DIGITAL HEARTS HLDGS.

Presentation Material

for the Three Months Ended June 30, 2019

August 9, 2019

Tokyo Stock Exchange First Section: Code 3676

https://www.digitalhearts-hd.com/

Digital Hearts Hldgs.

Q1 FY2019 Financial Results

(The three months ended June 30, 2019)

Topics - Acquired of LogiGear Group -

Acquired of LogiGear Group with test-automation technologies.

Strong points of LogiGear Group

Specialists
leading the market of test automation solutions

Automated Test Tools
with the newest technology

Aprx.500
Automated Test Engineers

Focus on projects centered on large-scale software that is most compatible with test automation

To accelerate the growth of our System Testing business

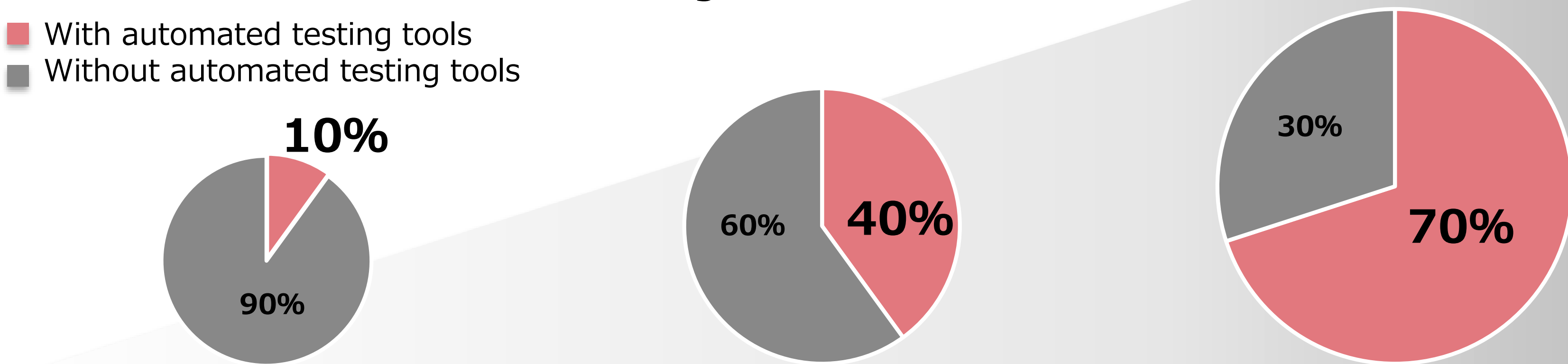
Topics - Acquired of LogiGear Group -

Digital Hearts Hldgs.

To achieve System Testing business sales of 10 bln yen in 3-5 years

	FY2019	FY2020	FY2021 or later
Net Sales	2.5 Bln yen	5.0 Bln yen	10.0 Bln yen
Gross margin	25%	30%	40%

Ratio of cases with automated testing tools



FY2019

- ✓ Improve awareness of automated testing services
- ✓ Actual cases of PoC
- ✓ Hiring talented people for automated test engineering and sales promotions

FY2020

- ✓ Develop and improve the automated test services
- ✓ Getting business contracts after PoC processes
- ✓ Strengthening sales promotions with newly hired specialists

FY2021 or later

- ✓ Improve total contract value (TCV)
- ✓ Establish the position as a leader of automated test service provider
- ✓ Research and development of next generation testing

Summary of Financial Results for the Three Months Ended June 30, 2019

- Achieved double-digit growth in net sales
- Operating income declined due to continued active investments for mid-long term business expansion

(Mln Yen)	FY2018 Q1	FY2019 Q1	YoY Change	
Net sales	4,450	4,988	537	112.1%
Cost of sales	3,246	3,772	525	116.2%
Cost of sales (%)	73.0%	75.6%		+2.7points
Gross profit	1,203	1,215	12	101.0%
SG&A	901	1,026	124	113.8%
Operating income	302	189	-112	62.8%
Operating income margin	6.8%	3.8%		-3.0points
Ordinary income	300	189	-111	63.0%
Profit attributable to owners of parent	182	112	-69	61.8%

Analysis of Changes in Operating income

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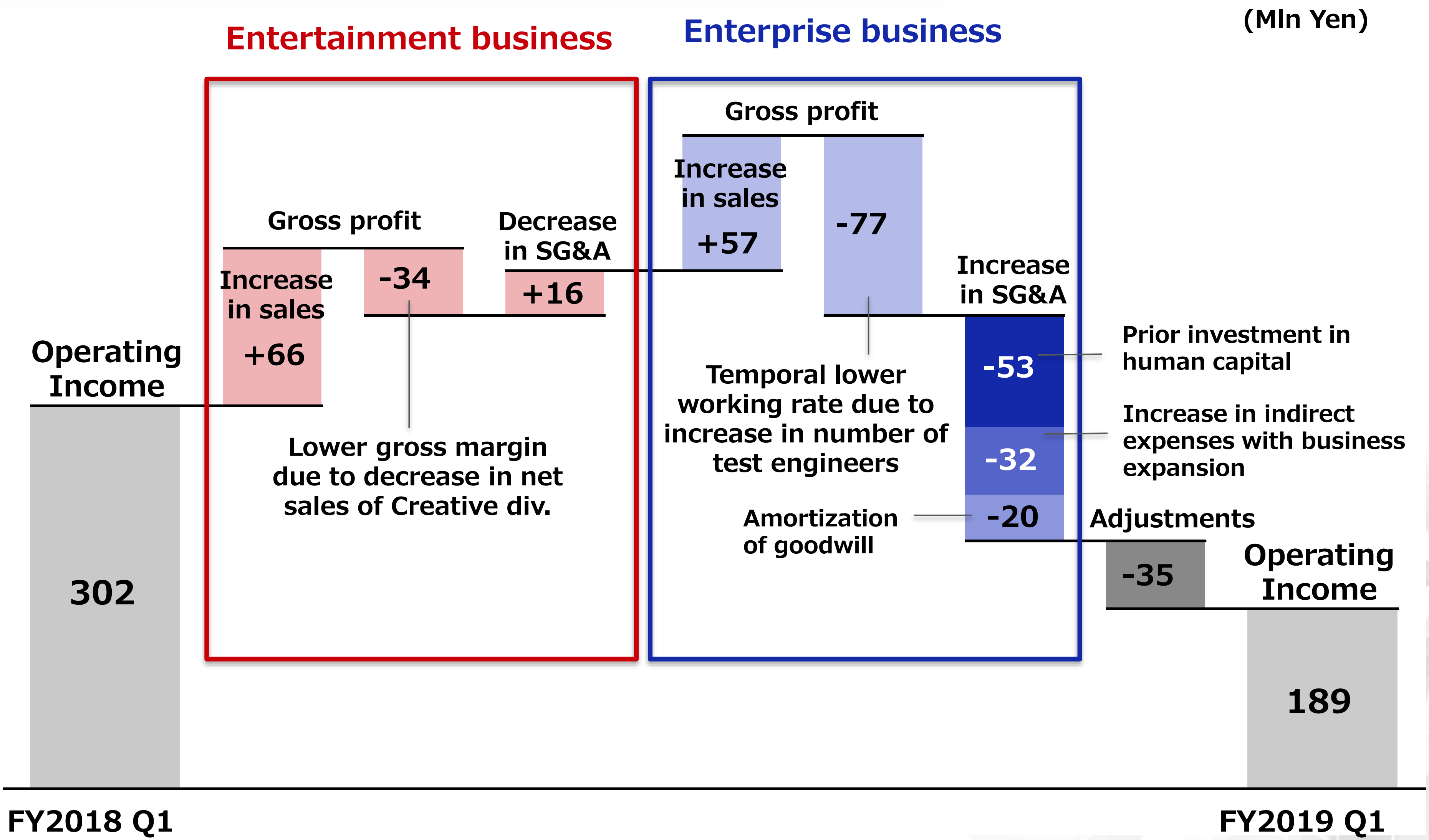

Trend in net sales and operating income

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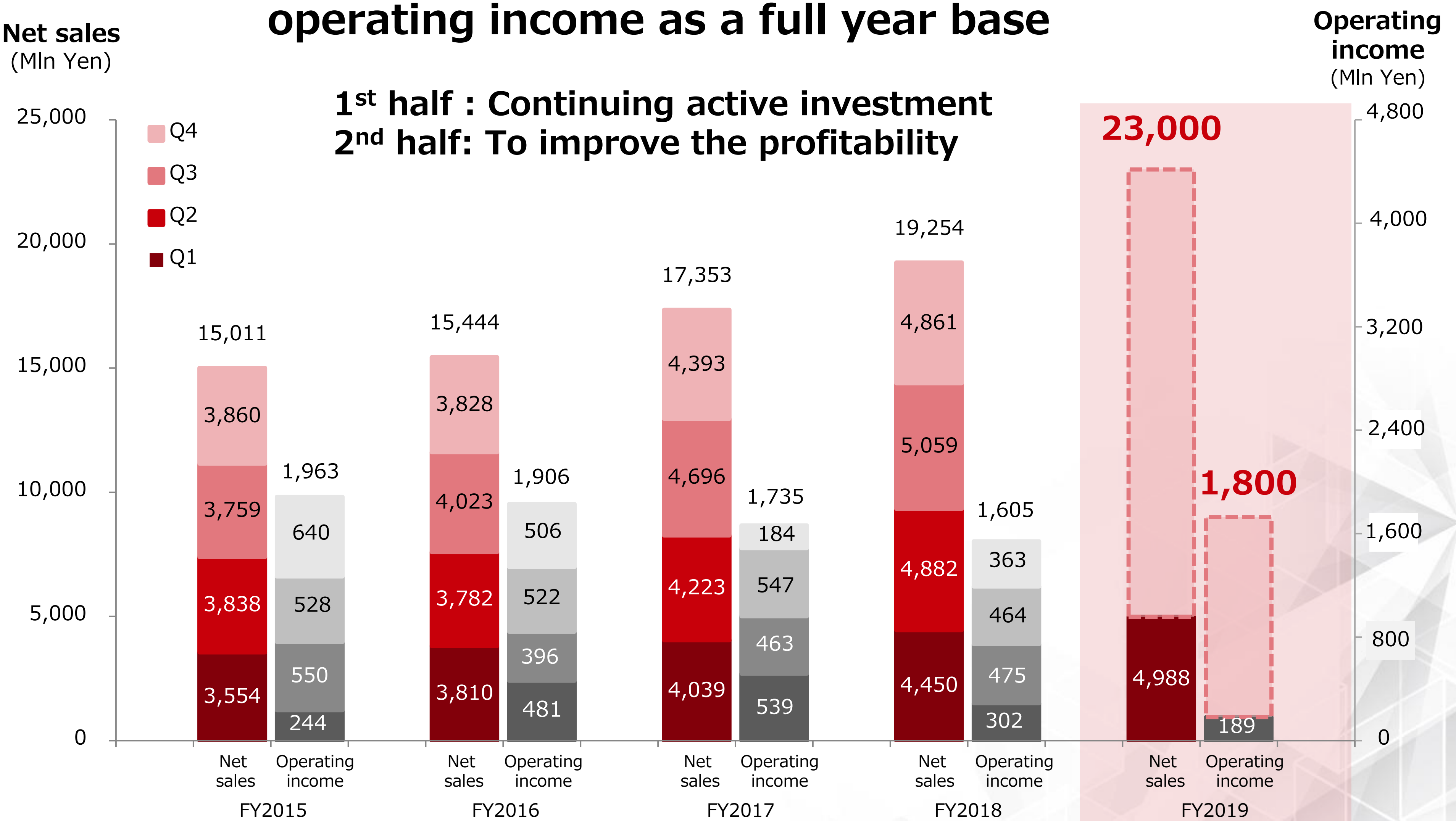
To achieve to increase in both net sales and operating income as a full year base



Consolidated Balance Sheets

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(Mln Yen)	Q4 FY2018 (As of March 31, 2019)	Q1 FY2019 (As of June 30, 2019)	YoY Change
Total assets	9,832	9,199	-632
Current assets	7,403	6,717	-686
Cash and deposits	4,197	3,650	-547
Notes and accounts receivable-trade	2,724	2,677	-46
Noncurrent assets	2,428	2,481	53
Property, plant and equipment	558	545	-12
Intangible assets	763	793	29
Investments and other assets	1,107	1,142	35
Total liabilities	4,819	4,243	-575
Current liabilities	4,192	3,621	-570
Short-term loans	1,704	1,704	-0
Noncurrent liabilities	627	622	-5
Convertible bond-type bonds with subscription rights to shares	508	508	—
Total net assets	5,012	4,955	-57
Shareholders' equity	4,763	4,734	-29
Accumulated other comprehensive income	28	21	-6
Subscription rights to shares	13	13	—
Non-controlling interests	207	186	-20
Total liabilities and net assets	9,832	9,199	-632

Q1 FY 2019 Financial results by Segment and Full year Forecast of FY2019

【Notice regarding Earnings by Segment】
・Net sales by segment include inter-segment sales or transfers.
Segment income is based on operating income.

Summary of Financial Results by Segment

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- Entertainment business made increase in sales and profit
- Enterprise business achieved rapid growth due to continued active investment

(Mln Yen)	Q1 FY2018	Q1 FY2019	YoY Change
Net sales	**4,450**	**4,988**	**112.1%**
Entertainment	3,798	4,033	106.2%
Enterprise	652	954	146.3%
Adjustments	-0	—	—
Operating income	**302**	**189**	**62.8%**
Entertainment	677	727	107.3%
Enterprise	-58	-184	—
Adjustments	-317	-352	—
Operating income margin	**6.8%**	**3.8%**	**-3.0points**

Financial Results of Entertainment Business

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- Stable growth as the core business and increase in profit as well
- Increase in net sales from all departments (GC/MS/AM) of Debugging div.
- Decrease in net sales from Creative div. mainly due to weak market trend

(Mln Yen)	Q1 FY2018	Q1 FY2019	YoY Change
Net sales	**3,798**	**4,033**	**106.2%**
Debugging	3,110	3,444	110.7%
Game Console (GC)	979	1,186	121.2%
Mobile Solutions (MS)	1,993	2,013	101.0%
Amusement (AM)	138	245	177.6%
Creative	511	350	68.6%
Media and others	176	238	135.4%
Segment income	**677**	**727**	**107.3%**

Entertainment Business – Debugging div.

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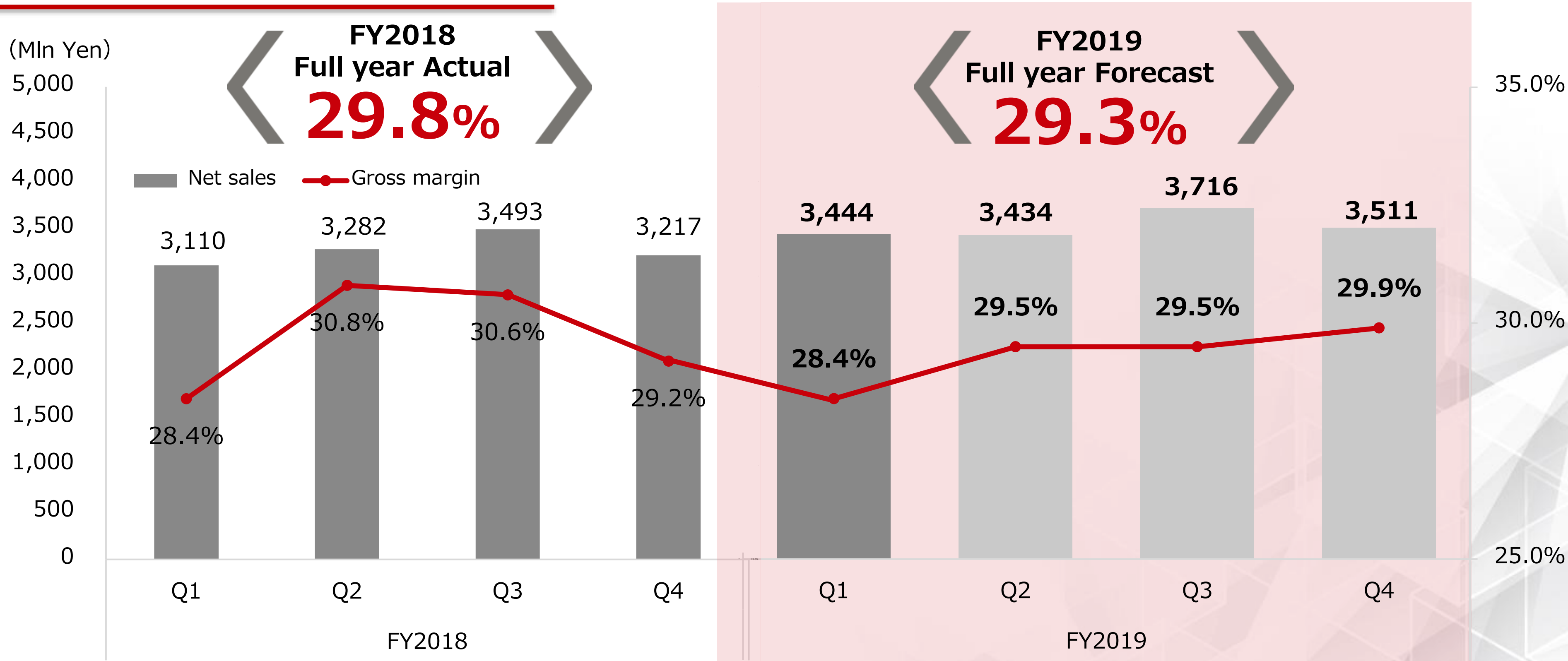
- **Contribution of Orgosoft Co., Ltd. acquired in February 2019**
- **Establishment of new Hakata test center to prepare for future expansion of the business**
- **To keep almost same gross margin as previous year led by restructuring of test centers' operation even with raising labor cost in Japan**

Quarterly results of Debugging div.

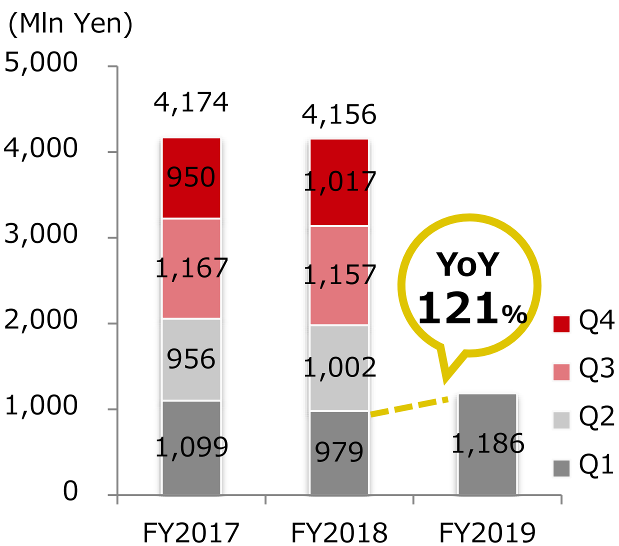


Entertainment Business – Debugging div.

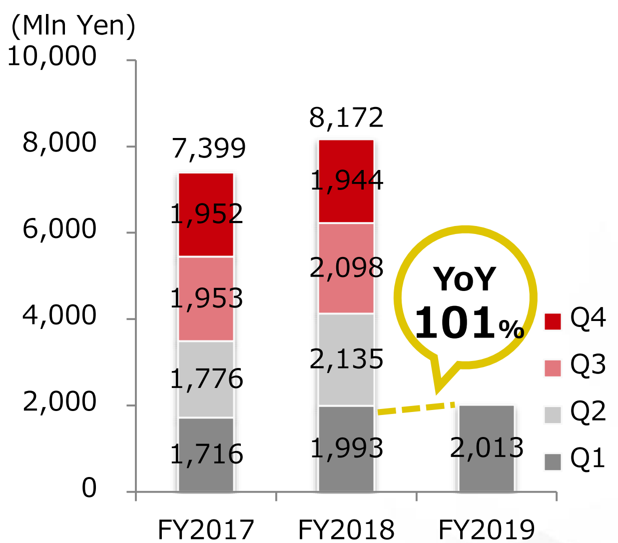
- **Game Console dept. (GC)**
  - Rapid growth in net sales by some large-scale titles and expecting stable growth in Q2 and later
- **Mobile Solutions dept. (MS)**
  - Slowing down of growth rate by receiving the weak market trend but expecting stable growth in Q2 and later
- **Amusement dept. (AM)**
  - Recovering from drop of sales by regulatory changes

Quarterly sales

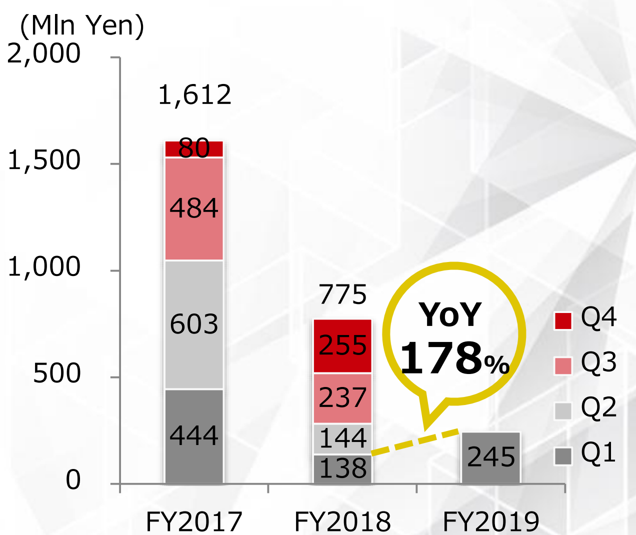
Game Console dept. (GC)



Mobile Solutions dept. (MS)



Amusement dept. (AM)

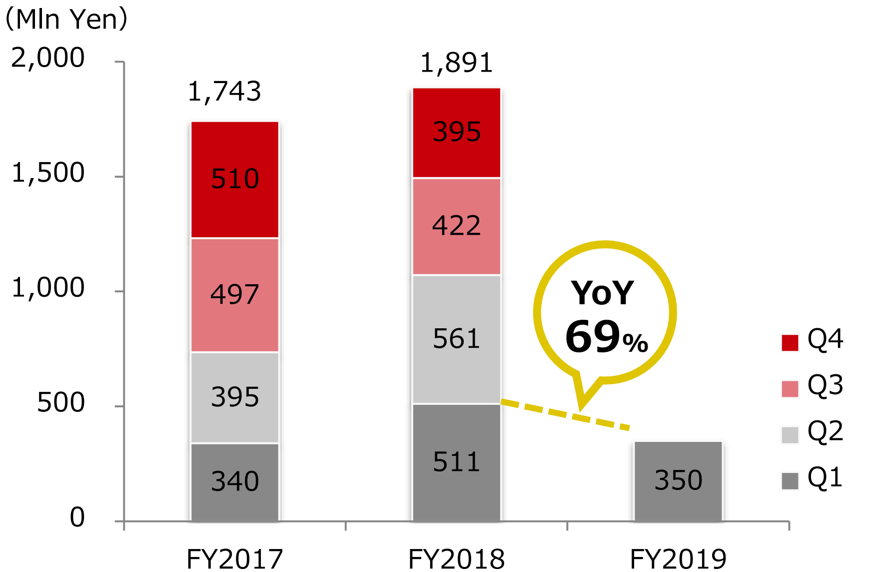


■ **Creative**
- Strengthening new promotion initiatives
- Decrease in net sales by receiving the weak trend of mobile game market

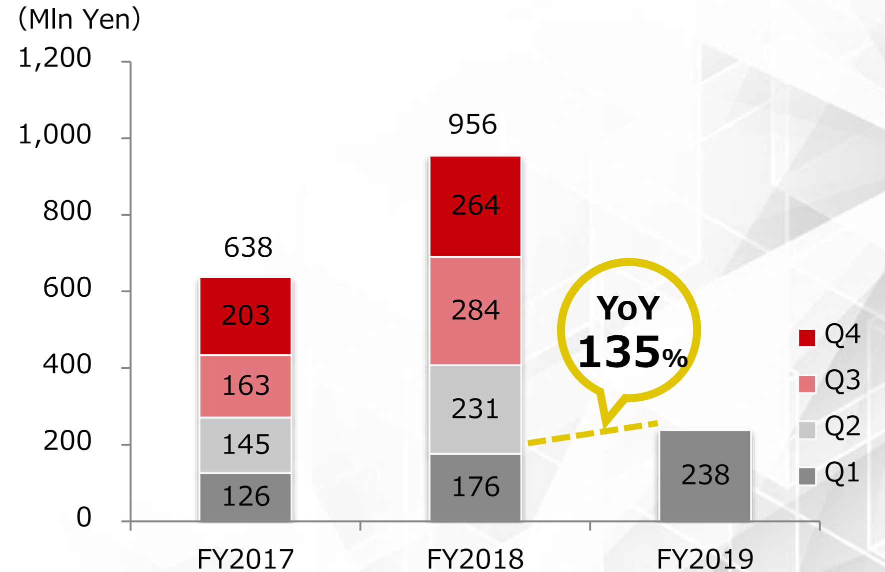
■ **Media and others**
- Stable sales of advertising service of game information site, "4Gamer.net"
- Contribution of customer support service

Quarterly sales

Creative



Media and others



Financial Result of Enterprise Business

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■ Rapid increase in net sales and new alliances for future growth

(Mln Yen)	Q1 FY2018	Q1 FY2019	YoY Change
Net sales	652	954	146.3%
System Testing	259	430	165.8%
IT service / Security	392	523	133.4%
Segment loss	-58	-184	—

Topics1

Cooperation with NTT Resonant
in the testing solutions field

NTT Resonant Incorporated		Digital Hearts Co., Ltd.
Remote TestKit	×	DIGITAL HEARTS
A service to enable the testing of smartphone applications on the cloud		Abundant human resources and testing knowhow

Topics2

Acquired LogiGear Group
with rich knowledge and business records in test automation solutions

To focus on markets with paradigm shifting

(Target)

Trading (e-commerce) | Auto-mobile | IT (application)

Enterprise Business – System Testing div.

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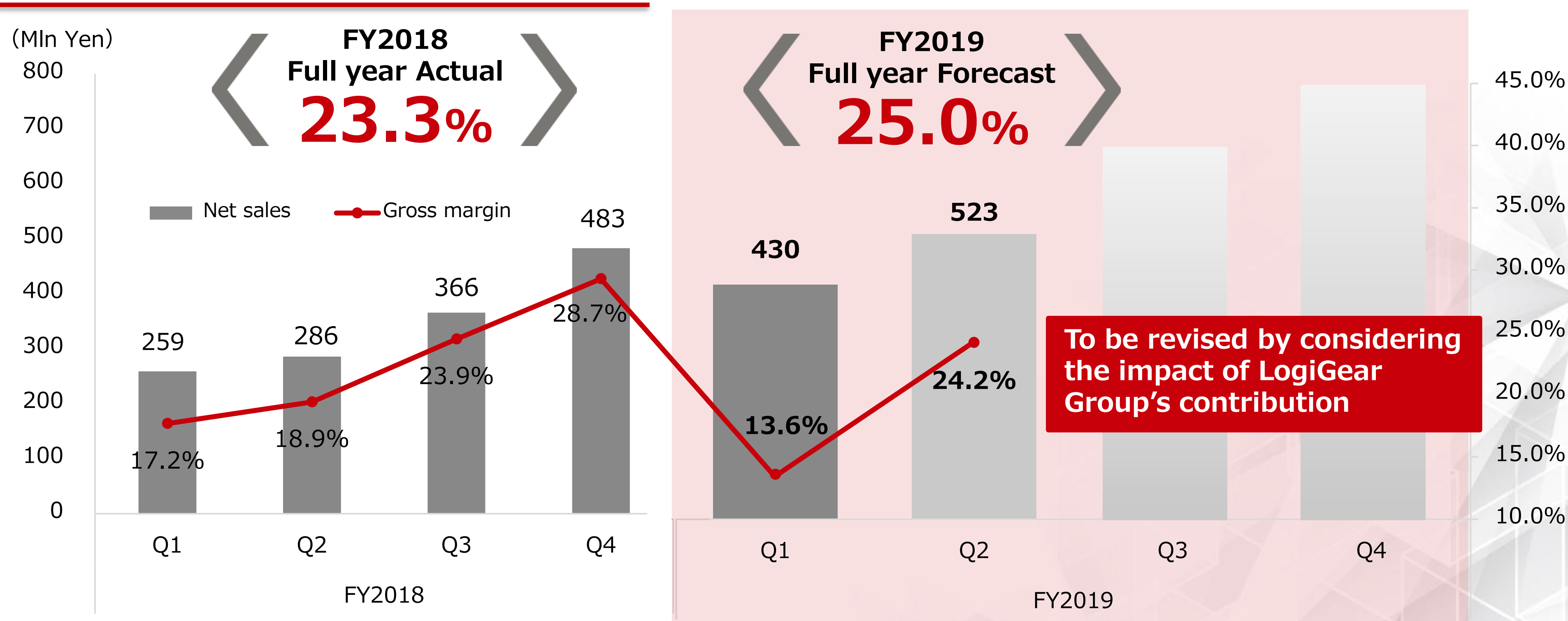
- Temporal lower work rate in Q1 by large increase in the number of test engineers including new young graduates
- Q2 Gross margin to be improved due to sales growth and improvement of work rate
- To expect the contribution of LogiGear Group in Q3 or later

Quarterly results of System Testing div.



Enterprise Business

System Testing

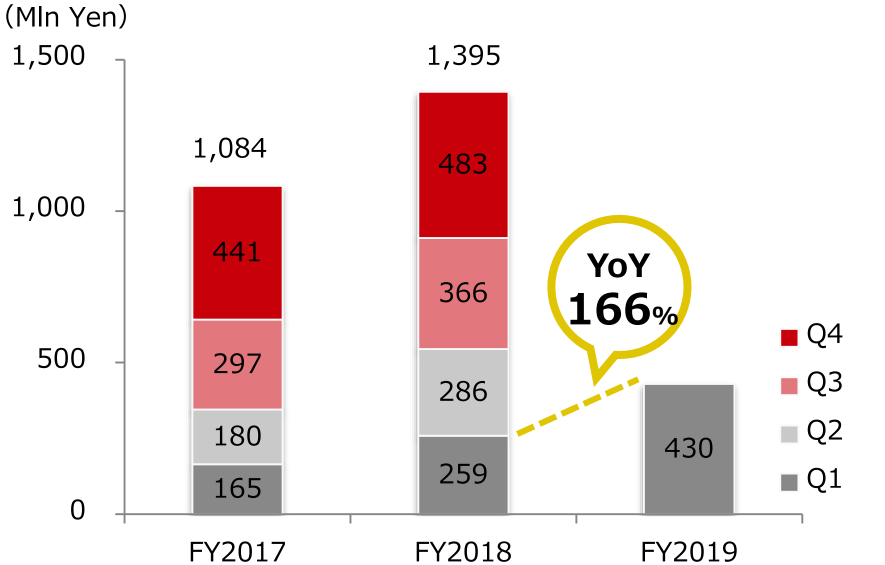
- Achieved large increase in net sales by automobile driving test and other large scale projects

IT service / Security

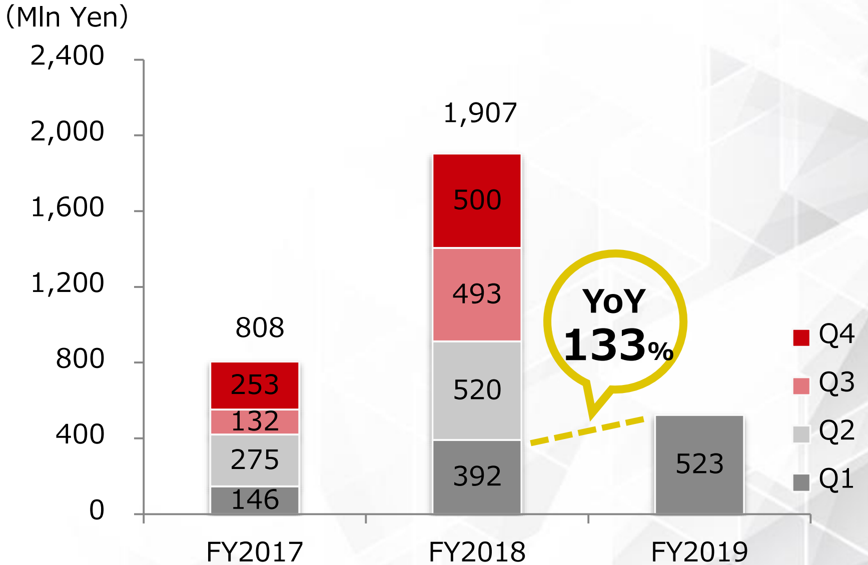
- Making strong growth in sales of system development and acquiring new orders of cyber security business launching since FY2018

Quarterly sales

System Testing



IT service / Security



FY2019 Consolidated Financial Forecast

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- Achieve the record-high in net sales both in Entertainment and Enterprise
- Continue to have active investments in human capital mainly focusing on specialist and engineers
- Except the impact of extraordinary gain in FY2018, net profit will increase in FY2019 as a actual business base

(Mln Yen)	Full year FY2018 (Actual)	Full year FY2019 (Forecast)	YoY Change
Net sales	19,254	23,000	119.5%
Entertainment	15,951	17,450	109.4%
Enterprise	3,302	5,550	168.0%
Operating income	1,605	1,800	112.1%
Operating income margin	8.3%	7.8%	-0.5 points
Ordinary income	1,651	1,830	110.8%
Profit attributable to owners of parent	1,575	1,250	79.3%

(Ref.) Operating Income Forecast
- Compared to 2H FY2018 -

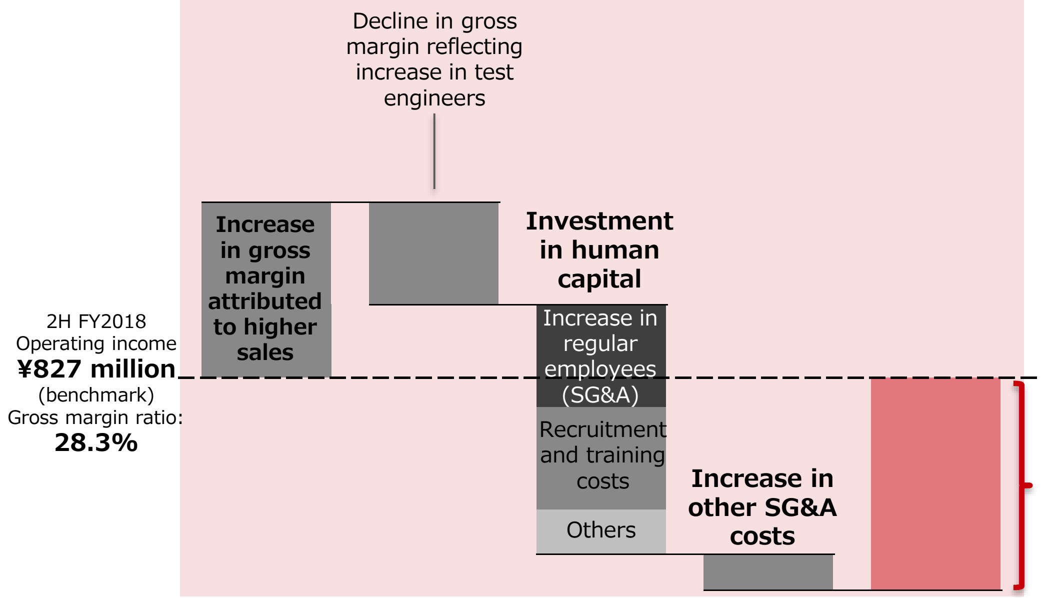
Continuing active investments in 1H, expecting profit growth in 2H and thereafter

1H FY2019

Compared to 2H FY2018 results

Higher sales but lower profit

- Gross margin ratio expected to be 27.0%
- Investment in human capital planned to be increased by around 350 million yen in 1H FY2019

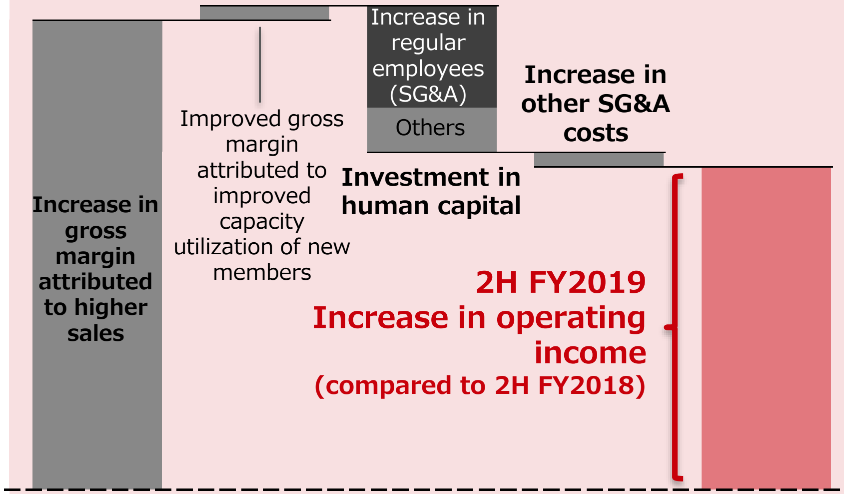


2H FY2019

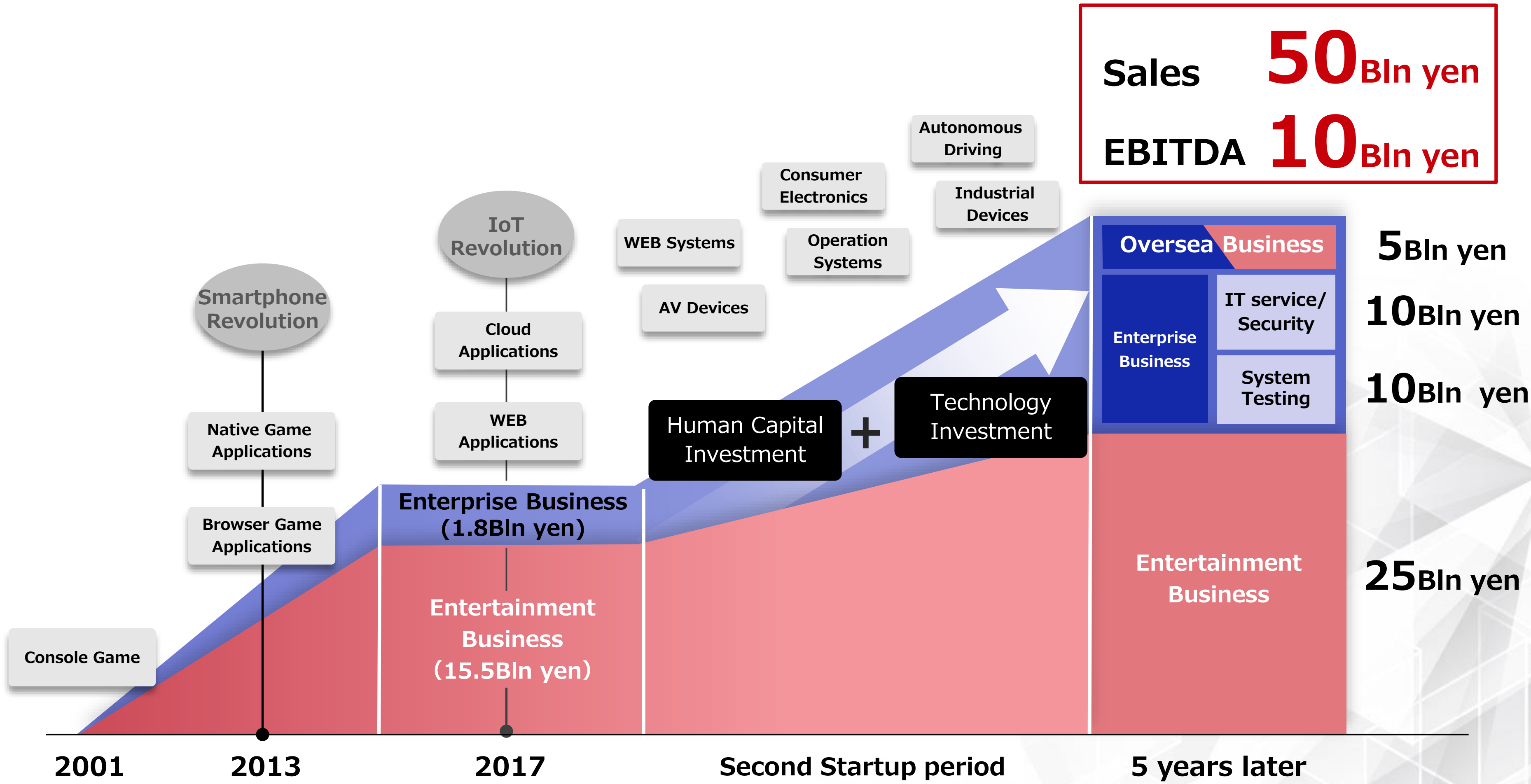
Compared to 2H FY2018 results

Higher sales and profit

- Gross margin ratio expected to be 28.6%
- Investment in human capital planned to be increased by around 200 million yen in 2H FY2019



To be the Asia's No.1 Company for Comprehensive Testing Solutions



Appendix

Why You Should Invest in DIGITAL HEARTS

Employment creation for more than
8,000 testers

Ratio of external officers of
40.0%

One of the few
testing focusing companies
in Japan

Foreign staff members of more than
20 nationalities

High market growth rate* with
CAGR at 27.5%

Business that supports
Digital security

*Data on the growth rate of the market of outsourced software testing services for 2017 to 2021, prepared by DIGITAL HEARTS in reference to a range of data.
(References)Websites related to Global Pure Play Software Testing Services Market 2017-2021 and Global Software Testing Market 2017-2021

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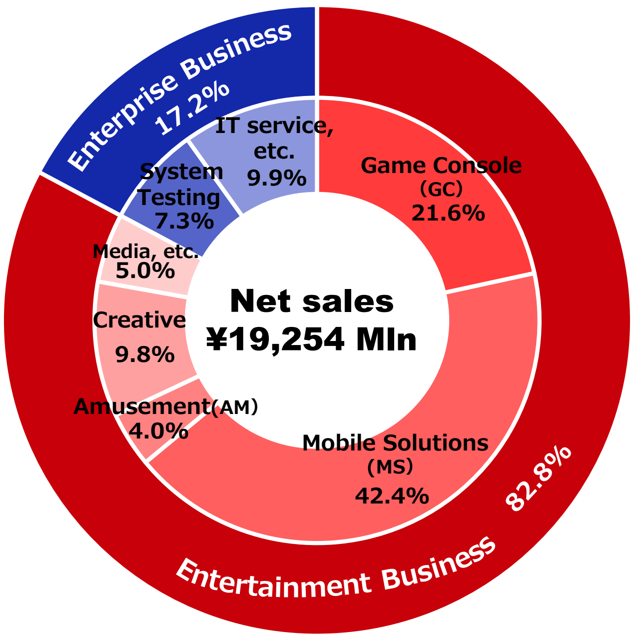
Debugging and System testing are our core business



Sales breakdown by segment (FY2018)

※Sales of each segment and unit include inter-company sales and/or transfers.

Entertainment Business	Debugging 68.0%	21.6%	**Game Console (GC)** Debugging for console games, online games, and arcade games
		42.4%	**Mobile Solutions (MS)** Debugging for mobile games
		4.0%	**Amusement (AM)** Debugging for pachinko/slot machines
	Creative	9.8%	Game development and CG content development
	Media and others	5.0%	Managing one of Japan’s largest game information site ”4Gamer.net”, customer support, etc.
Enterprise Business	System Testing	7.3%	Testing for enterprise system and Automobile driving test
	IT service / Security	9.9%	System development, IT support, Customer support , Security, etc.

Outline of Debugging and System Testing

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Our Services

Develop	Test	Maintain after a product release
Test Design ➢ Test consulting ➢ Planning for test and schedule ➢ Supporting for test automation	Running various tests ➢ Functional test ➢ Performance test ➢ Stress test ➢ Acceptance test ➢ Usability Test, etc.	Continuation test ➢ Operations management ➢ Evaluation and improvement ➢ Update

Outline of Services

Service	Description	Main client	Barriers to entry	Outsourced Projects Ratio
Debugging	Detection of bugs in games from a player's perspective.	– Game makers	High ↑A license for purchasing dedicated equipment for debugging is required. ↑Knowledge and expertise on human resource management to accommodate changeable development schedules are required.	High
System Testing	Detection of bugs in enterprise systems from a test-engineers' knowledge.	– SIers – Development vendors – Core system enterprises	Middle ↑Human resource shortage in IT Industry	Low

Growth Strategy

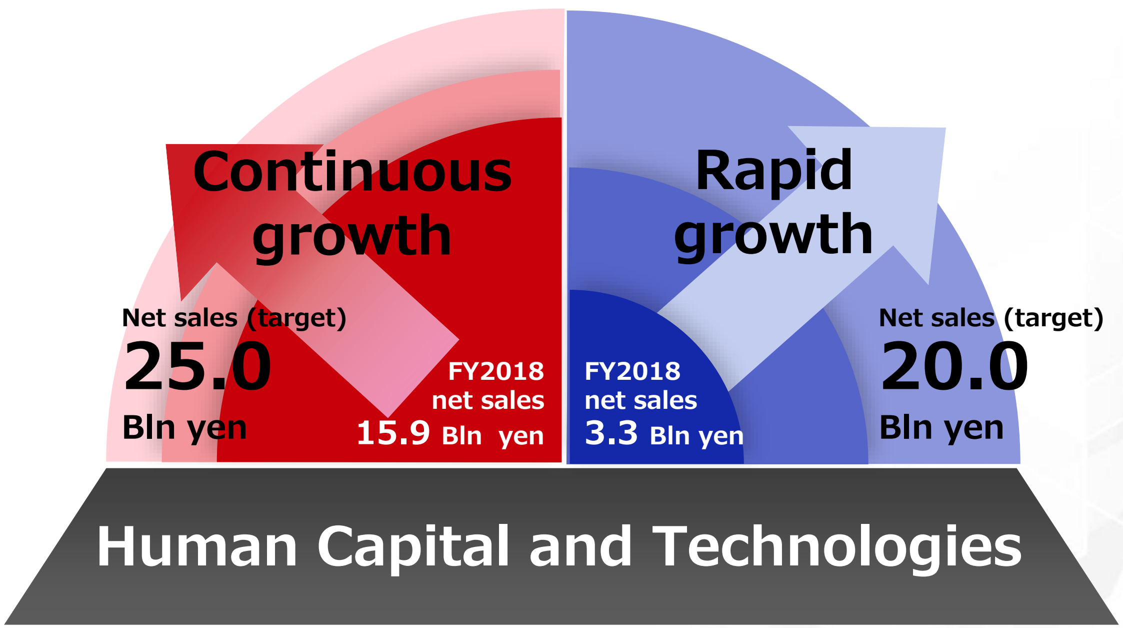
Pursue the growth of the mainstay Entertainment Business and make the Enterprise Business another primary source of revenue

Entertainment Business

- ■ The game market is growing steadily
- ◆ Strengthen collaboration within the Group to provide comprehensive support for game development, including not only debugging but also the development of outsourced services and localization
- ◆ Continue expanding the business, targeting net sales of 25.0 billion yen

Enterprise Business

- ■ The outsourcing of test processes is accelerated, due in part to the serious human resources shortage in the IT industry
- ◆ Accelerate investment in human capital and technologies for business expansion
- ◆ Position this field as the growth driver and aim for net sales of 20.0 billion yen



Business Risks

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Major risks	Countermeasures
1. Leakage of confidential information	- Prohibiting staff members from bringing personal items into the test room - Physical security measures including access control with fingerprint authentication and the installation of security cameras - Introduction of a personal reference system that applies to all registered testers
2. Obsolescence of existing services by technological innovation	- Focusing on the application of the latest technologies, including a test automation project - Focusing on the development of new services to improve added value
3. Reduction of productive population in Japan	- Developing internal training programs that will enable the active participation of members with diverse generational, racial, and other backgrounds - Securing human resources strategically by using overseas offices as well
4. Expansion of corporate acquisition and new businesses	- In-depth market research and due diligence - Reducing risks by building a system for appropriate business management after acquisition

Summary of Earnings by Segment

DIGITAL HEARTS HLDGS.

(Mln yen)			FY2014	FY2015	FY2016	FY2017	FY2018
Entertainment Business		**Net sales**	**11,609**	**12,696**	**13,544**	**15,568**	**15,951**
		Segment income	**1,915**	**2,379**	**2,453**	**2,966**	**3,086**
Debugging		Net sales	9,430	10,455	11,524	13,186	13,103
	Game Console (GC)	Net sales	3,604	3,449	3,483	4,174	4,156
	Mobile Solutions (MS)	Net sales	3,554	4,994	6,262	7,399	8,172
	Amusement (AM)	Net sales	2,272	2,012	1,778	1,612	775
Creative		Net sales	1,675	1,729	1,465	1,743	1,891
Media and others		Net sales	504	512	554	638	956
Enterprise Business		**Net sales**	**1,713**	**2,382**	**1,952**	**1,892**	**3,302**
		Segment income	**50**	**71**	**203**	**-14**	**-226**
System Testing		Net sales	380	681	758	1,084	1,395
IT service / Security		Net sales	1,333	1,701	1,193	808	1,907
Inter-segments adjustments		Net sales	-39	-70	-52	-108	-0
		Segment income	-447	-486	-750	-1,215	-1,254
Consolidated total		Net sales	13,285	15,011	15,444	17,353	19,254
		Operating income	1,517	1,963	1,906	1,735	1,605

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Review of shareholder return policy

Actively invest in medium- and long-term growth as the second startup period. Change the shareholder return policy for this purpose in consideration of the balance between internal reserves and shareholder returns.

■ FY2018 or before:

Paid stable dividends in accordance with the consolidated business results, with DOE of 7% as a guide. Also provided shareholder benefits to shareholders who held our shares as of March 31 every year.

■ FY2019 and after:

Pay stable dividends in accordance with the consolidated business results, with the lower limit of the dividend payout ratio at 20%. Abolish the shareholder benefit plan from the viewpoint of shareholder equity.

Shareholder returns in FY2019

	Interim dividends	Year-end dividends	Annual total dividends	Shareholder benefits
FY2018	6.5 yen	6.5 yen	13.0 yen	(Holders of one or more units of shares) Rice gift cards (3 kg) (Holders of two or more units of shares) Rice gift cards (6 kg)
FY2019 (forecast)	7.0 yen	7.0 yen	14.0 yen Up 1.0 yen	—

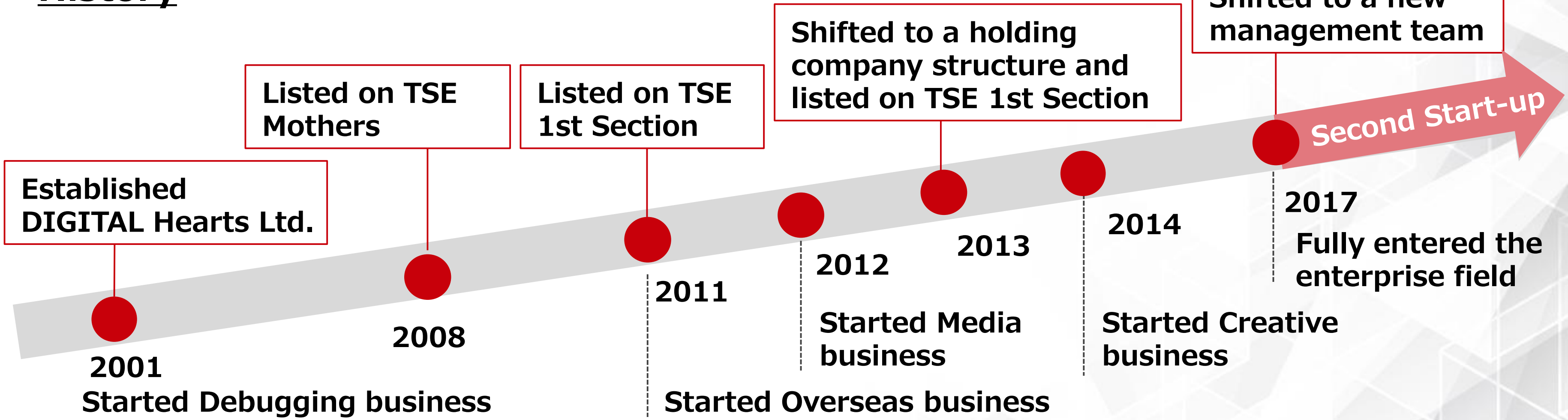
* We will acquire treasury shares flexibly by considering the necessity in light of our capital policy, the impact on our financial strength, and other factors, after securing funds for investment in growth.

Corporate Profile

Company Name	DIGITAL HEARTS HOLDINGS Co., Ltd.	Capitalization	¥300,686,000
Location	3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo	Shares Issued	23,890,800 Shares
Incorporated	October 1, 2013	Fiscal year end	March 31
Representative	President and CEO, Genichi Tamatsuka	Number of Employees	887 (Consolidated)
Stock Exchange	Tokyo Stock Exchange The 1st Section (code : 3676)	Group Companies	Domestic:6 Overseas:4

(As of June 30, 2019)

History



Group Companies

DIGITAL HEARTS HLDGS.

(As of June 30, 2019)

DIGITAL HEARTS Co., Ltd.

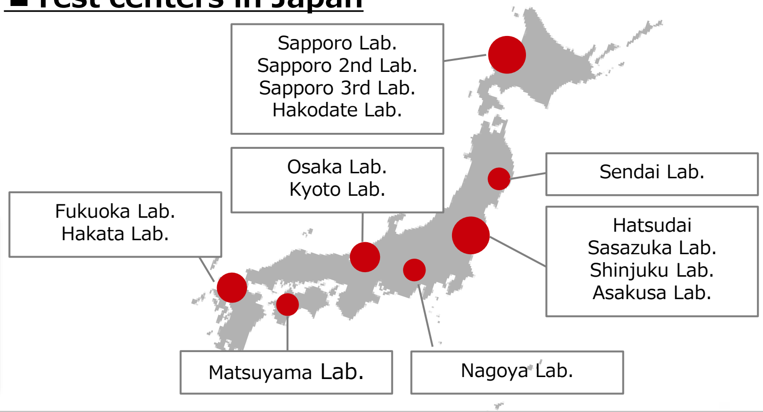
Entertainment Business | Enterprise Business

Business Activities : Game debugging, Localization, System testing, System development, Security, etc.

[Strengths]

- **Over 8,000** registered testers
- **Over 1.5 million** bug data
- **15** test centers (Lab.)
- **Over 4,000** equipment for testing

■Test centers in Japan



DIGITAL HEARTS USA Inc.

Entertainment Business

Business Activities : Localization, etc.

DIGITAL HEARTS (Shanghai) Co., Ltd.

Entertainment Business

Business Activities : Game debugging, Localization, etc.

Orgosoft Co., Ltd.

Entertainment Business

Business Activities : Game debugging, Localization, etc.

ANET Corporation

Enterprise Business

Business Activities : System testing, System development, etc.

DIGITAL HEARTS GNT VIET NAM COMPANY LIMITED

Enterprise Business

Business Activities : System testing, etc.

FLAME Hearts Co., Ltd.

Entertainment Business

Business Activities : Game development and CG content development

Aetas, Inc.

Entertainment Business

Business Activities : Operation of a game information site, "4Gamer.net", etc.

DIGITAL HEARTS NETWORKS Co., Ltd.

Enterprise Business

Business Activities : Internet communication related business, Security, etc.

ZEG Inc.

(Affiliated company)

Enterprise Business

Business Activities : Driving test and data collection for the automotive industry

DIGITAL HEARTS HLDGS.

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