast of FY2023

DIGITAL HEARTS HLDGS.

The interim dividend are 10.5 yen, in line with the initial forecast.
The annual dividend is expected to be stable at 21.0 yen, the same level as the previous year.

Basic Policy to Return Profits to Shareholders

While securing sufficient internal reserves to invest in business growth and strengthen our management structure, stable dividends to shareholders with a payout ratio of 20% as the minimum target



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Finally, I would like to explain the dividend forecast. The interim dividend is JPY10.5 per share, as had been forecast at the beginning of the fiscal year. The annual dividend, including the year-end dividend, is expected to be JPY21 per share, the same level as in the previous year.

That's all for my explanation.

[END]