DIGITAL HOLDINGS

For the sake of improved understanding of the company's financial performance for non-Japanese investors, this earnings release is prepared in a different format from the Japanese original Tokyo Stock Exchange Disclosure of Earnings Reports (Kessan Tanshin) released on August 5, 2022. In the event of any discrepancy between this English document and the Japanese original, the Japanese original shall always prevail.

August 5, 2022.

# DIGITAL HOLDINGS, INC. (PRM 2389)
# Consolidated Financial Results for the 6 Months Ended June 30, 2022 (J-GAAP, Unaudited)

Tokyo, August 5, 2022, DIGITAL HOLDINGS, INC. ("the Company") announced today its consolidated financial results for the six months ended on June 30, 2022. (From January 1 to June 30, 2022, "FY 2022 Q2")

(Amount are rounded down to the nearest million yen)

***Consolidated Operating Results for 2022 Q2***
*(in million yen, unless otherwise stated)*

| | Three months ended on June 30 | | |
|---|---|---|---|
| | FY 2022 Q2 | FY 2021 Q2 | YoY(%) |
| Revenue | 7,878 | 55,028 | – |
| Operating profit | -588 | 9,974 | – |
| Ordinary profit | -597 | 12,854 | – |
| EBIT*1 | 8,264 | 13,569 | -39.1% |
| EBITDA*2 | 8,568 | 14,255 | -39.9% |
| Profit attributable to owners of parent | 5,794 | 9,388 | -38.3% |
| Earnings per share- diluted (yen) | – | 427.42 | – |
| Earnings per share- basic (yen) | 284.37 | 427.42 | – |

Notes:
1. EBIT= Profit (loss) before income taxes + Interest expenses - Interest income
2. EBITDA = EBIT + Other financial gains (losses) + Depreciation + Amortization + Share-based remuneration expenses + Impairment loss
3. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of this first quarter. As this result, the figures for FY 2022 Q2 are calculated after applying the revenue recognition standard. "Net sales" is presented as "revenue" as a result of consideration from a more appropriate presentation point of view, based on the adoption of the revenue recognition standards. Revenue, which has a significant impact from the adoption of the revenue recognition standard, is not shown as a percentage of change from the same period of the previous fiscal year.

***Consolidated Balance Sheet Data***
*(in million yen, unless otherwise stated)*

| | As of June 30, 2022 | As of December 31, 2021 |
|---|---|---|
| Total assets | 62,751 | 69,728 |
| Net assets | 39,936 | 40,930 |
| Ratio of equity attributable to owners of parent (%) | 53.6% | 46.9% |

***Dividends***

| | FY 2022 | FY 2021 | FY 2022 Forecast |
|---|---|---|---|
| End of Q1 (yen) | － | － | － |
| End of Q2 (yen) | | 0.00 | － |
| End of Q3 (yen) | | － | － |
| End of Q4 (yen) | | 97.00 | － |
| **Total** | | **97.00** | **－** |

Note:

The company sets a consolidated payout ratio target of 20% of profit attributable to owners of parent before amortization of goodwill from the year ended December 31, 2017. The company does not make a forecast for annual dividend for the year ending December 2022.

***Forecast for the year ending December 31, 2022***

| *(in million yen, unless otherwise stated)* | FY 2022 | YoY(%) |
|---|---|---|
| Revenue | 16,400 | -43.2% |
| Operating profit | -2,100 | － |
| Ordinary profit | -2,100 | － |
| Profit attributable to owners of parent | 5,300 | -48.5% |

Notes:

1. Revision from the previous earnings forecast: None.
2. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) has been applied from the beginning of this first quarter. As this result, the figures pertaining to the consolidated earnings forecasts for the fiscal year ending December 2022 are the figures after applying the revenue recognition standard.

***Appropriate use of earnings forecast and forward-looking statement***

Although forward-looking statements contained in this document are based upon what management of the Company believes are reasonable assumptions, there can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

The information contained in this material is carefully scrutinized before presentation as it is intended to facilitate your understanding of the Company's business, management policies and plans, financial position, etc. However, we do not guarantee its accuracy, completeness, effectiveness, or security. None of the information herein is prepared to solicitate investment. The final decision on investing should be made by you, under your own responsibility. We will not be responsible or liable for any consequences resulting from investments made by you in reference to, or by use of, the information.

Any information herein other than past or present facts represents our future outlook developed based on the input currently available, and includes various risks and uncertainties. Thus, please note that actual business results released at a later date may differ due to such factors

***Changes in material subsidiaries for the reporting period***

None

***Changes in accounting policies and changes in accounting estimates***

(1) Changes in accounting policies required by amendments to accounting standards, etc.: Yes, as aforementioned.
(2) Other accounting policies except for item (1): None
(3) Accounting estimates: None
(4) Retrospective restatements: None

***Number of shares issued –Common stock***

| | FY 2022 Q2 | FY 2021 |
|---|---|---|
| Number of shares issued including treasury shares | 23,817,700 | 23,817,700 |
| Number of treasury shares | 4,799,343 | 2,613,543 |
| Average number of shares during the period | 20,375,917 | 21,965,049 |

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## 1. Management Discussion and Analysis

### (1) Operating results

DIGITAL HOLDINGS, INC. and its consolidated subsidiaries (hereinafter the “Group”) are surrounded by a business environment where the domestic market is shrinking due to declining population of Japan accelerated by its aging society with a falling birth rate. However, the recent rapid advances in science, technology and innovation have boosted the trend to realize digital transformation (DX) that transforms conventional products and services as well as business models by leveraging data and digital technologies.

Furthermore, based on the recognition that we will see progress of the realization of “Society 5.0” — a society that aims to achieve a high degree of convergence between cyberspace (virtual space) and physical space (real space), which brings new value to industry and society in ways not previously possible — proposed by the Japanese Cabinet Office, we expect that such progress will further drive the growth of demand for “digital shift” relating to “information, human resources, products and money,” which are what the Group pursues to offer.

Our group has a purpose of "By creating new value, we will bring about industrial transformation and solve social issues.". This purpose's policy is to maximize clients' corporate value and cash flow by driving every "digital shift" of our clients under this purpose. In connection with this, as of July 1, 2020, the company has changed its trade name from "OPT Holding, Inc." to "DIGITAL HOLDINGS, INC.".

The Group also aims to expand its business by shifting its main business domain from the Marketing Business, centering on support for clients’ sales promotion, to the Digital Shift-related Businesses, thereby achieving a target of “corporate value of JPY 1 trillion by 2030.”

In addition, our group has set "DS Innovation 2023" as a mid term business target through 2023 to realize its management policy. In order to strongly promote the pivot to Digital Shift Business this fiscal year, our group has set "intensive investment to IX (Industrial Transformation)" and "continuous improvement of profitability in Advertising Business" as our key measures. The details are as follows.

① Intensive investment to IX

Our group will concentrate its investments of manpower and financial resources in the IX business, which is expected to achieve high growth, from the perspective of "selection and concentration". Our group plans to invest JPY 3.3 billion in IX-related businesses. As a result, our group's IX-related net sales are planned to grow by more than 400% year on year.

Note: Net sales growth of IX-related businesses; Calculated based on the accounting standard before application of the accounting standard for revenue recognition.

② Continuous improvement of profitability in Advertising Business

In Advertising Business, operating profit margin improved from 2.2% in FY 2020 to 4.2% in FY 2021. In FY 2022, we aim to improve our operating profit ratio to 5.1% by continuing to review our Internet advertising operations and creative business processes.

Note: Operating profit margin; Calculated from net sales based on the accounting standard before application of the revenue recognition standard.

As a results of business operations based on the above management policy, the group reported operating results for second consolidated accounting period with revenue of JPY 3,231 million (down 20.8% YoY), gross profit of JPY 2,242 million (down 23.3% YoY), operating loss of JPY 402 million (operating loss of JPY 597 million in the same period previous fiscal year), EBIT of JPY 8,632 million (up 297.8% YoY), EBITDA of JPY 8,719 million (up 239.9% YoY) and income attributable to owners of parent was JPY 6,041 million (up 291.1% YoY).

From the second quarter, SoldOut, Inc., its three consolidated subsidiaries and SIGNATE Inc. are excluded from the consolidation. Excluding the effects of gain on sale and exclusion from consolidation, the revenue was JPY 3,231 million (up 10.7% YoY), gross profit was JPY 2,235 million (up 17.4% YoY), operating loss was JPY 292 million (operating loss of JPY 524 million in the same period previous fiscal year), EBIT was -JPY 345 million (JPY 2,241 million in the same period previous fiscal year), EBITDA was -JPY 252 million (JPY 2,241 million in the same period previous fiscal year), and profit attributable to owners of parent was -JPY 5 million (JPY 1,619 million in the same period previous fiscal year).

Moreover, in the consolidated results for the first six months of the fiscal year, revenue was JPY 7,878 million (down 63.7% YoY), gross profit was JPY 5,696 million (down 66.7% YoY), operating loss was JPY 588 million (operating porfit of JPY 9,974 million in the same period previous fiscal year), EBIT was JPY 8,264 million (down 39.1% YoY), EBITDA was JPY 8,568 million (down 39.9% YoY), and profit attributable to owners of parent was JPY 5,794 million (down 38.3% YoY).

The company has adopted the accounting standard for revenue recognition (Accounting Standards Board of Japan (ASBJ) standard No. 29 issued on March 31, 2020. Hereinafter referred as "the revenue recognition standard".) from the fiscal year. Therefore, "revenue" based on the accounting standard after application of "the revenue recognition standard" is shown, instead of "net sales" based on the accounting standard before application of "the revenue recognition standard". As the accounting standard for revenue differs from that of the previous second quarter, revenue of the above consolidated results, revenue of Digital Shift Business, and revenue of Advertising Business are not presented year-on-year. For reference, on the next page, revenue as figures of transactions conducted as agents in FY 2021 Q2, which have been reclassified from gross amount presentation to net amount presentation, and revenue in FY 2022 Q2 are shown. In addition, the figures have been reclassified to net sales in accordance with the accounting standards before the adoption of the revenue recognition standard for FY 2022 Q2 and the net sales comparison with the same period of the previous fiscal year is shown as well.

The operating results for each segment are as follows.

**< Digital Shift Business >**

Digital Shift Business consists of the development of new businesses and the provision of services (IX) such as Vertical SaaS in order to solve the industry issues faced by each industry, centered on companies such as Re:teigi, Inc., RePharmacy, Inc., and ConnectOM, Inc. In addition, digital shift consultation support and DX product development by companies such as Digital Shift, Inc.

As for operating results of the Digital Shift Business segment in FY 2022 Q2, due to exclusion of two consolidated subsidiaries of SoldOut, Inc. and SIGNATE Inc., the revenue has dropped significantly to JPY 1,018 million (down 22.8% YoY), gross profit to JPY 295 million (down 45.2% YoY). On the other hand, improvements were made in operating loss to JPY 166 million (-JPY 276 million in the same period previous fiscal year), EBIT to -JPY 87 million (-JPY 220 million in the same period previous fiscal year), EBITDA to -JPY 70 million (-JPY 165 million in the same period previous fiscal year), due to the fact that SIGNATE Inc. was a money-losing business.

As for operating results of the Digital Shift Business segment in FY 2022 Q2, excluding the effect of exclusion of two consolidated subsidiaries of SoldOut, Inc. and SIGNATE Inc. from the second quarter of the current fiscal year, the revenue was JPY 1,018 million (up 5.5% YoY), gross profit was JPY 295 million (up 2.8% YoY), operating loss was JPY 166 million (-JPY 199 million in the same period previous fiscal year), EBIT was -JPY 168 million (-JPY 204 million in the same period previous fiscal year), EBITDA was -JPY 150 million (-JPY 196 million in the same period previous fiscal year).

As a result of the above, the revenue of Digital Shift segment was JPY 2,690 million (down 10.2% YoY), gross profit was JPY 1,105 million (down 9.2% YoY), operating loss was JPY 228 million (-JPY 355 million in the same period previous fiscal year), EBIT was -JPY 136 million (-JPY 286 million in the same period previous fiscal year),EBITDA was -JPY 46 million (-JPY 181 million in the same period previous fiscal year).

**< Advertising Business >**

Advertising Business consists of the Internet advertising agency business, solution development and sales, etc., led by OPT, Inc.

Although the number of new acquisitions was steady, due in large part to the exclusion of SoldOut Inc. and one of its consolidated subsidiaries, revenues totaled 2,086 JPY million (down 26.7% YoY) and gross profit totaled JPY 1,808 million (down 29.7% YoY) in Advertising Business segment of FY 2022 Q2. On the other hand, operating profit was JPY 609 million (up 12.6% YoY), EBIT was JPY 603 million (up 25.0% YoY), EBITDA was JPY 657 million (up 14.7% YoY) due to efforts made to control selling, general and administrative expenses.

After excluding the effect of exclusion of SoldOut, Inc. and one of its consolidated subsidiarie, revenues was 2,086 JPY million (up 3.7% YoY), gross profit was JPY 1,808 million (up 1.9% YoY), operating profit was JPY 609 million (up 17.8% YoY), EBIT was JPY 603 million (up 16.4% YoY), EBITDA was JPY 657 million (up 14.3% YoY).

As for operating results of the Advertising Business segment in FY 2022 Q2, revenue was JPY 5,049 million (down 26.8% YoY), gross profit was JPY 4,443 million (down 25.3% YoY), operating profit was JPY 1,223 million (down 29.5% YoY), EBIT was JPY 1,002 million (down 41.1% YoY), and EBITDA was JPY 1,170 million (down 37.8% YoY).

**< Financial Investment Business >**

Financial Investment Business consists of the investment business managed by DIGITAL HOLDINGS, INC., Bonds Investment Group, Inc., BIG No. 1 Limited Partnership for Investment, BIG No. 2 Limited Partnership for Investment, and OPT America, Inc

As for operating results of the Financial Investment Business segment, our group recorded no sales in the same period of the previous fiscal year. As for current fiscal year, Financial Investment Business segment recorded a gain on sale of operating investment securities witch improved revenues to JPY 159 million (JPY 0 million in the same period previous fiscal year), gross profit to JPY 138 million (-JPY 165 million in the same period previous fiscal year), operating profit to JPY 84 million (-JPY 215 million in the same period previous fiscal year). On the other hand, due in part to the recording of non-operating income from the initial public offering of U.S. stocks held by an investment fund in which our group has an interest, EBIT decreased to JPY 44 million (down 98.3% YoY), EBITDA decreased to JPY 45 million (down 98.3% YoY).

As a result, revenue was JPY 230 million (down 98.1% YoY), gross profit was JPY 191 million (down 98.1% YoY), operating profit was JPY 86 million (down 99.1% YoY), EBIT was JPY 79 million (down 99.4% YoY), and EBITDA was JPY 88 million (down 99.4% YoY).

The Company discloses IRR (Internal Rate of Return) to enhance the transparency of investment returns. The calculation of IRR is now applied to stocks invested in by the Financial Investment Business since fiscal 2013, and the details of its calculation method are disclosed in the footnote below. As of the end of the second quarter of the current fiscal year, the after-tax IRR was 20.2%, decreased by 0.6 points from the first quarter. In addition, AUM (Assets Under Management) increased by 1.1% from the end of the previous to JPY 15,922 million, mainly due to increase in new investments and decline in the price of listed stocks held by the Group.

**< Management costs of DIGITAL HOLDINGS, INC. >**

In the management division of DIGITAL HOLDINGS, INC., selling, general and administrative expenses were JPY 938 million (up 46.3% YoY) in FY 2022 Q2, mainly due to an increase in personnel expenses and various expenses incurred in connection with the sale of SoldOut, Inc..

As a result of the foregoing, selling, general and administrative expenses for HD Management during the first half of the current fiscal year amounted to JPY 1,687 million ((up 29.1% YoY).

In addition, our company announced in a press release dated February 9, 2022 that it will enter into a tender offer agreement for shares of a subsidiary and record extraordinary income.
As announced in the Notice of Inclusion, all of the common shares of SoldOut, Inc. was applied for the tender offer that was being implemented by Hakuhodo DY Holdings Inc. from February 10, 2022. As a result, extraordinary income of JPY 9,008 million was recorded.

As a result of the application of "the revenue recognition standard" from the beginning of the first quarter of the current fiscal year, the main effect of the accounting standard is to change the presentation of transaction amount conducted as agents, from the traditional net sales and cost as gross amount to revenue as net amount. For reference, as below, the figures of revenue for the first quarter of the previous fiscal year have been reclassified from gross amount presentation to net amount presentation for transactions conducted as agents. On the other hand, the figures of revenue for the first quarter of the current fiscal year have been reclassified to net sales based on the accounting standard before the application of "the revenue recognition standard".

(Unit: million yen)

| | FY 2021 Q2 Quarter-to-date | FY 2022 Q2 Quarter-to-date | Amount change (YoY) | Percentage change (YoY) |
|---|---|---|---|---|
| Revenue | 4,078 | 3,231 | -846 | -20.8% |
| Digital Shift Business | 1,320 | 1,018 | -301 | -22.8% |
| Advertising Business | 2,847 | 2,086 | -760 | -26.7% |
| Financial Investment Business | 0 | 159 | 158 | — |
| Adjustment | -89 | -32 | 56 | — |

(Unit: million yen)

| | FY 2021 Q2 Quarter-to-date | FY 2022 Q2 Quarter-to-date | Amount change (YoY) | Percentage change (YoY) |
|---|---|---|---|---|
| Net sales* | 19,243 | 14,689 | -4,553 | -23.7% |
| Digital Shift Business | 2,228 | 1,717 | -511 | -22.9% |
| Advertising Business | 17,178 | 12,870 | -4,308 | -25.1% |
| Financial Investment Business | 0 | 159 | 158 | — |
| Adjustment | -165 | -58 | 106 | — |

(Unit: million yen)

| | FY 2021 Q2 Year-to-date | FY 2022 Q2 Year-to-date | Amount change (YoY) | Percentage change (YoY) |
|---|---|---|---|---|
| Revenue | 21,713 | 7,878 | -12,834 | -63.7% |
| Digital Shift Business | 2,995 | 2,690 | -305 | -10.2% |
| Advertising Business | 6,893 | 5,049 | -1,844 | -26.8% |
| Financial Investment Business | 12,055 | 230 | -11,825 | -98.1% |
| Adjustment | -230 | -90 | 139 | — |

(Unit: million yen)

| | FY 2021 Q2 Year-to-date | FY 2022 Q2 Year-to-date | Amount change (YoY) | Percentage change (YoY) |
|---|---|---|---|---|
| Net sales* | 55,028 | 35,581 | -19,446 | -35.8% |
| Digital Shift Business | 4,404 | 4,266 | -137 | -3.1% |
| Advertising Business | 38,988 | 31,412 | -7,575 | -19.4% |
| Financial Investment Business | 12,055 | 230 | -11,825 | -98.1% |
| Adjustment | -420 | -323 | 91 | — |

## (2) Overview of financial position

**< Assets >**

Total assets at the end of 2022 Q2 decreased by JPY 6,976 million from the end of the previous fiscal year to JPY 62,751 million. Current assets amounted to JPY 52,309 million, a decrease of JPY 7,540 million from the end of the previous fiscal year. This was mainly due to a decrease of JPY 3,083 million in cash and deposits, and a decrease of JPY 4,713 million in notes and accounts receivable – trade and con-tract assets, that was accounted for as notes and accounts receivable ‐ trade in the previous fiscal year. Non-current assets amounted to JPY 11,441 million, an increase of JPY 563 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 1,992 million in investment securities, despite a decrease of JPY 595 million in property, plant and equipment, and a decrease of JPY 779 million in Intangible assets – other.

**< Liabilities >**

Total liabilities at the end of 2022 Q2 decreased by JPY 5,982 million from the end of the previous fiscal year to JPY 22,815 million. Current liabilities amounted to JPY 19,693 million, a decrease of JPY 4,139 million from the end of the previous fiscal year. This was mainly due to a decrease of JPY 3,372 million in accounts payable ‐ trade, and a decrease of JPY 928 million in other. Non-current liabilities amounted to JPY 3,121 million, a decrease of JPY 1,842 million from the end of the previous fiscal year. This was mainly due to a decrease of JPY 1,102 million in long-term borrowings, and a decrease of JPY 578 million in deferred tax liabilities.

**< Net assets >**

Total net assets at the end of 2022 Q2 decreased by JPY 993 million from the end of the previous fiscal year to JPY 39,936 million. This was mainly due to an increase of JPY 3,010 million in treasury shares, a decrease of JPY 1,958 million in non-controlling interests, and a decrease of JPY 839 million in valuation difference on available-for-sale securities, despite an increase of JPY 2,737 million in retained earnings due mainly to recognition of profit attributable to owners of parent, and an increase of JPY 1,087 million in foreign currency translation adjustment.

## (3) Consolidated cash flows

Cash and cash equivalents (Hereinafter referred to as "Funds") at the end of 2022 Q2 decreased by JPY 3,083 million from the end of the previous fiscal year to JPY 34,456 million. This was because Funds used for operating, and financing activities exceeded Funds obtained from investing activities. The status of each cash flow during 2022 Q2 and the major factors behind it were as follows.

**< Cash flows from operating activities >**

Funds decreased by operating activities were JPY 3,950 million (same period last year was an increase of JPY 10,979 million). This was mainly due to recognition of JPY 9,040 million in gain on sales of investment securities, and JPY 2,937 million in income taxes paid, despite recognition of JPY 8,256 million in profit before income taxes

**< Cash flows from investing activities >**

Funds increased by investing activities were JPY 5,336 million (same period last year was an increase of JPY 3,1229 million). This was mainly due to recognition of JPY 7,585 million in proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation, despite recognition of JPY 1,352 million in purchase of investment securities.

**< Cash flows from financing activities >**

Funds decreased by financing activities were JPY 4,885 million (same period last year was a decrease of JPY 5,155 million). This was mainly due to recognition of JPY 3,015 million in purchase of treasury shares, and JPY 2,044 million in dividends paid.

## (4) Earnings forecast for year ending December 31, 2022

There are no changes to the consolidated earnings forecasts for the fiscal year ending December 2022 announced on February 10, 2022.

Notes: Internal Rate of Return (IRR) and Assets Under Management (AUM)

**1.Precondition for IRR calculation**

・Subject: Issues invested in Financial investment Business from 2013 to the end of June 2022

・Base date for calculation: End of June 2022

・Calculation Method:

1) Impaired stock: Calculated assuming sale at net assets value at impairment
2) Stocks that have been financed most recently: Calculated on the assumption that the securities were sold at the fair value of the shares at the time of the financing
3) IPO: Calculated as if sold at market value on the calculation reference date
4) Fund: IRR is calculated using the amount collected before the end of June 2022 and the book value as of the end of June 2022.
5) Other than the above: If there is no change in basis due to sale, impairment, financing (equity financing), IPO, etc., the calculation is based on the assumption that it was sold at book value on measure.

・Treatment of corporation tax when calculating IRR: Consider corporation tax

**2.Precondition for AUM calculation**

・Stocks of subsidiaries and affiliates represent the total of carrying amount. Operational investment securities and Investment securities represent the total fair value after consideration for impairment. However, the fair values of operational investment securities and Investment securities are categorized by brand and calculated as follows.

1) Securities acquired with small amount of investment: Acquisition cost
2) Listed securities: Closing market prices as of the end of June 2022
3) Securities that an equity financing has been implemented most recently (excluding 1 and 2 above): Calculated based on the financing value
4) Securities other than those listed above: Assessed by the multiple method, the DCF method and the net assets method it depends on operational status of each entity.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly consolidated balance sheets

(Unit: million yen)

| | Previous fiscal year (As of December 31, 2021) | FY 2022 Q2 (As of June 30, 2022) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 37,539 | 34,456 |
| Notes and accounts receivable - trade | 12,429 | — |
| Notes and accounts receivable - trade, and contract assets | — | 7,716 |
| Operational investment securities | 8,777 | 8,113 |
| Other | 1,109 | 2,023 |
| Allowance for doubtful accounts | −6 | — |
| Total current assets | 59,850 | 52,309 |
| Non-current assets | | |
| Property, plant and equipment | 808 | 213 |
| Intangible assets | | |
| Goodwill | 161 | 202 |
| Other | 1,454 | 675 |
| Total Intangible assets | 1,616 | 878 |
| Investments and other assets | | |
| Shares of affiliate companies | 0 | 0 |
| Investment securities | 6,692 | 8,684 |
| Leasehold and guarantee deposits | 539 | 307 |
| Other | 234 | 357 |
| Allowance for doubtful accounts | −13 | — |
| Total Investments and other assets | 7,452 | 9,350 |
| Total non-current assets | 9,877 | 10,441 |
| Total assets | 69,728 | 62,751 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 12,360 | 8,988 |
| Current portion of long-term borrowings | 5,939 | 5,833 |
| Income taxes payable | 2,922 | 3,124 |
| Provision for bonuses | 320 | 385 |
| Other | 2,290 | 1,362 |
| Total current liabilities | 23,833 | 19,693 |
| Non-current liabilities | | |
| Long-term borrowings | 3,102 | 2,000 |
| Deferred tax liabilities | 1,539 | 960 |
| Asset retirement obligations | 320 | 160 |
| Other | 1 | — |
| Total non-current liabilities | 4,964 | 3,121 |
| Total liabilities | 28,797 | 22,815 |

(Unit: million yen)

| | Previous fiscal year (As of December 31, 2021) | FY 2022 Q2 (As of June 30, 2022) |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 8,212 | 8,212 |
| Capital surplus | 3,841 | 3,843 |
| Retained earnings | 20,011 | 23,748 |
| Treasury shares | −3,698 | −6,708 |
| Total Shareholders' equity | 28,367 | 29,095 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 3,780 | 2,941 |
| Foreign currency translation adjustment | 513 | 1,601 |
| Total accumulated other comprehensive income | 4,294 | 4,542 |
| Share acquisition rights | 12 | — |
| Non-controlling interests | 8,256 | 6,298 |
| Total net assets | 40,930 | 39,936 |
| Total liabilities and net assets | 69,728 | 62,751 |

## (2) Quarterly consolidated statements of income and comprehensive income

### ① Quarterly consolidated statements of income

(Unit: million yen)

| | FY 2021 Q2<br>From January 1, 2021<br>to June 30, 2021 | FY 2022 Q2<br>From January 1, 2022<br>to June 30, 2022 |
|---|---|---|
| Revenue | 55,028 | 7,878 |
| Cost of sales | 37,904 | 2,182 |
| Gross profit | 17,124 | 5,696 |
| Selling, general and administrative expenses | 7,150 | 6,285 |
| Operating profit (loss) | 9,974 | -588 |
| Non-operating income | | |
| Share of profit of entities accounted for using equity method | 2,885 | — |
| Gain on investments in investment partnerships | 22 | 28 |
| Other | 8 | 0 |
| Total non-operating income | 2,916 | 28 |
| Non-operating expenses | | |
| Interest expenses | 11 | 8 |
| Commission expenses | 14 | 5 |
| 投資事業組合運用損 | — | 14 |
| Other | 9 | 8 |
| Total non-operating expenses | 36 | 37 |
| Ordinary profit | 12,854 | -597 |
| Extraordinary income | | |
| 持分変動利益 | — | 47 |
| Gain on sales of investment securities | 687 | 9,040 |
| Other | 16 | 1 |
| Total extraordinary income | 704 | 9,089 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 0 | 12 |
| Cost for take-over bid | — | 103 |
| Loss on extinguishment of Share-based remuneration expenses | — | 119 |
| Other | — | 0 |
| Total extraordinary losses | 0 | 229 |
| Profit (loss) before income taxes | 13,558 | 8,256 |
| Income taxes | 4,403 | 2,632 |
| Profit (loss) | 9,155 | 5,623 |
| Profit (loss) attributable to non-controlling interests | −233 | -170 |
| Profit (loss) attributable to owners of parent | 9,388 | 5,794 |

### ② Quarterly consolidated statements of comprehensive income

(Unit: million yen)

| | FY 2021 Q2<br>From January 1, 2021<br>to June 30, 2021 | FY 2022 Q2<br>From January 1, 2022<br>to June 30, 2022 |
|---|---|---|
| Profit (loss) | 9,155 | 5,623 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | -4,373 | -1,273 |
| Foreign currency translation adjustment | 248 | 1,087 |
| Total other comprehensive income | -4,124 | -185 |
| Comprehensive income | 5,030 | 5,437 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 4,375 | 6,042 |
| Comprehensive income attributable to non-controlling interests | 654 | -604 |

### (3) Quarterly consolidated statements of cash flows

(Unit: million yen)

| | FY 2021 Q2<br>From January 1, 2021<br>to June 30, 2021 | FY 2022 Q2<br>From January 1, 2022<br>to June 30, 2022 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | 13,558 | 8,256 |
| Depreciation | 343 | 258 |
| Amortization of goodwill | 22 | 26 |
| Increase (decrease) in allowance for doubtful accounts | −17 | -3 |
| Increase (decrease) in provision for bonuses | −0 | 64 |
| Interest and dividend income | −0 | −0 |
| Interest expenses | 11 | 8 |
| Commission expenses | 7 | 4 |
| Share of loss (profit) of entities accounted for using equity method | 2 | — |
| Gain on change in equity | — | -47 |
| Loss on extinguishment of Share-based remuneration expenses | — | 119 |
| Loss (gain) on investments in investment partnerships | −2,885 | 14 |
| Loss (gain) on sales of investment securities | −687 | -9,040 |
| Loss on retirement of non-current assets | 0 | 12 |
| Decrease (increase) in trade receivables | 3,680 | — |
| Decrease (increase) in trade receivables and contract assets | — | 1,564 |
| Decrease (increase) in investment securities for sale | 1,124 | −985 |
| Increase (decrease) in trade payables | -2,913 | −28 |
| Decrease (increase) in accounts receivable - other | 332 | −1,125 |
| Increase (decrease) in accounts payable - other | -241 | 59 |
| Increase (decrease) in accrued expenses | −72 | −120 |
| Increase (decrease) in accrued consumption taxes | 77 | −108 |
| Other | −109 | −40 |
| Subtotal | 12,231 | −1,111 |
| Interest and dividends received | 72 | 0 |
| Interest paid | −12 | −8 |
| Income taxes paid | −1,329 | −2,937 |
| Income taxes refund | 17 | 106 |
| Cash flows from operating activities | 10,979 | −3,950 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | −285 | −2 |
| Purchase of Intangible assets | −404 | −313 |
| Payments for asset retirement obligations | −20 | -14 |
| Purchase of investment securities | −93 | −1,352 |
| Proceeds from sales of Investment securities | 694 | — |
| Proceeds from withdrawal of investment securities | 3,036 | — |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | — | -214 |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | — | -338 |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | — | 7,585 |
| Payments of leasehold and guarantee deposits | −3 | −4 |
| Proceeds from refund of leasehold and guarantee deposits | 242 | 14 |
| Other | −36 | −21 |
| Cash flows from investing activities | 3,129 | 5,336 |

(Unit: million yen)

| | FY 2021 Q1<br>From January 1, 2021<br>to March 31, 2021 | FY 2022 Q1<br>From January 1, 2022<br>to March 31, 2022 |
|---|---|---|
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | -1,500 | — |
| Proceeds from long-term borrowings | 1,000 | — |
| Repayments of long-term borrowings | -818 | -170 |
| Proceeds from issuance of share acquisition rights | — | 350 |
| Proceeds from share issuance to non-controlling shareholders | 433 | 4 |
| Repayments to non-controlling shareholders | -1,467 | — |
| Purchase of treasury shares | -1,217 | -3,015 |
| Decrease (increase) in deposits for the acquisition of treasury shares | -783 | -1 |
| Dividends paid | -775 | -2,053 |
| Dividends paid to non-controlling interests | -27 | -0 |
| Other | -0 | -0 |
| Cash flows from financing activities | -5,155 | -4,885 |
| Effect of exchange rate change on cash and cash equivalents | 145 | 415 |
| Net increase (decrease) in cash and cash equivalents | 9,098 | -3,083 |
| Cash and cash equivalents at beginning of period | 27,054 | 37,539 |
| Cash and cash equivalents at end of period | 36,153 | 34,456 |

## (4) Notes on quarterly consolidated financial statements

### ① Notes on the premise of a going concern

Not applicable.

### ② Notes on significant changes in the amount of shareholder's equity

The company acquired 2,185,800 shares of treasury shares pursuant to the resolutions of the board of directors held on February 10, 2022. As a result, treasury shares increased by JPY 3,010 million during FY 2022 Q2, and treasury shares at the end of the second quarter of the current fiscal year was JPY 6,708 million.

### ③ Changes in accounting policies

#### I. Application of accounting standards for revenue recognition

The company has adopted the accounting standard for revenue recognition (Accounting Standards Board of Japan (ASBJ) standard No. 29 issued on March 31, 2020. Hereinafter referred as "the revenue recognition standard".) from the fiscal year. As a result, revenue is recognized at the amount expected to be received in exchange for the goods or services when control of the promised goods or services is transferred to the customer.

In the past, our group simply recognized the total amount received from customers as sales for some types of transactions. However, our group did not control the goods or services was transferred to the customer for the transactions and only provided services to arrange them. Therefore, because of determining that the transactions are agent transactions, our group has changed these recognition methods from total amount to the net amount received, as revenue, from the customer.

Application of "the revenue recognition standard" is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of "the revenue recognition standard". Therefore, the cumulative effect by retroactively applying "the revenue recognition standard" before the beginning of the current first quarter consolidated accounting period is added to or subtracted from retained earnings at the beginning of the current first quarter consolidated accounting period. Namely, "the revenue recognition standard" is applied from the beginning of the current first quarter consolidated accounting period. However, in accordance with applying the method prescribed in Paragraph 86 of "the revenue recognition standard", "the revenue recognition standard" has not been applied retrospectively to contracts for which almost all amounts of revenue were recognized prior to the beginning of the first quarter in accordance with the previous accounting treatment. In addition, in accordance with applying the method specified in Paragraph 86 (1) of "the revenue recognition standard", any contract changes made before the beginning of the current first quarter are accounted for based on the contract terms reflecting all contract changes, and the cumulative effect is added to or subtracted from retained earnings at the beginning of the current first quarter.

As a result of the application of "the revenue recognition standard", revenue decreased by JPY 27,702 million and cost of sales decreased by JPY 27,702 million. There is no impact on the beginning balance of retained earnings.

Our group has decided to reclassify "notes and accounts receivable - trade" in "current assets" in the table of the consolidated balance sheet of the previous fiscal year into "notes and accounts receivable - trade, and contract assets" from the first quarter of the current fiscal year, in accordance with applying "the revenue recognition standard". In addition, our group has also decided to reclassify "decrease (increase) in trade receivables" in "cash flows from operating activities" in the table of consolidated cash flows statements of the previous fiscal year into "decrease (increase) in trade receivables and con-tract assets" from the first quarter of the current fiscal year.

In accordance with the transitional treatment prescribed in Paragraph 89 -2 of "the revenue recognition standard", neither the previous consolidated fiscal year nor the second quarter of the previous fiscal year has been reclassified by new accounting items.

"Net sales" in the prior quarterly consolidated statements of income has been reclassified as "revenue" from the first quarter of the current fiscal year, because of consideration from a more appropriate presentation point of view in accordance with the adoption of "the revenue recognition standard".

#### II. Application of accounting standards for fair value calculation

Our group has applied the Accounting Standard for Calculation of Fair Value (ASBJ Statement No. 30, July 4, 2019. hereinafter referred to as "the fair value calculation standard".) from the beginning of the first quarter of the current consolidated fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of "the fair value calculation standard" and Paragraph 44 -2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), our group has decided to apply "the fair value calculation standard" into the future. There is no impact on the amount shown in the quarterly consolidated financial statements.

### ④ Information on reporting segments

### I. Consolidated financial results for the previous Q2 (From January 1, 2021, to June 30, 2021)

**< Information in respect of net sales and the amount of profit or loss for each reportable segment >**

(Unit: 1 million yen)

| | Reportable Segments | | | | Adjustment *1 | Consolidated |
|---|---|---|---|---|---|---|
| | Digital Shift Business | Advertising Business | Financial Investment Business | Total | | |
| Net sales | | | | | | |
| Net sales from third parties | 4,214 | 38,757 | 12,055 | 55,028 | ― | 55,028 |
| Intersegment net sales or transfer | 189 | 230 | 0 | 420 | -420 | ― |
| Total | 4,404 | 38,988 | 12,055 | 55,448 | -420 | 55,028 |
| Profit (loss) of segment *2 | -286 | 1,700 | 13,466 | 14,879 | -1,310 | 13,569 |
| EBITDA *3 | −181 | 1,881 | 13,672 | 15,372 | -1,117 | 14,255 |

Notes:

1. The - JPY 1,310 million adjustment to profit (loss) of segment includes - JPY 1,310 million of the elimination of intersegment transactions and Management costs of DIGITAL HOLDINGS, INC not allocated to each reportable segment.
2. Profit (loss) of segment is presented as EBIT (Profit (loss) before income taxes + Interest expenses - Interest income).
3. EBITDA = EBIT + Other financial gains (losses) + Depreciation + Amortization + Share-based remuneration expenses + Impairment loss

**< Information on impairment loss on non-current assets, goodwill, or etc. for each reportable segment >**

**(Significant impairment loss pertaining to non-current assets)**

Not applicable.

**(Significant change in the amount of goodwill)**

Not applicable.

**(Significant gain on bargain purchase)**

Not applicable.

### II. Consolidated financial results for the current Q2 (From January 1, 2022, to June 30, 2022)

**< Information in respect of revenue and the amount of profit or loss for each reportable segment >**

(Unit: 1 million yen)

| | Reportable Segments | | | | Adjustment *1 | Consolidated |
|---|---|---|---|---|---|---|
| | Digital Shift Business | Advertising Business | Financial Investment Business | Total | | |
| Revenue | | | | | | |
| Net sales from third parties | 2,625 | 5,022 | 230 | 7,878 | ― | 7,878 |
| Intersegment net sales or transfer | 64 | 26 | 0 | 90 | -90 | ― |
| Total | 2,690 | 5,049 | 230 | 7,969 | -90 | 7,878 |
| Profit (loss) of segment *2 | -136 | 1,002 | 76 | 941 | 7,323 | 8,264 |
| EBITDA *3 | -46 | 1,170 | 88 | 1,211 | 7,356 | 8,568 |

Notes:

1. The JPY 7,323 million adjustment to profit (loss) of segment includes JPY 7,316 million of the elimination of intersegment transactions and Management costs of DIGITAL HOLDINGS, INC not allocated to each reportable segment.
2. Profit (loss) of segment is presented as EBIT (Profit (loss) before income taxes + Interest expenses - Interest income).
3. EBITDA = EBIT + Other financial gains (losses) + Depreciation + Amortization + Share-based remuneration expenses + Impairment loss

**< Information on impairment loss on non-current assets, goodwill, or etc. for each reportable segment >**

**(Significant impairment loss pertaining to non-current assets)**

Not applicable.

**(Significant change in the amount of goodwill)**

Not applicable.

**(Significant gain on bargain purchase)**

Not applicable.

⑤ **Business Combination**

business separation

**(Sale of shares of subsidiaries)**

At the board of directors meeting held on February 9, 2022, the company resolved to tender all of the Common shares held by the company of SoldOut, Inc. (hereinafter "SoldOut"), a consolidated subsidiary of the company, in a tender offer (hereinafter the "Tender Offer") for common shares and share acquisition rights of SoldOut conducted by Hakuhodo DY Holdings Inc. (hereinafter "Hakuhodo DY") and entered into a tender agreement with Hakuhodo DY on February 9, 2022.

Since the Tender Offer was completed on March 28, 2022, SoldOut was excluded from the scope of consolidation as of April 1, 2022, stock transfer date.

**I. Overview of the business separation**

**(i) Name of the company to which the shares will be sold**

Hakuhodo DY Holdings Inc.

**(ii) Name and business description of the divested subsidiary**

Name of subsidiaries: SoldOut Corporation and three of its subsidiaries

Business Profile: Internet business support

**(iii) Major reasons for the divestiture**

With SoldOut, which offers a variety of Internet-based services, we've been searching for group synergies. But that our company's focus on purpose, IX, and digital transformation (DX) is different from SoldOut's focus on goals, Our company has decided to transfer SoldOut to a partner who shares SoldOut's vision and maximizes synergy, after careful consideration from a variety of angles, believing it will lead to growth and increased corporate value for both parties.

**(iv) Date of divestiture**

April 1, 2022

**(v) Matters relating to the outline of other transactions, including legal forms**

Transfer of shares for which the consideration received is cash only

**II. Summary of accounting performed**

**(vi) Amount of gain or loss on transfer**

Gain on sale of investment securities 9,008 million yen

**(vii) Fair book value of assets and liabilities related to the transferred business and major breakdown thereof**

| | |
|---|---|
| Current assets | 6,359 million yen |
| Fixed assets | 1,935 |
| Total assets | 8,295 |
| Current Liabilities | 4,188 |
| Non-current liabilities | 1,078 |
| Total Liabilities | 5,266 |

**(viii) Accounting treatment**

The difference between the consolidated book value and the sale price of SoldOut and its subsidiaries is regarded as the gain on the sale of investment securities. This is recorded as extraordinary income.

**III. Reportable segments that included divested businesses**

Digital Shift Business, Advertising Business

**IV. Estimated amount of profit or loss from the divested business recorded on the quarterly consolidated statements**

| | |
|---|---|
| Revenue | 1,322 million yen |
| Operating profit | 51 |

End