

Digital Hearts Holdings | 3676

Sponsored Research
April 26, 2021



Upwardly revised full-term FY3/2021 operating profit outlook to ¥1.9bn, up approximately 1.4 times YoY. Transitioning to a new management structure as foundation building in the Enterprise business comes to a close

▷ Consolidated full-term FY3/2021 outlook revised as follows (¥mn)

	(Previous CE)	(Revised CE)	(Change)	(% Change)
▪ Net sales	23,080	→ 23,080	–	–
▪ Operating profit	1,600	→ 1,900	300	18.8
▪ Ordinary profit	1,600	→ 1,950	350	21.9
▪ Profit ATOP	1,100	→ 1,000	-100	-9.1
▪ EPS	51.09	→ 46.33	(yen)	

—On April 23, 2021, Digital Hearts Holdings (TSE: 3676) announced a revision to its full-term FY3/2021 outlook. Net sales are progressing as planned, with the Enterprise business continuing to achieve high growth and the Entertainment business showing signs of recovery from the COVID-19 pandemic in 2H as it enjoys the benefits of stay-at-home demand.

—Meanwhile, operating profit and ordinary profit are expected to exceed plans on the back of business reforms at Lab. (test center) and the Enterprise business turning profitable for the full year. The company upwardly revised its operating profit outlook to ¥1.9bn, up approximately 1.4 times YoY. However, profit attributable to owners of the parent is expected to fall short of the previous outlook as the company recorded of an impairment loss of approximately ¥90mn on goodwill incurred when acquiring Orgosoft Co., Ltd.

▷ Transitioning to a new management structure as foundation building in the Enterprise business comes to a close

—In recent years, the company has been focusing on expanding its Enterprise business, calling it the ‘Second Founding’ period. Current President and CEO Genichi Tamatsuka was appointed in June 2017. Under his strong leadership, the Enterprise business has developed new businesses, strengthened expert personnel, and carried out M&A. As a result, the business has grown and is within reach of ¥10bn in sales for FY3/2021. In addition, the business achieved full-term operating profitability.

—Now that the company has completed its ‘Second Founding’ period and diversified its business portfolio, it has decided that it needs to shift to a new organization that emphasizes a field-driven bottom-up approach to achieve further growth in each of its businesses. As such, the company decided to transition to a new management structure, which includes a change in representative director. Mr. Tamatsuka will step down to become an advisor, and Yasumasa Ninomiya, who has been in charge of the Enterprise business, will be promoted to President and CEO, and

¥mn	Net Sales	YoY (%)	Oper. Profit	YoY (%)	Ord. Profit	YoY (%)	Profit ATOP	YoY (%)	EPS ¥
2017/3	15,444	2.9	1,906	-2.9	1,997	2.0	795	120.2	35.58
2018/3	17,353	12.4	1,735	-9.0	1,782	-10.8	1,200	50.9	55.14
2019/3	19,254	11.0	1,605	-7.5	1,651	-7.4	1,575	31.3	72.13
2020/3	21,138	9.8	1,394	-13.2	1,372	-16.9	792	-49.7	36.31
2021/3 (P. CE)	23,080	9.2	1,600	14.8	1,600	16.6	1,100	38.9	51.09
2021/3 (R. CE)	23,080	9.2	1,900	36.3	1,950	42.1	1,000	26.3	46.33
Change	–		300		350		-100		
% Change	–		18.8		21.9		-9.1		

Source: Sessa Partners from company materials

NEWS FLASH



Focus Points

Pioneer specialist firm in software testing. In the ‘Second Founding’ period, focusing on Enterprise Business, which has been expanding sales by 50% per year most recently. Enterprise Business now accounts for 30% of total sales, and profitability is in sight.

Key indicators

Stock price (4/23)	1,481
YH (4/7)	1,695
YL (1/6)	1,215
10YH (16/9/29)	2,200
10YL (20/3/23)	552
Shares issued (mn, shrs)	23.890
Market Cap (¥bn)	35.382
EV (¥bn)	30.871
Capital ratio (12/31)	49.0%
21/3 PER (CE)	31.97x
20/3 PBR (act)	5.84x
20/3 ROE (act)	16.4%
21/3 DY (CE)	0.94%

Share Chart (1-year)



Source: SESSA Partners via SPEEDA

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Details of the Change

Post	Current Position	New Position (As of June 24, 2021)
President and CEO, Representative Director	Genichi TAMATSUKA	Yasumasa NINOMIYA
Executive Vice President and CFO, Director	—	Toshiya TSUKUSHI
Director and CFO	Toshiya TSUKUSHI	—
Chairman	Eiichi MIYAZAWA	Eiichi MIYAZAWA
Director	Yasumasa NINOMIYA	—
Outside Director	Takashi YANAGIYA	Takashi YANAGIYA
Outside Director	Gaku ISHIWATA	Gaku ISHIWATA
Standing Corporate Auditor	Masahide DATE	Masahide DATE
Corporate Auditor	Keiya KAZAMA	Keiya KAZAMA
Outside Corporate Auditor	Toshifumi NIKAWA	Toshifumi NIKAWA
Outside Corporate Auditor	Mineo TAKAI	Yoko OKANO
Advisor	—	Genichi TAMATSUKA

Toshiya Tsukushi, Director and CFO, will be promoted to Executive Vice President and CFO. The new President, Mr. Ninomiya, has grown the Enterprise business from the ground up under Mr. Tamatsuka's leadership, and has a thorough understanding of the business. In addition, Mr. Tsukushi, the new Executive Vice President and CFO, has played a leading role in recent M&A and other activities, and plans to shift to a follower-ship type organization with Mr. Ninomiya to drive the company into a new growth period. — This is a step down for Mr. Tamatsuka, who has been leading the company's business reform. However, as mentioned in previous reports, the company has already completed building the foundation for its Enterprise business, which was its primary mission during the 'Second Founding' period, and it is safe to assume that this will not have a major impact on the company's future growth strategy.

Profile of the newly appointed Representative Director

Name	Yasumasa NINOMIYA	
Date of birth	August 18, 1972	
Shares held	8,233 shares	
Career summary	April 1995	Joined Osaka Usen Broadcasting Corporation (currently USEN-NEXT HOLDINGS Co., Ltd.)
	April 2009	General Manager of the Personal Business Division, Osaka Usen Broadcasting Corporation (currently USEN-NEXT HOLDINGS Co., Ltd.)
	December 2010	Member of the Board, U-NEXT Co., Ltd. (currently USEN-NEXT HOLDINGS Co., Ltd.)
	May 2011	Member of the Board, U-MX co., LTD.
	March 2017	Representative Director , Y.U-mobile Co., Ltd.
	July 2017	Executive Officer in charge of Sales Management, DIGITAL HEARTS Co., Ltd.
	October 2017	Member of the Board in charge of BS Business division, DIGITAL HEARTS Co., Ltd.
	April 2018	Executive Vice President and Member of the Board, DIGITAL HEARTS Co., Ltd. (present)
	June 2019	Member of the Board, DIGITAL HEARTS HOLDINGS Co., Ltd. (present)

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