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On **February 8, 2019**, DIGITAL HEARTS HOLDINGS Co., Ltd. announced earnings results for cumulative Q3 FY03/19.

Cumulative (JPYmn)	FY03/17				FY03/18				FY03/19			FY03/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.
Sales	3,810	7,593	11,616	15,445	4,039	8,263	12,960	17,353	4,451	9,334	14,393	68.5%	21,000
YoY	7.2%	2.7%	4.2%	2.9%	6.0%	8.8%	11.6%	12.4%	10.2%	13.0%	11.1%		21.0%
Gross profit	1,088	2,162	3,364	4,506	1,182	2,479	3,874	4,959	1,204	2,653	4,109		
YoY	17.4%	6.1%	7.5%	4.3%	8.6%	14.6%	15.2%	10.0%	1.8%	7.0%	6.1%		
GPM	28.6%	28.5%	29.0%	29.2%	29.3%	30.0%	29.9%	28.6%	27.0%	28.4%	28.5%		
SG&A expenses	607	1,284	1,963	2,600	642	1,475	2,323	3,223	902	1,875	2,867		
YoY	-11.1%	3.3%	8.8%	10.3%	5.8%	14.9%	18.3%	24.0%	40.4%	27.1%	23.4%		
SG&A-to-sales ratio	15.9%	16.9%	16.9%	16.8%	15.9%	17.9%	17.9%	18.6%	20.3%	20.1%	19.9%		
Operating profit	481	878	1,401	1,907	540	1,004	1,551	1,736	302	778	1,242	56.4%	2,200
YoY	96.5%	10.4%	5.8%	-2.9%	12.2%	14.3%	10.7%	-9.0%	-44.0%	-22.5%	-19.9%		26.7%
OPM	12.6%	11.6%	12.1%	12.3%	13.4%	12.1%	12.0%	10.0%	6.8%	8.3%	8.6%		10.5%
Recurring profit	527	936	1,459	1,997	533	1,009	1,567	1,783	301	755	1,233	55.4%	2,224
YoY	116.8%	17.0%	9.8%	2.0%	1.1%	7.8%	7.4%	-10.7%	-43.5%	-25.2%	-21.3%		24.8%
RPM	13.8%	12.3%	12.6%	12.9%	13.2%	12.2%	12.1%	10.3%	6.8%	8.1%	8.6%		10.6%
Net income	299	674	1,003	795	361	674	1,003	1,200	182	509	848	55.3%	1,533
YoY	187.1%	20.9%	76.9%	119.7%	20.7%	0.0%	0.0%	51.0%	-49.5%	-24.6%	-15.5%		27.7%
Net margin	7.8%	8.9%	8.6%	5.1%	8.9%	8.2%	7.7%	6.9%	4.1%	5.5%	5.9%		7.3%

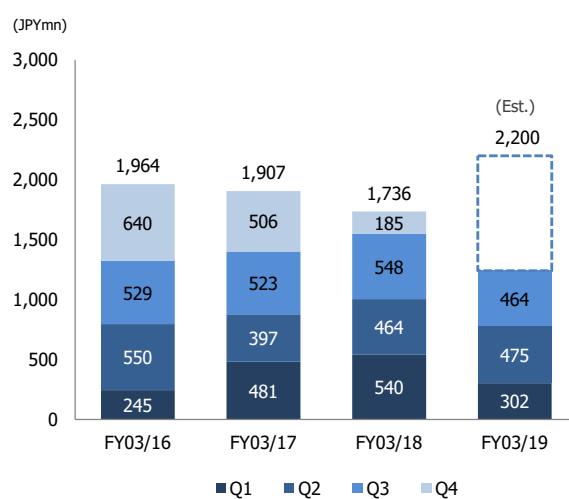
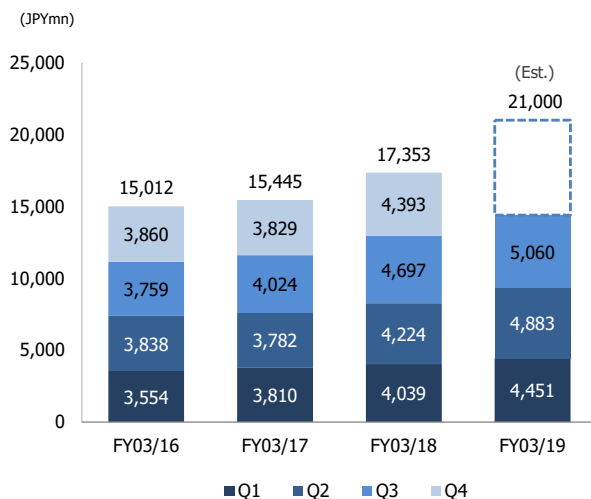
Quarterly (JPYmn)	FY03/17				FY03/18				FY03/19		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	3,810	3,782	4,024	3,829	4,039	4,224	4,697	4,393	4,451	4,883	5,060
YoY	7.2%	-1.5%	7.0%	-0.8%	6.0%	11.7%	16.7%	14.7%	10.2%	15.6%	7.7%
Gross profit	1,088	1,074	1,202	1,143	1,182	1,297	1,396	1,085	1,204	1,449	1,456
YoY	17.4%	-3.3%	10.2%	-4.2%	8.6%	20.7%	16.1%	-5.1%	1.8%	11.8%	4.3%
GPM	28.6%	28.4%	29.9%	29.8%	29.3%	30.7%	29.7%	24.7%	27.0%	29.7%	28.8%
SG&A expenses	607	677	679	637	642	833	848	900	902	974	992
YoY	-11.1%	20.8%	20.9%	15.3%	5.8%	23.0%	24.9%	41.4%	40.4%	16.9%	17.0%
SG&A-to-sales ratio	15.9%	17.9%	16.9%	16.6%	15.9%	19.7%	18.1%	20.5%	20.3%	19.9%	19.6%
Operating profit	481	397	523	506	540	464	548	185	302	475	464
YoY	96.5%	-27.9%	-1.1%	-21.0%	12.2%	16.9%	4.7%	-63.5%	-44.0%	2.5%	-15.2%
OPM	12.6%	10.5%	13.0%	13.2%	13.4%	11.0%	11.7%	4.2%	6.8%	9.7%	9.2%
Recurring profit	527	409	523	538	533	476	558	215	301	454	478
YoY	116.8%	-26.6%	-1.2%	-14.4%	1.1%	16.4%	6.7%	-60.0%	-43.5%	-4.6%	-14.3%
RPM	13.8%	10.8%	13.0%	14.1%	13.2%	11.3%	11.9%	4.9%	6.8%	9.3%	9.5%
Net income	299	376	329	-208	361	314	329	197	182	327	339
YoY	187.1%	-17.2%	3436.8%	-	20.7%	-16.5%	0.0%	-	-49.5%	4.1%	3.0%
Net margin	7.8%	9.9%	8.2%	-	8.9%	7.4%	7.0%	4.5%	4.1%	6.7%	6.7%

Source: Shared Research, based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly sales

Quarterly operating profit



Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Performance by segment

Sales and profit by segment (JPYmn)	FY03/16		FY03/17		FY03/18				FY03/19				Diff., % of FY
	Act.	Act.	Q1 Act.	Q2 Act.	Q3 Act.	FY Act.	Q1 Act.	Q2 Act.	Q3 Act.	FY Est.			
Sales	15,012	15,445	4,039	8,263	12,960	17,353	4,451	9,334	14,393	21,000	3,647		
YoY	13.0%	2.9%	6.0%	8.8%	11.6%	12.4%	10.2%	13.0%	11.1%	21.0%	68.5%		
Entertainment	12,696	13,544	3,727	7,604	11,871	15,568	3,798	7,874	12,074	17,000	1,432		
YoY	9.4%	6.7%	-	-	-	14.9%	1.9%	3.6%	-22.4%	9.2%	71.0%		
% of total sales	84.2%	87.2%	92.3%	90.8%	90.8%	89.2%	85.3%	84.4%	83.9%	81.0%			
Debugging service	10,455	11,524	3,261	6,597	10,203	13,186	3,111	6,393	9,887	13,765			
YoY	10.9%	10.2%	-	-	-	14.4%	-4.6%	-3.1%	-25.0%	4.4%			
% of total sales	69.3%	74.2%	80.7%	78.8%	78.1%	75.6%	69.9%	68.5%	68.7%	65.5%			
Game console (GC)	3,449	3,483	1,099	2,056	-	4,174	979	1,981	3,139	-			
YoY	-4.3%	1.0%	-	-	-	19.8%	-10.9%	80.3%	185.6%	-			
% of total sales	22.9%	22.4%	27.2%	24.9%	0.0%	23.9%	22.0%	21.2%	21.8%	-			
Mobile solutions (MS)	4,994	6,262	1,716	3,492	-	7,399	1,993	4,128	6,227	-			
YoY	40.5%	25.4%	-	-	-	18.2%	16.1%	140.6%	262.9%	-			
% of total sales	33.1%	40.3%	42.5%	42.3%	0.0%	42.4%	44.8%	44.2%	43.3%	-			
Amusement (AM)	2,012	1,778	444	1,047	-	1,612	138	282	520	-			
YoY	-11.4%	-11.6%	-	-	-	-9.3%	-68.9%	-36.5%	17.1%	-			
% of total sales	13.3%	11.4%	11.0%	12.7%	0.0%	9.2%	3.1%	3.0%	3.6%	-			
Creative service	1,729	1,465	340	735	1,233	1,743	511	1,073	1,495	3,235			
YoY	3.2%	-15.3%	-	-	-	19.0%	50.4%	45.9%	-14.2%	85.6%			
% of total sales	11.5%	9.4%	8.4%	8.8%	9.4%	10.0%	11.5%	11.5%	10.4%	15.4%			
Media, other	512	554	127	272	435	638	176	408	692	-			
YoY	1.6%	8.2%	-	-	-	15.2%	39.8%	50.1%	8.5%	-			
% of total sales	3.4%	3.6%	3.1%	3.2%	3.3%	3.7%	4.0%	4.4%	4.8%	-			
Enterprise	2,382	1,952	312	767	1,197	1,878	652	1,459	2,319	4,000	2,122		
YoY	39.1%	-18.1%	-	-	-	-3.8%	109.1%	90.2%	23.5%	113.0%	58.0%		
% of total sales	15.8%	12.6%	7.7%	9.2%	9.2%	10.8%	14.7%	15.6%	16.1%	19.0%			
System testing	681	778	165	346	643	1,084	260	546	912	1,700			
YoY	79.2%	14.2%	-	-	-	39.3%	57.4%	58.0%	-15.9%	56.8%			
% of total sales	4.5%	5.0%	4.1%	4.1%	4.9%	6.2%	5.8%	5.8%	6.3%	8.1%			
IT service and security	1,701	1,193	147	422	554	794	393	913	1,407	2,300			
YoY	27.6%	-29.9%	-	-	-	-33.4%	168.9%	116.6%	77.2%	189.7%			
% of total sales	11.3%	7.7%	3.6%	5.0%	4.2%	4.6%	8.8%	9.8%	9.8%	11.0%			
Adjustments	-70	-94	-	-108	-108	-94	-	-1	-0	-			
Operating profit	1,964	1,907	540	1,004	1,551	1,736	302	778	1,242	2,200	464		
YoY	29.4%	-2.9%	12.2%	14.3%	10.7%	-9.0%	-44.0%	-22.5%	-19.9%	26.7%	56.4%		
Entertainment	2,379	2,453	812	1,645	2,523	2,956	677	1,512	2,352	-			
YoY	24.2%	3.1%	-	-	-	20.5%	-16.6%	-8.1%	-20.4%	-			
% of operating profit	97.1%	79.3%	-	102.4%	103.1%	-	-	108.6%	109.1%	-			
Enterprise	71	203	-28	-39	-76	-34	-58	-120	-196	-			
YoY	42.0%	185.9%	-	-	-	-	-	-	-	-			
% of operating profit	2.9%	6.6%	-	-	-	-	-	-	-	-			
Adjustments	-486	-1,186	-244	-602	-896	-1,186	-317	-614	-914	-			

Source: Shared Research based on company data
 Note: Segment sales include intragroup eliminations.

Cumulative Q3 FY03/19 results (out February 8, 2019)

Results overview

Cumulative Q3 FY03/19 (April–December 2018)

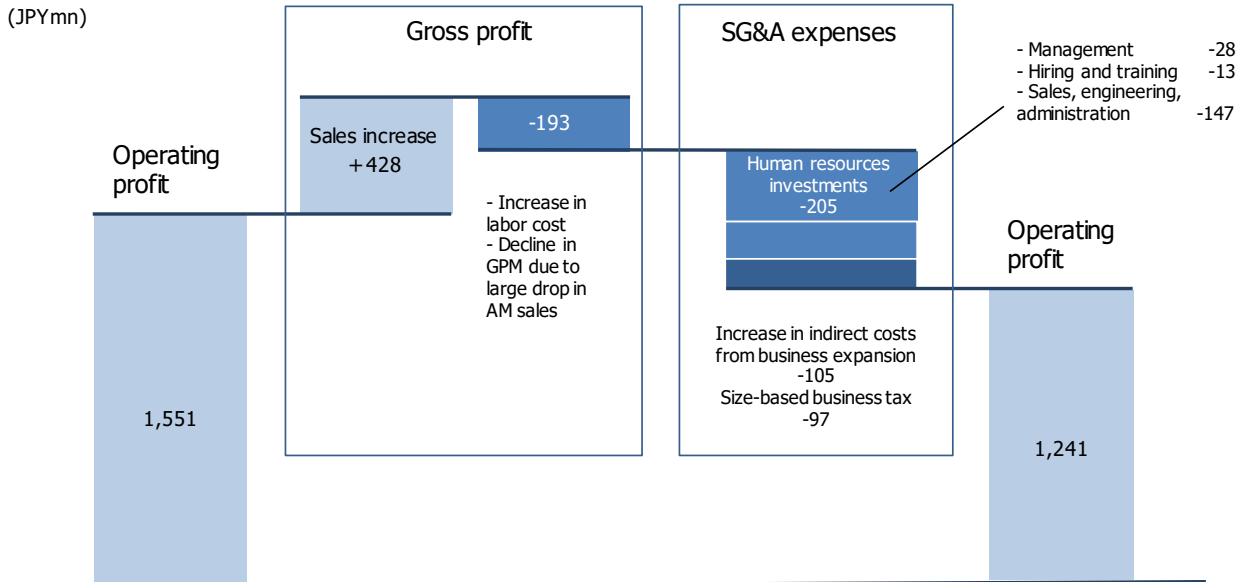
- ▷ Sales: JPY14.4bn (+11.1% YoY)
- ▷ Operating profit: JPY1.2bn (-19.9% YoY)
- ▷ Recurring profit: JPY1.2bn (-21.3% YoY)
- ▷ Net income*: JPY848mn (-15.5% YoY)

*Net income attributable to parent company shareholders

- ▷ Business environment: With rapid advances in the internet environment and increasing use of smart devices, the diversification of content and services is proceeding apace. At the same time, there is a chronic shortage in the IT personnel needed to support development and operation
- ▷ Company response: In the mainstay Entertainment segment, the company is working to improve its competitive advantage, especially in the Debugging service. In the Enterprise segment, designated a growth field, the company is working to develop a second earnings pillar, with a focus on System testing

- ▷ The Enterprise segment's IT service and security realized 2.5x growth versus Q3 FY03/18
- ▷ Profits declined significantly on active upfront spending in the Enterprise segment, especially for hiring, and significantly lower sales in the Entertainment segment's debugging services for amusement equipment

Analysis of operating profit



Source: Shared Research based on company data

1H results by segment

The company has changed its reportable segments as of Q1 FY03/19.

Entertainment business

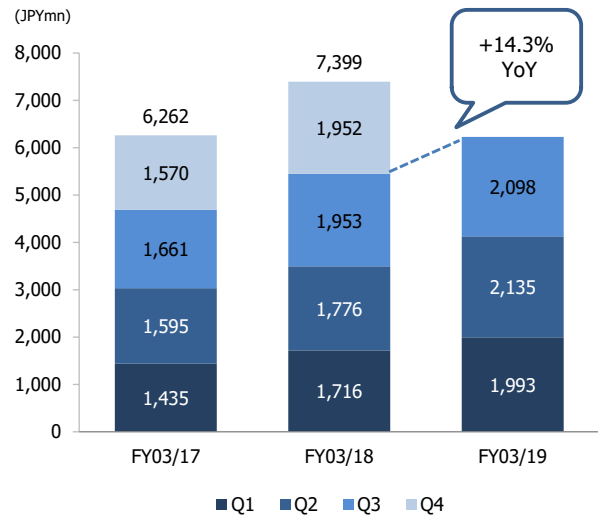
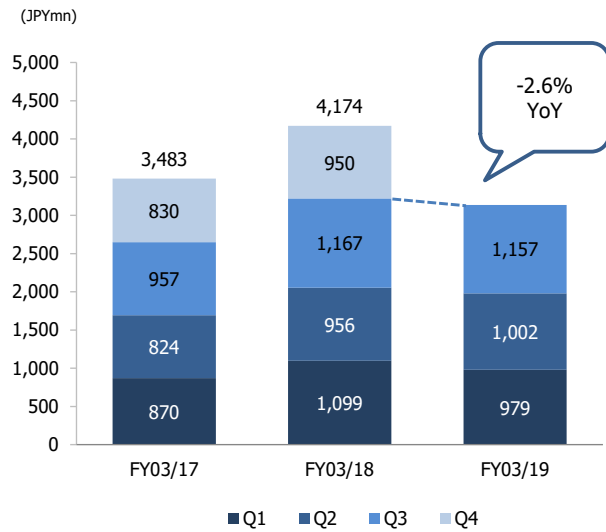
- ▷ Segment sales: JPY12.1bn (+1.7% YoY)
- ▷ Segment profit: JPY2.4bn (-6.8% YoY)
- ▷ Factor affecting earnings: Sales were significantly lower in debugging services for amusement equipment

Debugging services

- ▷ Debugging services involves checking for software bugs in console game, mobile game, and amusement equipment from a user perspective and reporting the findings to clients.
- ▷ Debugging service sales: JPY9.9bn (-3.1% YoY)
- ▷ Game console (GC): JPY3.1bn (-2.6% YoY)
- ▷ Mobile games (MS): JPY6.2bn (+14.3% YoY)
- ▷ Amusement (AM): JPY520mn (-66.1% YoY)
- ▷ In Mobile games, the company focused on providing high value-added services to respond carefully to client needs. Related sales increased significantly with the ongoing capture of debugging demand centered on the post-launch phase
- ▷ In Amusement, sales were down significantly as a difficult environment for orders continued with the impact of tighter regulations implemented in February 2018

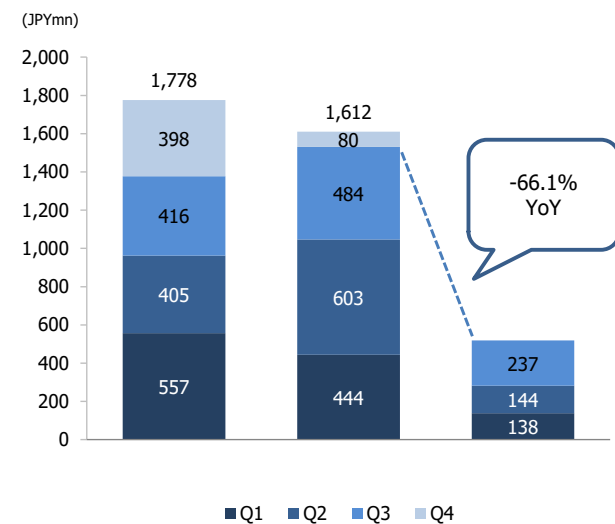
Earnings trends by unit (Entertainment segment)

Console games



Source: Shared Research based on company data

Amusement



Source: Shared Research based on company data

Creative services

- ▷ Under Creative services, the company offers a full range of content production support services, including game development and production of 2D and 3D graphics
- ▷ Sales: JPY1.5bn (+21.3% YoY)
- ▷ Factors affecting earnings: The company focused on hiring and developing human resources with excellent technical ability and worked to improve service quality. As a result, it is continuing to handle game development projects and steadily capturing new projects

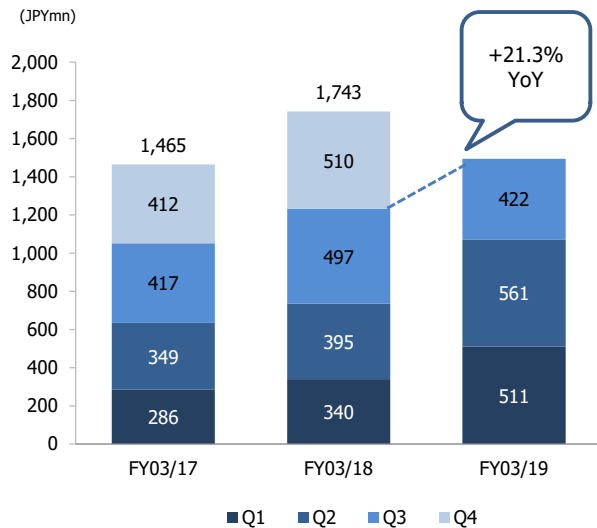
Media and other services

- ▷ Media and other services comprise the media service, which is the operation of 4Gamer.net (one of Japan's largest game information websites), and other services including customer support.
- ▷ Sales: JPY692mn (+59.1% YoY)

- ▷ Factors affecting earnings: Mainly on 4Gamer.net, the company worked to provide speedy and high value-added original reporting. In addition, the company's customer support business (established in FY03/18) added to sales with a steady stream of new contract wins

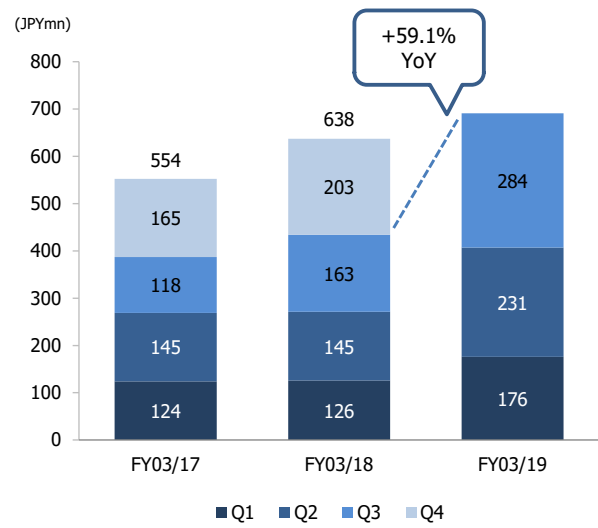
Earnings trends by unit (Entertainment segment)

Creative services



■ Q1 ■ Q2 ■ Q3 ■ Q4

Media and other services



■ Q1 ■ Q2 ■ Q3 ■ Q4

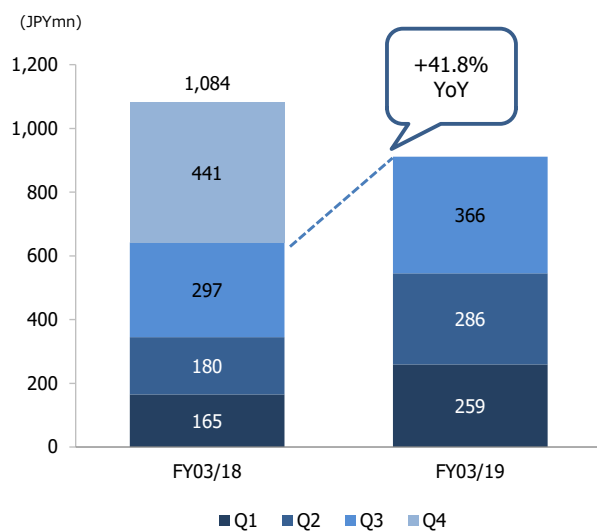
Source: Shared Research based on company data

Enterprise business

- ▷ The Enterprise business encompasses a range of services for corporate IT systems, including system testing, contract software development, IT support services, and security.
- ▷ Segment sales: JPY2.3bn (+93.7% YoY)
- ▷ Segment loss: JPY196mn (loss of JPY76mn in cumulative Q3 FY03/18)
- ▷ Factors affecting earnings: Sales rose about 2x YoY, but the segment loss widened on the hiring of specialists and other active upfront spending

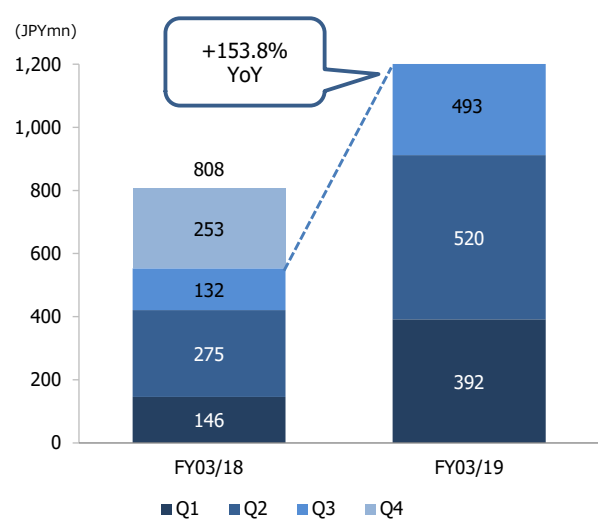
Earnings trends by unit (Enterprise segment)

System testing



■ Q1 ■ Q2 ■ Q3 ■ Q4

IT service and security



■ Q1 ■ Q2 ■ Q3 ■ Q4

Source: Shared Research based on company data

System testing

- ▷ The company's System testing service involves finding bugs in corporate IT systems.
- ▷ Sales: JPY912mn (+41.8% YoY)
- ▷ Factors affecting earnings: Development of new clients and expansion of business with existing clients
- ▷ The company strengthened its recruiting of industry specialists and made A-net, Inc., which excels in medical systems testing, a subsidiary
- ▷ The company promoted improvements to internal systems for training upstream process engineers

IT service and security

- ▷ The company's IT and security services encompass contract system development, IT support, and security services.
- ▷ Sales: JPY1.4bn (+153.8% YoY)
- ▷ Factors affecting earnings: The company worked to enhance its comprehensive support systems to cover all aspects of internal systems, from their configuration to their maintenance and operation, through the active use of alliances with other companies. It also proceeded with initiatives aimed at business expansion, including entry in earnest into security that is highly compatible with system testing, expansion of new services using artificial intelligence and other technologies, and establishment of a security monitoring team comprising specialty personnel

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