

Digital Hearts Holdings (TYO: 3676)

FY2024/3 Q2, 6% revenue growth, but recorded impairment loss, resulted in downward revision to full year. For the second half of the year, however, recovery trend is planned.

▷ **Summary of financial results: Sales rose by 6%, but impairment losses at overseas subsidiaries led to a bottom-line loss. Full-year forecasts were revised downwards. The Company plans to recover to a trend of higher sales and profits over the second half of the year.**

Digital Hearts Holdings' (hereinafter referred to as 'the Company') Q2 results for FY2024/3 grew 6% YoY to 18.6 billion yen continued to be lead the way by the Enterprise Business. Operating profit, however, declined by 47% (to 729 million yen) due to the impact of lower sales in the Entertainment Business and an increase in SG&A expenses due to strategic investments, including expenses related to the Spin-Off Listing of AGEST, Inc. An extraordinary loss of 1 billion yen was recorded, mainly due to a goodwill impairment of overseas subsidiaries, resulting in a net loss attributable to owners of the parent company of 436 million yen.

The Company has revised its full-year forecasts downwards in line with these results. Sales were reduced from 40.75 billion yen to 40 billion yen, and operating profit from 3.12 billion yen to 2.5 billion yen, resulting in a decrease in profit forecast from an increase in profit forecast. Net profit attributable to owners of the parent was revised down from 2.1 billion yen to 550 million yen. For the year's second half, the Company aims to return to higher sales and profits, therefore achieving record-high sales and operating profit on a half-yearly basis.

Preparations for the Spin-Off Listing of AGEST, Inc. appear to be progressing steadily as planned. The reorganisation of Enterprise group companies is scheduled for January 1, 2024, and if FY2024 is set as the base period, a Spin-Off Listing is expected to be realised in 2025.

▷ **FY2024/3 full-year forecasts: Plans to return to a trend of higher sales and profits in the second half of the year.**

As of the end of Q2, the Company had achieved 47% and 29% of its revised FY2024/3 full-year estimates of 40 billion yen in sales and 2.5 billion yen in operating profit, respectively. The Company plans to increase sales and profits in the second half of the year due to a recovery in business performance, and for the second half alone, it expects sales of 21.33 billion yen, up 13% YoY, and operating profit of 1.77 billion yen, up 9% YoY, with operating profit expected to reach a record half-year high. In the second half of the year, net profit attributable to owners of the parent company is expected to be approximately 1 billion yen, but due to the impact of impairment losses in the first half, full-year bottom-line profit will be 550 million yen.

▷ **Stock price trend: Expectations for a rebound as all the negative catalysts are out**

The share price fell by about 14% in the two days following the announcement of the Q2 results and the downward revision of the full-year forecast. Following the recording of an extraordinary loss on goodwill impairment of the overseas subsidiary of the Entertainment Business (about 1 billion yen) in FY2023/3, the surprise impact of the announcement of an impairment loss of the same amount at an overseas enterprise companies seems to have been significant. On the other hand, it can be said that the bad news has been exhausted by the impairment of the overseas business, which was one of the challenges in terms of profitability, and positive news can be expected in the future. Preparations for the Spin-Off Listing are progressing steadily, and we will keep a close eye on future developments.

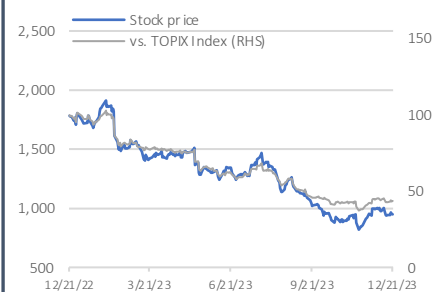
Q2 results update

Information Technology

As of December 22, 2023

Stock price (12/21)	950 Yen
52weeks high/low	¥1,950/818
Avg Vol (3 month)	160.7 thou shrs
Market Cap	¥22.6 bn
Enterprise Value	¥20.1 bn
PER (24/3 CE)	38.46 X
PBR (23/3 act)	2.64 X
Dividend Yield (24/3 CE)	2.21 %
ROE (TTM)	3.48 %
Operating margin (TTM)	-6.41 %
Beta (5Y Monthly)	0.94
Shares Outstanding	23.890 mn shrs
Listed market	TSE Prime section

Stock price performance



% of	1mo.	3mo.	12mo.
Stock prices	4.4%	-7.0%	-46.7%
Relative stock price	6.3%	-4.7%	-56.6%

Points of interest

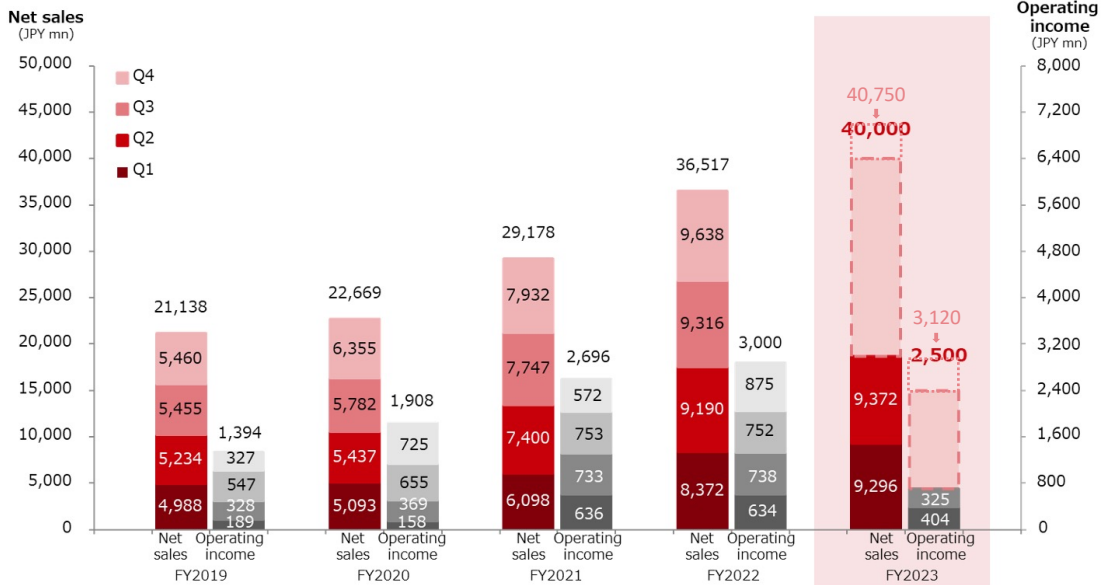
Expanding from game debugging to enterprise software testing. Enterprise Business is growing rapidly, driven by DX. Entertainment Business also focuses on global expansion. Announced the start of preparations for Spin-Off Listing of AGEST, Inc., the core company of Enterprise Business.

This report (financial update) has been prepared at the request of Digital Hearts Holdings. For details, please refer to the Disclaimer on the last page.

JPY, mn, %	Net sales	YoY %	Oper. profit	YoY %	Ord. profit	YoY %	Profit ATOP	YoY %	EPS (¥)	DPS (¥)
2020/3	21,138	9.8	1,394	-13.2	1,372	-16.9	792	-49.7	36.31	14.00
2021/3	22,669	7.2	1,908	36.9	1,975	43.9	974	23.0	45.15	14.00
2022/3	29,178	28.7	2,696	41.3	2,774	40.4	1,778	82.5	82.25	15.00
2023/3	36,517	25.2	3,000	11.3	3,152	13.6	799	-55.0	36.50	21.00
2024/3 (Prev. CE)	40,750	11.6	3,120	4.0	3,160	0.2	2,100	162.6	95.86	21.00
2024/3 (New. CE)	40,000	9.5	2,500	-16.7	2,560	-18.8	550	-31.2	24.69	21.00
2023/3 Q2	17,562	30.1	1,372	0.2	1,517	6.0	945	3.1	43.70	10.50
2024/3 Q2	18,669	6.3	729	-46.8	792	-47.8	-436	-	-19.61	10.50



Full year consolidated sales / operating profit trend



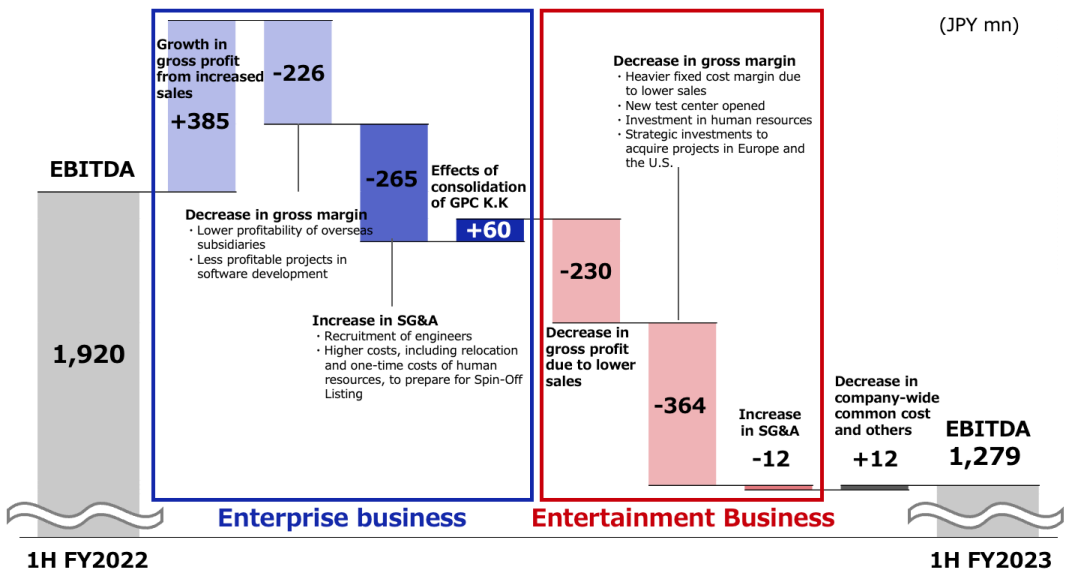
The company handout for the 2nd quarter results for FY2024/3 (published on November 9, 2023)

◇ **Results for Q2 FY2024/3: Operating profit declined by 47% despite increased revenues. Impairment losses on overseas subsidiaries were recorded as extraordinary losses and full-year forecasts were revised downwards.**

In the Company's Q2 results for FY2024/3, sales rose by 6.3% to 18,669 million yen, with the Entertainment Business experiencing a decline in sales in the result to the strong performance of the previous year, while the Enterprise Business continued to perform well with a 23.8% increase in sales. Operating profit decreased by 46.8% to 729 million yen due to the impact of the decline in sales in the Entertainment Business, deteriorating profitability of overseas subsidiaries in the Enterprise Business, as well as investment in growth and the cost of the Spin-Off Listing of AGESE, Inc. In addition, as a result of a major review of the management structure and sales strategy of the overseas operations of the Enterprise Business, impairment losses of 1,030 million yen were recorded for related goodwill, etc. (This includes impairment losses of 584 million yen at LOGIGEAR CORPORATION and 446 million yen at DEVELOPING WORLD SYSTEMS LIMITED and MK Partners, Inc.) As a result, the net attributable to owners of the parent company was a loss of 436 million yen.

See the diagram below for an analysis of changes in EBITDA. EBITDA of the Enterprise Business fell by 10.4% to 397 million yen. Despite an increase in gross profit due to higher revenue, the decline in gross profit margin caused by deteriorating profitability of overseas subsidiaries and the occurrence of low-profit projects in

Analysis of Changes in EBITDA



Source: The company handout for the 2nd quarter results for FY2024/3 (published on November 9, 2023)



software development, as well as the active recruitment of engineers, the change of personal expenses which had been included in company-wide expenses to this business in preparation for the Spin-Off Listing, and one-off expenses, resulted in a decline in EBITDA. In the Entertainment Business, EBITDA fell by 25.5% to 1,772 million yen due to a decline in gross profit as a result of lower sales compared to the very strong previous year, an increase in the fixed cost ratio due to lower sales, opening new bases and strategic investments in human resources such as raising testers' hourly wage. As a result, despite curbing company-wide common costs (+12 million yen), overall EBITDA fell by 33.4% to 1,279 million yen.

◇ **Segmental trends: (see also chart below and table on P7)**

1) Enterprise Business: Sales: 9,429 million yen, +23.8%; operating profit: 35 million yen, -66.5%.

In response to a tailwind of increased domestic IT investment, the Company recruited engineers, strengthened its technological capabilities and expanded its service offerings, which, together with the effects of M&A, resulted in a 23.8% increase in revenue. On the profit, segment profit fell by 66.5% to 35 million yen due to the deterioration of profitability in overseas subsidiaries, restructuring group subsidiaries in preparation for the Spin-Off Listing of AGESt, Inc., increased head office personnel and expenses related to relocating head office functions.

Trends in the sub-segments are as follows:

QA Solution: Sales: 6,287 million yen (+37.2%). Demand for software testing in Japan continues to grow against the backdrop of DX acceleration and other factors, and even excluding the effects of M&As, the Company achieved a significant 27.6% increase in revenue. See the table below for main KPIs of QA solutions. Although the number of clients with orders decreased QoQ, this was due to a decline in the number of overseas clients, while the number of domestic clients increased. Average sales per clients and number of engineers are steadily increasing.

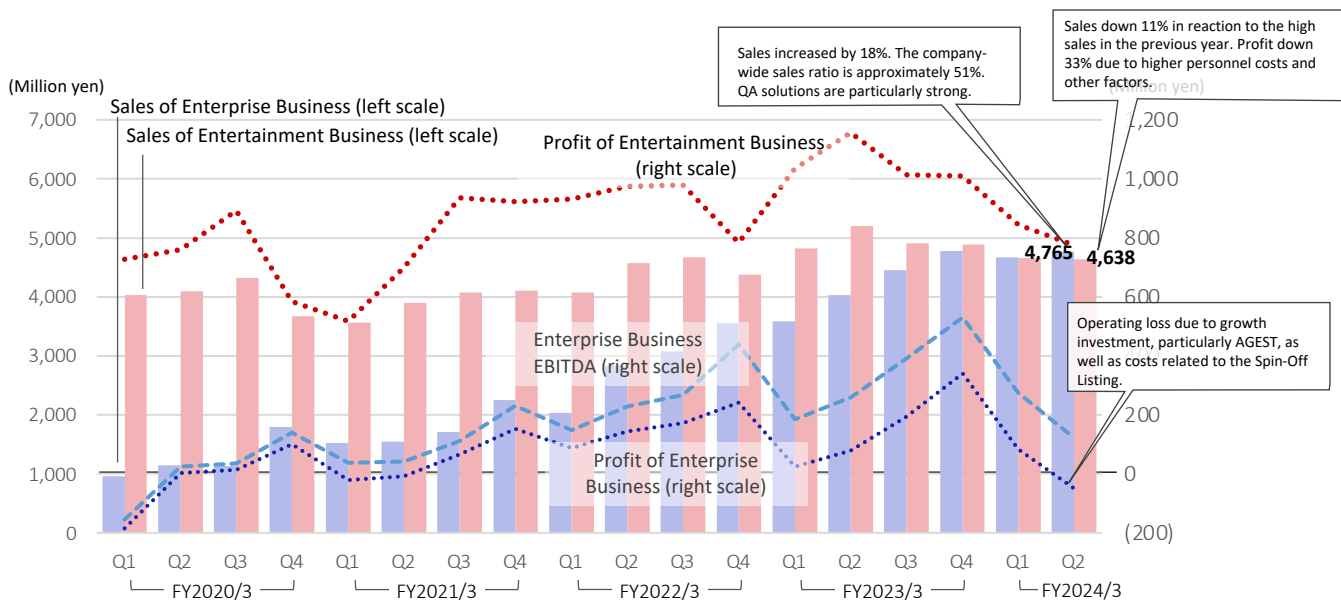
QA solutions main KPIs

	FY2022/3		FY2023/3		FY2024/3		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Number of clients with orders (companies)	748	627	650	693	808	824	822
Average sales per client (million yen)	10	10	12	12	13	13	14
Number of engineers (people)	924	961	1,026	993	1,009	1,047	1,082

Source: Prepared by Omega Investment based on company data

IT services and others: Sales: 3,141 million yen (+3.7%). The security monitoring service grew by 13.2% as the Company captured increasing demand against the backdrop of the expansion of remote working and other factors. The business base is steadily expanding, with the number of registered engineers at identity Inc., which became a subsidiary in June 2021, reaching 32,000.

Sales/Profit by Segment (Quarterly basis)



Source: Prepared by Omega Investment based on company data



2) Entertainment Business: Sales: 9,299 million yen, - 7.2%; operating profit: 1,618 million yen, -26.2%.

Domestic debugging maintained a high level of sales, but sales fell due to the impact of a backlash from the previous year. Meanwhile, Global and others also experienced sluggish growth, resulting in an overall sales decline of 7.2%. Profits fell by 26.2% due to the decline in sales and the impact of higher personnel costs, including increasing tester hourly wages to secure talented personnel. The Company expects sales and profitability to recover in the second half of the year.

Domestic debugging: Sales: 6,340 million yen (-8.1%). In console games, sales fell sharply due to the launch of a series of major titles in the previous year. However, by strengthening service quality etc., the Company maintains a high quarterly sales level of 3.1 billion yen, 105% of the FY2022/3 Q4 level. In addition to the decline in sales, the gross profit margin fell to 28.5% from 32.5% registered in FY2022/3 1H due to higher labour costs from the hourly wage increase implemented in April and the opening of a new base (Kumamoto), etc. The Company expects the gross profit margin to recover to the 30% level in the second half of the year as a result of sales growth and the penetration of the price pass-on from October.

Global and others: Sales: 2,958 million yen (-5.3%). In the Chinese market, sales fell due to the aftermath of the impact of COVID-19 and gaming regulations, as well as the detachment of the local advertising agency business in Taiwan. However, looking only at the focused areas of global services (translation, LQA, and marketing support), sales growth remained high at +10% YoY, excluding the impact of business restructuring of this business divestiture. Meanwhile, in August, the Company signed a strategic business alliance agreement with Localsoft, S.L., a game localisation company headquartered in Spain, to expand services for Japanese and Asian game makers expanding into Europe and the Middle East, and to strengthen its sales structure for European game makers. Furthermore, the Company is promoting initiatives for new growth in the Entertainment Business, including the commencement of development of an AI-based game translation engine, etc.

◇ Forecast for FY2024/3: Downward revision following Q2 results announcement

Following the announcement of Q2 results, the Company revised its full-year forecasts downwards. Sales were reduced from 40.75 billion yen to 40 billion yen, operating profit from 3.12 billion yen to 2.5 billion yen, and ordinary profit from 3.16 billion yen to 2.56 billion yen, resulting in a decrease in profit forecast from an increase in profit forecast before. Net profit attributable to owners of the parent was revised downwards from 2.1 billion yen to 550 million yen.

The reasons for the revision to the forecast for sales are as follows: 1) the Entertainment Business was affected by the expansion of COVID-19 and regulations in the Chinese games market, in addition to a lower result from the previously strong domestic games market; and 2) in the Enterprise Business, there was a delay in acquiring new projects at overseas subsidiaries following the expansion of COVID-19. The factors affecting profit were: 1) the failure to achieve sales estimates in both businesses; 2) increased costs for upfront investment in the Entertainment Business to strengthen the global business; 3) costs related to the Spin-Off Listing of AGEST, Inc.; and 4) impairment losses on goodwill and other assets of the aforementioned overseas businesses, which were recorded as extraordinary losses in the Q2.

As of the end of Q2, the Company achieved 46.7% and 29.2% of its revised forecasts for FY2024/3 of 40 billion in sales and 2.5 billion in operating profit, respectively. In the second half of the year, however, the Entertainment Business is expected to return to the trend of rising sales and profits backed by the recovery of the domestic games market, while the Enterprise Business is also expected to improve profitability thanks to the restructuring of overseas subsidiaries (cost reductions due to changes in growth strategy and management

Revised full-year consolidated forecasts for FY2024/3.

JPY, mn	Net sales	Oper. profit	Ord. profit	Profit ATOP	EPS (¥)
Previous forecast (A)	40,750	3,120	3,160	2,100	95.86
Revised forecast (B)	40,000	2,500	2,560	550	24.69
Change (B - A)	-750	-620	-600	-1,550	-
Percentage change (%)	-1.8	-19.9	-19.0	-73.8	-
Actual results for FY2023/3	36,517	3,000	3,152	799	36.50
Revised forecast, YoY (%)	9.5	-16.7	-18.8	-31.2	24.69
Actual results for Q2	18,669	729	792	-436	
Progress ratio as at Q2 (%)	46.7	29.2	30.9	-	-

Source: Prepared by Omega Investment based on company data

restructuring, reduced goodwill amortisation burden, etc.) and the expansion of domestic sales. As a result, the Company has announced that it is aiming for record sales of 21,330 million yen and operating profit of 1,770 million yen on a half-yearly basis.

◇ Progress of AGEST's Spin-Off Listing project

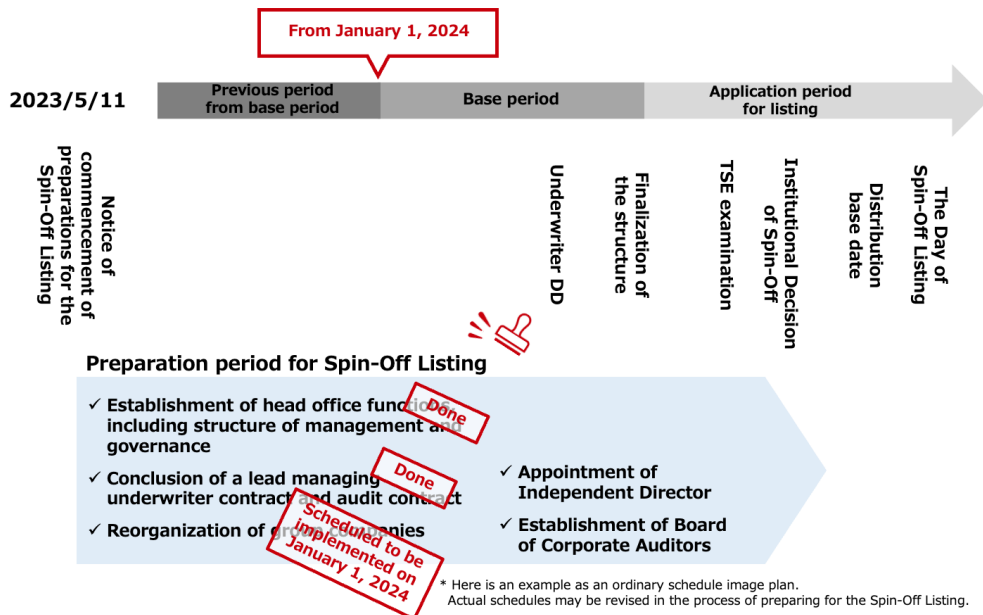
In previous reports, we have noted that a detailed explanation of the Spin-Off Listing was required to investors, but more informative explanatory slides have been added to the financial results presentation for reference (<https://pdf.irpocket.com/C3676/MH4b/r0vN/Mhmb.pdf>). From page 29 onwards, the document explains in an easy-to-understand manner the respective goals of the Enterprise Business and Entertainment Business and the choice to list AGEST, Inc. as a Spin-Off because the two businesses require different expertise and a different corporate culture.

Since the Spin-Off Listing plan was revealed in May at the time of the FY2023/3 result announcement, the Company has been actively recruiting personnel to build up AGEST's management structure, governance and head office functions in order to realise the Spin-Off Listing and the schedule appears to be progressing well (see diagram below).

In addition, the Company's US testing subsidiary, which recorded an impairment loss in Q2, has undergone a renewal of its management structure and organisational restructuring. The Vietnamese subsidiary of the US subsidiary was reorganised as AGEST Vietnam Co. Ltd. under the AGEST brand and will be reorganised as a subsidiary of AGEST. Vietnamese engineers and proprietary tools, which were previously utilised for services to European and US customers, will be actively utilised for services to Japanese companies (see next page, above diagram).

The reorganisation of these Enterprise-related group companies is scheduled to take place on January 1, 2024, and once the framework of the new AGEST Group is solidified in January 2024, a Spin-Off Listing is expected in 2025, with FY2024 as the base period.

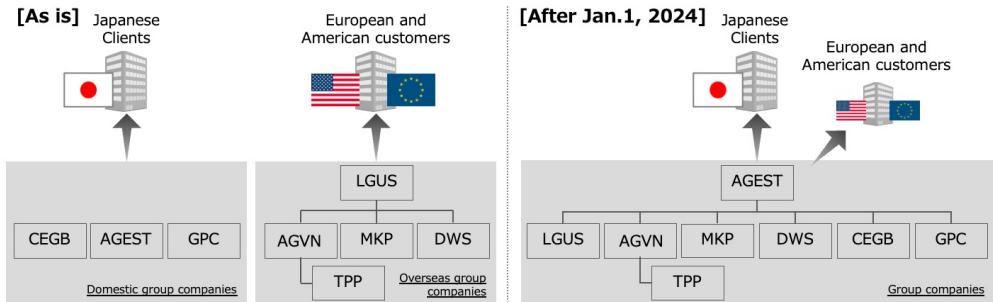
Progress of AGEST's Spin-Off schedule



Source: The company handout for the 2nd quarter results for FY2024/3 (published on November 9, 2023)

Reorganisation of the group's businesses around AGEST, Inc.

- Point 1** **Group reorganization and renewal of management structure.**
 - Each Enterprise Business subsidiary to become owned directly by AGEST, Inc. and to be consolidated.
 - Restructuring the management members of LOGIGEAR CORPORATION in U.S.
- Point 2** **Fully utilize Vietnam resources to Japanese market.**
 - Unify brands to AGEST by changing Vietnam subsidiary's name to AGEST Vietnam Co., Ltd.
 - Strengthen delivery capability for Japan by establishing "AGEST DX solution center" in Hanoi.
- Point 3** **New global initiatives to accelerate the growth of Enterprise Business.**
 - To utilize Vietnamese engineers and original tools, which had been for U.S. and European clients, for Japanese market under the strong marketing support by AGEST in Japan.



Source: The company handout for the 2nd quarter results for FY2024/3 (published on November 9, 2023)

◇ Stock price trend: Expectations for a rebound, as all the negative catalysts are out of the picture

The Company's share price has been on a downtrend since reaching a high of 2,700 yen on December 13, 2021. Following the announcement of the Q2 results and the downward revision of the full-year forecast, the share price fell 14% in the two days following the results announcement. The decline since the beginning of the year has been 52.7%. As the Entertainment Business had performed extremely well in the previous year, there was expected to be a certain degree of reactionary impact. However, it was a big surprise that an impairment loss of the same amount as the goodwill impairment of the overseas subsidiary of the Entertainment Business in FY2023/3 (approximately 1 billion yen) was also recorded at the overseas subsidiary of the Enterprise Business. The change in strategy in the overseas business, which has been low-profitable on a number of occasions since last year, is expected to be returning to profitability. And the impairment is also expected to lighten the burden of amortisation. In addition, as seen above, preparations for the Spin-Off Listing are progressing steadily. We will keep a close eye on those progress, including the future recovery in earnings.

Digital Hearts Holdings (3676) Stock Price Trend (3Year-to-date)



Financial data I

(Unit: million yen)

	2021/3				2022/3				2023/3				2024/3	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*	Q3*	Q4*	Q1	Q2
[Sales by segment]														
Net sales	5,093	5,437	5,782	6,355	6,098	7,400	7,747	7,932	8,372	9,190	9,316	9,638	9,262	9,372
YoY	2.1%	3.9%	6.0%	16.4%	19.7%	36.1%	34.0%	24.8%	37.3%	24.2%	20.3%	21.5%	11.0%	2.0%
Enterprise business	1,523	1,540	1,710	2,246	2,029	2,833	3,074	3,553	3,589	4,025	4,451	4,774	4,663	4,765
YoY	59.6%	35.1%	50.9%	25.2%	33.2%	83.9%	79.7%	58.2%	76.8%	42.0%	44.8%	34.3%	29.9%	18.4%
Composition of sales	29.9%	28.3%	29.6%	35.3%	33.3%	38.3%	39.7%	44.8%	42.9%	43.8%	47.8%	49.5%	50.2%	50.8%
QA solution	1,129	1,127	1,267	1,633	1,395	1,572	1,772	2,121	2,102	2,481	2,730	3,166	3,101	3,186
YoY	–	–	–	–	23.6%	39.5%	39.9%	29.9%	50.7%	57.8%	54.1%	49.3%	47.5%	28.4%
Composition of sales	22.2%	20.7%	21.9%	25.7%	22.9%	21.2%	22.9%	26.7%	25.1%	27.0%	29.3%	32.8%	33.9%	34.0%
IT services and others	393	413	442	613	634	1,260	1,301	1,432	1,486	1,543	1,721	1,608	1,562	1,579
YoY	–	–	–	–	61.3%	205.1%	194.3%	133.6%	134.3%	22.4%	32.3%	12.4%	5.1%	2.3%
Composition of sales	7.7%	7.6%	7.6%	9.6%	10.4%	17.0%	16.8%	18.1%	17.7%	16.8%	18.5%	16.7%	16.8%	16.8%
Entertainment business	3,566	3,900	4,072	4,109	4,069	4,566	4,672	4,378	4,818	5,201	4,906	4,889	4,661	4,638
YoY	-11.6%	-4.7%	-5.8%	12.1%	14.0%	17.1%	14.7%	6.6%	18.4%	13.9%	5.0%	11.7%	-3.3%	-10.9%
Composition of sales	70.0%	71.7%	70.4%	64.7%	66.7%	61.7%	60.3%	55.2%	57.6%	56.6%	52.7%	50.7%	50.1%	49.5%
Domestic debugging	2,681	2,846	2,953	3,054	2,931	3,030	3,149	3,011	3,334	3,561	3,220	3,720	3,171	3,169
YoY	–	–	–	–	9.3%	6.4%	6.7%	-1.4%	13.7%	17.5%	2.2%	8.6%	-4.9%	-11.0%
Composition of sales	52.7%	52.4%	51.1%	48.1%	48.1%	41.0%	40.7%	38.0%	39.8%	38.8%	34.6%	33.9%	34.1%	33.8%
Global and others	887	1,050	1,118	1,054	1,137	1,536	1,522	1,366	1,484	1,640	1,685	1,620	1,490	1,468
YoY	–	–	–	–	28.2%	46.3%	36.1%	29.6%	30.4%	6.8%	10.7%	18.5%	0.4%	-10.5%
Composition of sales	17.4%	19.3%	19.3%	16.6%	18.7%	20.8%	19.7%	17.2%	17.7%	17.8%	18.1%	16.8%	16.0%	15.7%
Operating profit	158	369	655	725	636	733	753	572	634	738	752	875	404	325
YoY	-16.4%	12.4%	19.7%	121.3%	301.3%	98.5%	14.9%	-21.1%	-0.3%	0.6%	-0.2%	52.8%	-36.3%	-55.9%
Operating profit margin	3.1%	6.8%	11.3%	11.4%	10.4%	9.9%	9.7%	7.2%	7.6%	8.0%	8.1%	9.1%	4.3%	3.5%
Enterprise business	-21	-7	64	152	87	144	171	241	24	79	194	340	83	-48
YoY	–	–	360.3%	51.3%	–	–	163.8%	58.7%	-72.0%	-45.2%	13.3%	40.6%	240.4%	–
Segment profit margin	-1.4%	-0.5%	3.8%	6.8%	4.3%	5.1%	5.6%	6.8%	0.7%	2.0%	4.4%	7.1%	1.8%	-1.0%
Entertainment business	517	700	936	923	930	975	978	783	1,036	1,155	1,014	1,008	844	774
YoY	-28.9%	-8.0%	5.0%	57.9%	79.9%	39.3%	4.5%	-15.2%	11.4%	18.5%	3.6%	28.8%	-18.5%	-33.1%
Segment profit margin	14.5%	17.9%	23.0%	22.5%	22.9%	21.4%	20.9%	17.9%	21.5%	22.2%	20.7%	20.6%	18.1%	16.7%

Note: * The provisional accounting treatment for the business consolidation was finalized in the fourth quarter of FY2023/3 and is reflected in the operating profit of the Corporate and Enterprise Business. In addition, the sub-segmentation of Enterprise Business was changed from FY2023/3. Total and overall segment totals may not match due to sales and operating profit adjustments.

Source: Omega Investment, based on company data

Financial data II

(Unit: million yen)

	2021/3				2022/3				2023/3				2024/3	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1*	Q2*	Q3*	Q4*	Q1	Q2
[Statements of income]														
Net sales	5,093	5,437	5,782	6,355	6,098	7,400	7,747	7,932	8,372	9,190	9,316	9,638	9,296	9,372
Cost of sales	3,819	4,002	4,001	4,700	4,271	5,290	5,579	5,645	5,899	6,478	6,690	6,817	6,890	6,978
Gross profit	1,273	1,437	1,781	1,655	1,827	2,109	2,167	2,287	2,472	2,713	2,625	2,820	2,406	2,394
SG&A expenses	1,115	1,067	1,126	1,150	1,191	1,375	1,414	1,714	1,837	1,970	1,868	1,961	2,001	2,068
Operating profit	158	369	655	725	636	733	753	572	634	738	752	875	404	325
Non-operating income	38	10	24	5	38	31	12	30	5	150	78	-14	15	55
Non-operating expenses	2	3	4	10	4	4	5	21	7	4	11	44	4	4
Ordinary profit	194	376	675	720	670	760	759	582	632	889	824	800	415	377
Extraordinary income		19	32		13	66	1	1	-	-	41	33	-	-
Extraordinary expenses	82	13	16	415	2	42	32	35	-	6	171	1,052	2	1,042
Net profit before income taxes	113	381	691	318	681	785	730	547	632	882	694	-218	412	-665
Total income taxes	38	122	224	145	189	281	233	35	198	306	216	418	79	108
Net profit attributable to owners of the parent	99	256	438	180	487	429	445	415	413	533	450	-601	338	-774
[Balance Sheets]														
Current assets	6,648	7,291	8,017	9,744	9,604	9,848	10,658	10,392	10,874	12,182	11,569	12,528	12,160	13,072
Cash and deposits	3,027	3,482	4,085	5,076	4,911	5,435	5,746	5,208	5,573	6,850	5,948	6,456	6,240	6,997
Notes and accounts receivable	2,889	3,099	3,201	4,097										
Notes, accounts receivable and contract assets					4,161	3,872	4,372	4,411	4,614	4,672	4,930	5,377	5,120	5,414
Non-current assets	3,205	3,167	3,160	4,593	6,321	6,178	6,342	7,217	8,158	8,505	8,343	7,052	7,234	6,218
Tangible fixed assets	560	549	565	598	602	623	621	693	1,067	1,077	1,100	1,169	1,259	1,335
Intangible fixed assets	1,445	1,424	1,433	2,670	4,389	4,244	4,225	5,139	5,206	5,750	5,593	4,188	4,146	3,021
Goodwill	1,032	991	950	2,467	4,175	4,042	3,945	4,588	4,812	5,301	5,082	3,468	3,411	2,423
Investments and other asset	1,199	1,193	1,161	1,324	1,330	1,309	1,495	1,384	1,883	1,678	1,649	1,694	1,828	1,861
Total assets	9,854	10,459	11,177	14,338	15,925	16,026	17,001	17,610	19,033	20,688	19,913	19,581	19,394	19,291
Current liabilities	4,450	4,655	5,061	7,904	8,954	8,775	9,354	9,679	10,759	11,330	9,495	9,930	10,126	10,644
Short-term borrowings	2,546	2,551	2,552	4,728	5,534	5,406	5,406	5,421	6,806	7,106	5,106	5,106	5,606	5,606
Non-current liabilities	62	132	135	119	294	55	58	364	162	154	113	176	185	198
Long-term debt	-	66	65	63	236	-	-	169	-	-	-	-	-	-
Total liabilities	4,513	4,788	5,196	8,024	9,249	8,830	9,413	10,044	10,921	11,485	9,608	10,107	10,311	10,842
Total net assets	5,340	5,670	5,980	6,314	6,677	7,196	7,588	7,566	8,111	9,202	10,304	9,474	9,082	8,448
Shareholders' equity	4,841	5,172	5,460	5,642	5,983	6,436	6,719	6,774	7,030	7,779	8,838	8,283	8,061	7,310
Capital	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Legal capital reserve	355	331	331	331	331	338	338	-	-	60	375	393	66	70
Retained earnings	6,848	7,105	7,393	7,575	7,916	8,342	8,626	9,019	9,275	9,809	10,031	9,427	9,532	8,757
Treasury shares	-2,662	-2,565	-2,565	-2,565	-2,565	-2,545	-2,546	-2,545	-2,545	-2,391	-1,868	-1,838	-1,838	-1,818
Stock acquisition right	13	13	13	13	-	-	-	-	-	10	6	6	-	-
Total liabilities and net assets	9,854	10,459	11,177	14,338	15,925	16,026	17,001	17,610	19,033	20,688	19,913	19,581	19,394	19,291
[Statements of cash flows]														
Cash flow from operating activities		101		1,416		1,703		3,077		1,430		2,850		1,156
Net profit before taxes		494		1,504		1,466		2,744		1,510		1,996		-252
Cash flow from investing activities		-261		-1,813		-1,682		-2,537		-1,496		-1,903		-592
Cash flow from financing activities		-90		1,730		316		-546		1,488		141		-200
Free cash flow		-160		-397		21		540		-66		947		564
Net increase (decrease) in cash and cash equivalents		-252		1,341		359		132		1,676		1,283		540
Cash and cash equivalents at beginning of period		3,704		3,704		5,041		5,041		5,173		5,173		6,454
Cash and cash equivalents at end of period		3,447		5,041		5,400		5,173		6,850		6,456		6,997

Note: In the fourth quarter of FY2023/3, the provisional accounting treatment for the business consolidation was finalized and reflected in operating profit in the PL. Other than this, no adjustments have been made for profits below ordinary profit, BS and CF, as they are not disclosed.

Source: Omega Investment, based on company data.

Financial data (full year basis)

(Unit: million yen, yen)

	FY2014/3	FY2015/3	FY2016/3	FY2017/3	FY2018/3	FY2019/3	FY2020/3	FY2021/3	FY2022/3	FY2023/3
[Statements of income]										
Net sales	10,137	13,285	15,011	15,444	17,353	19,254	21,138	22,669	29,178	36,517
YoY (%)	–	31.0	13.0	2.9	12.4	11.0	9.8	7.2	28.7	25.2
Cost of sales	6,653	9,336	10,690	10,938	12,394	13,791	15,566	16,235	20,787	25,885
Gross profit	3,484	3,948	4,320	4,506	4,958	5,463	5,571	6,433	8,391	10,632
SG&A expenses	1,703	2,431	2,356	2,599	3,222	3,857	4,177	4,524	5,695	7,631
Operating profit	1,780	1,517	1,963	1,906	1,735	1,605	1,394	1,908	2,696	3,000
YoY (%)	–	14.8	29.4	-2.9	-9.0	-7.5	-13.2	36.9	41.3	11.3
Operating profit margin (%)	17.6	11.4	13.1	12.3	10.0	8.3	6.6	8.4	9.2	8.2
Non-operating income	22	66	43	128	57	109	22	80	112	220
Non-operating expenses	15	57	49	37	10	63	44	13	34	68
Ordinary profit	1,788	1,525	1,958	1,997	1,782	1,651	1,372	1,975	2,774	3,152
Extraordinary income	18		9	17	2	733		55	83	75
Extraordinary expenses	14		835	573	151	51	75	526	112	1,231
Net profit before income taxes	1,792	1,525	1,132	1,441	1,632	2,333	1,296	1,504	2,749	1,996
Total income taxes	700	975	734	641	503	745	499	530	739	1,109
Net profit attributable to owners of the parent	1,087	539	361	795	1,200	1,575	792	974	1,778	799
YoY (%)	–	-50.4	-33.0	119.7	51.0	31.3	-49.7	23.0	82.7	-55.0
Net profit margin (%)	10.7	4.1	2.4	5.1	6.9	8.2	3.7	4.3	6.1	2.2
[Supplementary data]										
EPS	45.96	22.61	15.72	35.58	55.14	72.13	36.31	45.15	82.25	36.50
ROE (%)	33.6	13.8	10.5	29.2	40.0	38.6	16.3	18.4	28.0	10.1
ROA (%)	29.8	19.8	26.5	28.2	22.0	17.9	13.4	15.8	17.4	17.0
Dividend	16.00	34.00	38.00	23.00	11.50	13.00	14.00	14.00	15.00	21.00
Dividend payout ratio (%)	16.3	37.6	60.4	32.3	20.9	18.0	38.6	31.0	18.2	57.5
[Balance Sheets]										
Current assets	5,549	5,756	5,064	6,221	6,732	7,403	7,453	9,744	10,392	12,528
Cash and deposits	3,693	3,058	2,197	3,344	3,894	4,197	3,739	5,076	5,208	6,456
Notes and accounts receivable	1,483	2,374	2,230	1,942	2,480	2,724	2,985	4,097		
Notes, accounts receivable and contract assets									4,411	5,377
Non-current assets	1,611	2,516	1,469	1,430	1,842	2,428	6,178	6,342	7,217	7,052
Tangible fixed assets	323	368	299	298	473	558	579	598	693	1,169
Intangible fixed assets	695	1,505	580	238	286	763	1,379	2,670	5,139	4,188
Goodwill	595	1,169	437	201	150	481	1,027	2,467	4,588	3,468
Investments and other assets	592	642	589	893	1,082	1,107	1,225	1,324	1,384	1,694
Total assets	7,160	8,272	6,533	7,651	8,575	9,832	10,637	14,338	17,610	19,581
Current liabilities	3,372	3,823	3,374	3,759	3,929	4,192	5,134	7,904	9,679	9,930
Short-term borrowings	1,610	1,603	1,299	1,630	1,600	1,704	2,546	4,728	5,421	5,106
Non-current liabilities	20	280	69	1,033	1,075	627	63	119	364	176
Long-term debt	12	216	46	2	–	50	–	63	169	–
Total liabilities	3,393	4,104	3,444	4,793	5,005	4,819	5,198	8,024	10,044	10,107
Total net assets	3,766	4,168	3,089	2,858	3,570	5,012	5,438	6,314	7,566	9,474
Shareholders' equity	3,687	4,036	2,773	2,590	3,340	4,763	4,898	5,642	6,774	8,283
Capital	300	300	300	300	300	300	300	300	300	300
Legal capital reserve	300	300	368	277	331	366	355	331	–	393
Retained earnings	3,086	3,435	3,604	4,164	5,113	6,408	6,904	7,575	9,019	9,427
Treasury shares	0	0	-1,499	-2,152	-2,405	-2,311	-2,662	-2,565	-2,545	-1,838
Stock acquisition right		14	14			13	13	13	–	6
Total liabilities and net assets	7,160	8,272	6,533	7,651	8,575	9,832	10,637	14,338	17,610	19,581
Equity Ratio (%)	51.9	49.5	43.1	34.4	39.3	48.7	46.3	39.7	39.7	45.0
BPS	155.63	171.30	125.80	119.96	154.61	219.06	228.62	263.32	323.21	395.65
[Statements of cash flows]										
Cash flow from operating activities	1,561	870	1,080	1,825	1,436	889	1,086	1,416	3,077	2,850
Net profit before taxes	1,792	1,525	1,132	1,441	1,632	2,333	1,296	1,504	2,744	1,996
Cash flow from investing activities	-368	-568	-17	-610	-618	62	-1,018	-1,813	-2,537	-1,903
Cash flow from financing activities	308	-950	-1,913	-69	-250	-693	-515	1,730	-546	141
Free cash flow	1,193	302	1,063	1,215	818	951	68	-397	540	947
Cash and cash equivalents at end of period	1,508	-634	-860	1,146	564	258	-458	1,341	132	1,283
Cash and cash equivalents at beginning of period	2,184	3,693	3,058	2,197	3,344	3,894	4,162	3,704	5,041	5,173
Cash and cash equivalents at end of period	3,693	3,058	2,197	3,344	3,894	4,162	3,704	5,041	5,173	6,456

Note: In Q4 of FY03/2023, the provisional accounting treatment for the business combination was finalized and reflected in the operating income on the financial statements. No revisions have been made for ordinary income and below, BS, and CF, as they are not disclosed.

Source: Omega Investment, based on company data.



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