DIGITAL HEARTS HOLDINGS Co., Ltd.

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Growth Accelerates in the Enterprise Business; Recruitment and Training of Expert Engineers is a Key Growth Engine

For the FY3/19 3Q Nine-month Period (April-December), the Enterprise Business Achieved Significant Growth in Sales. The Company Continued Proactive Upfront Investments to Expand Business

For the FY3/19 3Q nine-month period (April-December), DIGITAL HEARTS HOLDINGS Co., Ltd. (the “Company”) posted the following consolidated business results: net sales were ¥14,393mn (up 11.1% year on year (YoY)), operating income was ¥1,241mn (down 19.9% YoY), ordinary income was ¥1,233mn, (down 21.3% YoY), and profit attributable to owners of parent was ¥847mn (down 15.5% YoY). Net sales increased in both the Entertainment and Enterprise businesses. The Company achieved roughly two-fold growth in net sales in the Enterprise Business, an area of particular focus. Meanwhile, on the earnings front, profits declined in the Enterprise Business. This decline reflected proactive upfront investments, including investments in human resources, as the Company strengthened measures to expand business with a view to making the Enterprise Business its second earnings pillar. Another factor behind the decline in profits was a large decrease in sales from debugging services for amusement equipment such as pachinko machines. However, this sales decrease had already been factored into the initial forecast, and the impact of decreased sales in this field was mostly in line with expectations.

Slight Risk to Achievement of Full-Year Forecasts, Despite Record-High Net Sales for the October-December Period

In the 3Q three-month period (October-December), net sales were ¥5,059mn (up 7.7% YoY), reaching a record-high result. Operating income was ¥464mn (down 15.2% YoY), due to the impact of upfront investments primarily in the Enterprise Business. However, the operating income margin has improved after bottoming out at 4.2% in FY3/18 4Q. In our view, it is commendable that the operating income margin has now recovered to nearly 10%.

In order to achieve the full-year forecasts, the Company will need to generate net sales of ¥6,607mn and operating income of ¥959mn in FY3/19 4Q. There is a slight risk to the Company’s prospects for achieving its full-year forecasts.
In FY3/19 3Q (October–December), the Company seems to have fallen slightly short of its aggressive forecasts for the System Testing Div. as well as the Debugging Div.’s Game Console and Mobile Solutions departments. Debugging services in the Game Console Dept. are highly susceptible to the impact of the development schedules of client companies. In particular, the development schedules for major game titles and sequels of popular titles are highly susceptible to revisions by game manufacturers. For this reason, investors need to be mindful that there may be some timing differences between the Company’s actual performance and its forecasts.


Debugging services in the Mobile Solutions Dept. continue to perform favorably. Unlike console games, there is regular demand for debugging services for mobile games because these games require debugging work not only before launch, but also for updates and other modifications in the operational phase. For the FY3/19 3Q three-month period, net sales in the Mobile Solutions Dept. were ¥2,098 million, an increase of 7.4% YoY. For the FY3/19 3Q nine-month period, net sales rose 14.3% YoY, showing double-digit growth.
Other areas of the Entertainment Business consist of the Creative Div., which provides production support services spanning a comprehensive range of creative fields in content production, such as game development and 2D/3D graphics production and the Media Div., which primarily involves the operation of 4Gamer.net, one of Japan’s largest general game information sites and the provision of customer support services. In the Creative Div., the Company made steady progress on winning new projects for 2D/3D graphics production and related areas, in addition to continuously winning game development projects, as a result of a strong focus on recruiting and nurturing human resources with excellent engineering skills. For the FY3/19 3Q nine-month period, the Creative Div. posted strong sales of ¥1,495mn (up 21.3% YoY). In the Media Div., net sales grew substantially to ¥692mn (up 59.1% YoY), reflecting better value provided through the operation of websites such as 4Game.net.

Growth Accelerates in the Enterprise Business, a Field Offering Strong Prospects for Business Expansion

Growth has also accelerated in the Enterprise Business, where the Company is strengthening measures to expand this business as a second pillar of operations. The Enterprise Business consists of the System Testing Div., which provides services to detect defects in enterprise systems, and the IT Service / Security Div., which conducts contract-based system development and IT support, security and other services. For the FY3/19 3Q nine-month period, the Enterprise Business achieved significant growth, with net sales of ¥2,319mn (up 93.7% YoY). These sales consisted of net sales of ¥911mn (up 41.8% YoY) in the System Testing Div. and ¥1,407mn (up 153.8% YoY) in IT Service / Security Div. Although the Enterprise Business accounts for only around 20% of the Company’s overall net sales, it is a field that offers strong prospects for future business expansion.

Recruitment and Training of Expert Engineers: a Top Priority for Expanding Business and a Key Growth Engine

Recruitment and training of expert engineers capable of defining requirements for and designing system tests are a top priority for expanding the Enterprise Business. As of the end of FY3/19 3Q, the number of expert engineers was 183, up more than 1.5 times from the level in the same period a year earlier (102). This represents a progress rate of 85.5% against the full-year forecast of 214. In this manner, the Company is steadily recruiting and training human resources. As part of human resources development measures, the Company is pushing ahead with efforts to build an internal system for training expert engineers. One notable step was the start of a support program for the Company’s roughly 8,000 registered testers, including game enthusiasts, designed to help them acquire qualifications as software testing engineers. Having a large number of expert engineers will enable the Company to win orders for projects from a wider range of companies, for example. This will serve as a one of the Company’s key growth engines.
System Testing Div. Wins Expansive Orders in New Fields as Investment Benefits Become Apparent

Through the aforementioned initiatives, the System Testing Div. has steadily won system testing orders in new fields. Notable examples are orders for system testing of e-commerce and music streaming sites in the information and communications technology sector, Internet banking and online securities trading sites in the financial services sector, IoT-enabled beverage machines in the food sector, connected car systems and car navigation systems in the automobile sector, and sales support systems and property management systems in the real estate sector and internal hospital information systems and medical devices in the healthcare sector. In these ways, the Company seeks to accumulate expertise by building a solid track record in a wide range of software testing fields, which will pave the way for acquiring more and more new customers. Concurrently, the Company intends to strengthen the recruitment of expert engineers by becoming a better recognized player within the industry.

The Company Has One of Japan’s Largest Corps of Software Testing Engineer Qualification Holders. As Initiatives to Achieve a Digital Transformation Gather Pace, the Company’s Strength Lies in Its Unique Market Position.

The Company’s greatest strength lies in the fact that amid shortages in IT personnel, it has approximately 8,000 registered testers who have a high aptitude for digital fields. Many of these testers join the Company out of their love for gaming, and a lot of them have the potential ability to perform tests in the Enterprise Business field. For this reason, the Company has begun initiatives to train these testers into expert engineers through an original training program. In fact, the Company has obtained good results—more than 300 testers with backgrounds as “game enthusiasts” have acquired software testing engineer qualifications. The Company is unique in that it performs efficient tests based on more than 1 million bug reports and related detection expertise amassed by testers since the Company’s founding. Another unique aspect is that there are very few enterprises like the Company that specialize in debugging and system testing services.
The DIGITAL HEARTS HOLDINGS Group's growth strategies are to drive sustained growth in the Entertainment Business and to expand the Enterprise Business as a second pillar of operations. In the environment surrounding the Company, industry as a whole has accelerated initiatives to achieve a digital transformation, including government-led measures to develop a suitable environment. The goal is to realize an industrial society that generates new added value and helps to solve issues faced by customers and society by linking all manner of things via networks through the Internet of Things (IoT) and other technologies. It follows that there will be an increase in the systems and equipment that bridge networks in a wide range of industries. Based on this outlook, demand for the Company's system testing services is expected to continue increasing going forward. We would like to focus on how the Company will capture this demand. Having established a solid market position in game debugging services, the Company will surely be expected to achieve growth in the system testing field, which offers prospects for strong demand.
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