

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 May 12, 2022. In the event of any discrepancy between this English document and the Japanese original, the Japanese original shall always prevail.

May 12, 2022.

DIGITAL HOLDINGS, INC. (PRM 2389)

Consolidated Financial Results for the 3 Months Ended March 31, 2022 (J-GAAP, Unaudited)

Tokyo, May 12, 2022, DIGITAL HOLDINGS, INC. ("the Company") announced today its consolidated financial results for the three months ended on March 31, 2022. (From January 1 to March 31, 2022, "FY 2022 Q1")

(Amount are rounded down to the nearest million yen)

Consolidated Operating Results for 2022 Q1

(in million yen, unless otherwise stated)

	Three months ended on March 31		
	FY 2022 Q1	FY 2021 Q1	YoY(%)
Revenue	4,647	35,785	—
Operating profit	-186	10,571	—
Ordinary profit	-143	10,690	—
EBIT*1	-368	11,399	—
EBITDA*2	-151	11,690	—
Profit attributable to owners of parent	-247	7,843	—
Earnings per share- diluted (yen)	—	354.43	—
Earnings per share- basic (yen)	-11.78	354.43	—

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 Q1 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 March 31, 2022	As of December 31, 2021
Total assets	63,532	69,728
Net assets	38,083	40,930
Ratio of equity attributable to owners of parent (%)	46.9%	46.9%

Note:

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.

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 2021	YoY(%)
Net sales	16,400	-43.2%
Operating profit	-2,100	—
Ordinary profit	-2,100	—
Profit attributable to owners of parent	5,300	190.6%

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 solicit 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 Q1	FY 2021
Number of shares issued including treasury shares	23,817,700	23,817,700
Number of treasury shares	3,372,043	2,613,543

	FY 2022 Q1	FY 2021 Q1
Average number of shares during the period	20,993,347	22,130,270

Table of Contents

1. Management Discussion and Analysis	4
(1) Operating results	4
(2) Overview of financial position	7
(3) Consolidated cash flows	7
(4) Earnings forecast for year ending December 31, 2022	7
2. Quarterly Consolidated Financial Statements and Primary Notes	8
(1) Quarterly consolidated balance sheets.....	8
(2) Quarterly consolidated statements of income and comprehensive income	10
① Quarterly consolidated statements of income	10
② Quarterly consolidated statements of comprehensive income	11
(3) Quarterly consolidated statements of cash flows.....	12
(4) Notes on quarterly consolidated financial statements	14
① Notes on the premise of a going concern	14
② Notes on significant changes in the amount of shareholder's equity	14
③ Changes in accounting policies	14
④ Information on reporting segments	15
⑤ Significant subsequent events	16

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 the fiscal year ended March 31, 2022 (hereinafter "FY 2022 Q1") with revenue of JPY 4,647 million, gross profit of JPY 3,454 million (down 75.7% YoY), operating loss of JPY 186 million (operating profit of JPY 10,571 million in the same period previous fiscal year), EBIT of -JPY 368 million (EBIT of JPY 11,399 million in the same period previous fiscal year), EBITDA of -JPY 151 million (EBITDA of JPY 11,690 million in the same period previous fiscal year) and loss attributable to owners of parent was -JPY 247 million (profit attributable to owners of parent was JPY 7,843 million in the same period previous fiscal year).

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 first 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 Q1, which have been reclassified from gross amount presentation to net amount presentation,

and revenue in FY 2022 Q1 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 Q1 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 a result of the application of "the revenue recognition standard", in FY 2022 Q1, the Digital Shift Business segment decreased to revenue 1,671 million, but gross profit improved to JPY 810 million (up 19.4% YoY). On the other hand, as our group is in a period of business expansion through upfront investments, we achieved only modest improvements: JPY 61 million in operating loss (operating loss of JPY 79 million in the same period previous fiscal year), -JPY 49 million in EBIT (EBIT of -JPY 66 million in the same period of the previous fiscal year), and JPY 23 million in EBITDA (EBITDA of -JPY 16 million in the same period of the previous fiscal year).

< Advertising Business >

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

As for operating results of the Advertising Business segment in FY 2022 Q1, revenue was JPY 2,962 million, gross profit was JPY 2,635 million (down 21.9% YoY), operating profit was JPY 624 million (down 48.4% YoY), EBIT was JPY 398 million (down 67.3% YoY), and EBITDA was JPY 512 million (down 60.8% YoY) due to the progress of preparing for coming new advertising businesses while improving profitability.

< 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 in the same period of the previous fiscal year, our group recorded a gain on the sale of shares of RAKSUL INC., which our group held as operating investment securities. On the other hand, as for operating results of the Financial Investment Business segment for the current fiscal year recorded only a gain on the transfer of a small amount of shares in venture capital.

As a result, revenue was JPY 71 million (down 99.4% YoY), gross profit was JPY 53 million (down 99.5% YoY), operating profit was JPY 2 million (operating profit of JPY 10,107 million in the same period previous fiscal year), EBIT was JPY 31 million (down 99.7% YoY), and EBITDA was JPY 43 million (down 99.6% 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 first quarter of the current fiscal year, the after-tax IRR was 20.8%, unchanged from the end of the previous fiscal year. In addition, AUM (Assets Under Management) decreased by 1.8% from the end of the previous to JPY 15,744 million, mainly due to a decline in the price of listed stocks held by the Group.

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 March 2022
- Base date for calculation: End of March 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 March 2022 and the book value as of the end

of March 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 March 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.

< Management costs of DIGITAL HOLDINGS, INC. >

In the management division of DIGITAL HOLDINGS, INC., selling, general and administrative expenses were JPY 748 million (up 12.6% YoY) in FY 2022 Q1, mainly due to an increase in personnel expenses.

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: JPY 1 million)

	FY 2021 Q1	FY 2022 Q1	Amount change (YoY)	Percentage change (YoY)
Revenue	17,635	4,647	-12,988	-73.6%
Digital Shift Business	1,675	1,671	-3	-0.2%
Advertising Business	4,045	2,962	-1,083	-26.8%
Financial Investment Business	12,054	71	-11,983	-99.4%
Adjustment	-140	-58	82	—

(Unit: JPY 1 million)

	FY 2021 Q1	FY 2022 Q1	Amount change (YoY)	Percentage change (YoY)
Net sales*	35,785	20,892	-14,892	-41.6%
Digital Shift Business	2,175	2,549	373	17.2%
Advertising Business	21,809	18,542	-3,267	-15.0%
Financial Investment Business	12,054	71	-11,983	-99.4%
Adjustment	-254	-270	-15	—

*Calculated from net sales based on the accounting standard before application of the revenue recognition standard.

(2) Overview of financial position

< Assets >

Total assets at the end of the first quarter decreased by JPY 6,195 million from the end of the previous fiscal year to JPY 63,532 million. Current assets amounted to JPY 51,769 million, a decrease of JPY 8,080 million from the end of the previous fiscal year. This was mainly due to a decrease of JPY 9,006 million in cash and deposits. Non-current assets amounted to JPY 11,762 million, an increase of JPY 1,884 million from the end of the previous fiscal year. This was mainly due to an increase of JPY 1,913 million in investment securities.

< Liabilities >

Total liabilities at the end of the first quarter decreased by JPY 3,348 million from the end of the previous fiscal year to JPY 25,448 million. Current liabilities amounted to JPY 20,572 million, a decrease of 3,261 million from the end of the previous fiscal year. This was due to a decrease of JPY 2,850 million in income taxes payable. Non-current liabilities amounted to JPY 4,876 million, a decrease of JPY 87 million from the end of the previous fiscal year. This was due to a decrease of JPY 86 million in long-term borrowings.

< Net assets >

Total net assets at the end of the first quarter decreased by JPY 2,846 million from the end of the previous fiscal year to JPY 38,083 million. This was mainly due to a decrease of JPY 2,304 million in retained earnings due to recognition of profit attributable to owners of parent and dividends paid, and an increase of JPY 1,085 million in treasury shares.

(3) Consolidated cash flows

Cash and cash equivalents (Hereinafter referred to as "Funds") at the end of the first quarter decreased by JPY 9,006 million from the end of the previous fiscal year to JPY 28,533 million. This was because Funds were used from operating, investing and financing activities. The status of each cash flow during FY 2022 Q1 and the major factors behind it were as follows.

< Cash flows from operating activities >

Funds decreased by operating activities were JPY 3,254 million (same period last year was an increase of JPY 13,406 million). This was mainly due to recognition of JPY 2,749 million in income taxes paid and JPY 455 million in gain on sales of investment securities.

< Cash flows from investing activities >

Funds decreased by investing activities were JPY 1,127 million (same period last year was an increase of JPY 305 million). This was mainly due to recognition of JPY 866 million in purchase of investment securities and JPY 203 million in purchase of intangible assets.

< Cash flows from financing activities >

Funds decreased by financing activities were JPY 4,774 million (same period last year was a decrease of JPY 3,357 million). This was mainly due to recognition of JPY 2,044 million in dividends paid, an increase of JPY 1,911 million in deposits for the acquisition of treasury shares and JPY 1,087 million in purchase of treasury shares.

(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.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly consolidated balance sheets

(Unit: 1 million yen)

	Previous fiscal year (As of December 31, 2021)	FY 2021 Q1 (As of March 30, 2022)
Assets		
Current assets		
Cash and deposits	37,539	28,533
Notes and accounts receivable - trade	12,429	—
Notes and accounts receivable - trade, and contract assets	—	11,451
Operational investment securities	8,777	8,421
Inventories	11	13
Other	1,097	3,356
Allowance for doubtful accounts	-6	-6
Total current assets	59,850	51,769
Non-current assets		
Property, plant and equipment	808	773
Intangible assets		
Goodwill	161	178
Other	1,454	1,507
Total Intangible assets	1,616	1,686
Investments and other assets		
Shares of affiliate companies	0	0
Investment securities	6,692	8,606
Leasehold and guarantee deposits	539	543
Other	234	166
Allowance for doubtful accounts	-13	-13
Total Investments and other assets	7,452	9,303
Total non-current assets	9,877	11,762
Total assets	69,728	63,532
Liabilities		
Current liabilities		
Accounts payable - trade	12,360	12,037
Current portion of long-term borrowings	5,939	5,940
Income taxes payable	2,922	71
Provision for bonuses	320	212
Other	2,290	2,309
Total current liabilities	23,833	20,572
Non-current liabilities		
Long-term borrowings	3,102	3,016
Deferred tax liabilities	1,539	1,546
Asset retirement obligations	320	312
Other	1	1
Total non-current liabilities	4,964	4,876
Total liabilities	28,797	25,448

	Previous fiscal year (As of December 31, 2021)	FY 2021 Q1 (As of March 30, 2022)
Net assets		
Shareholders' equity		
Share capital	8,212	8,212
Capital surplus	3,841	3,842
Retained earnings	20,011	17,707
Treasury shares	-3,698	-4,784
Total Shareholders' equity	28,367	24,977
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,780	3,950
Foreign currency translation adjustment	513	887
Total accumulated other comprehensive income	4,294	4,838
Share acquisition rights	12	350
Non-controlling interests	8,256	7,918
Total net assets	40,930	38,083
Total liabilities and net assets	69,728	63,532

(2) Quarterly consolidated statements of income and comprehensive income

① Quarterly consolidated statements of income

(Unit: 1 million yen)

	FY 2021 Q1 From January 1, 2021 to March 31, 2021	FY 2022 Q1 From January 1, 2022 to March 31, 2022
Revenue	35,785	4,647
Cost of sales	21,585	1,192
Gross profit	14,199	3,454
Selling, general and administrative expenses	3,627	3,640
Operating profit (loss)	10,571	-186
Non-operating income		
Share of profit of entities accounted for using equity method	2	—
Gain on investments in investment partnerships	107	27
Other	20	22
Total non-operating income	130	50
Non-operating expenses		
Interest expenses	6	4
Commission expenses	4	1
Other	0	0
Total non-operating expenses	11	7
Ordinary profit	10,690	-143
Extraordinary income		
Gain on sales of investment securities	687	—
Gain on sale of businesses	9	—
Other	6	—
Total extraordinary income	703	—
Extraordinary losses		
Loss on retirement of non-current assets	0	6
Cost for take-over bid	—	103
Loss on extinguishment of Share-based remuneration ex- penses	—	119
Total extraordinary losses	0	229
Profit (loss) before income taxes	11,393	-372
Income taxes	3,590	-17
Profit (loss)	7,803	-355
Profit (loss) attributable to non-controlling interests	△40	-108
Profit (loss) attributable to owners of parent	7,843	-247

② Quarterly consolidated statements of comprehensive income

(Unit: 1 million yen)

	FY 2021 Q1 From January 1, 2021 to March 31, 2021	FY 2022 Q1 From January 1, 2022 to March 31, 2022
Profit (loss)	7,803	-355
Other comprehensive income		
Valuation difference on available-for-sale securities	-6,906	-51
Foreign currency translation adjustment	204	373
Total other comprehensive income	-6,702	322
Comprehensive income	1,100	-33
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	470	296
Comprehensive income attributable to non-controlling interests	629	-329

(3) Quarterly consolidated statements of cash flows

(Unit: 1 million yen)

	FY 2021 Q1 From January 1, 2021 to March 31, 2021	FY 2022 Q1 From January 1, 2022 to March 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	11,393	-372
Depreciation	167	184
Amortization of goodwill	14	19
Increase (decrease) in allowance for doubtful accounts	-15	0
Increase (decrease) in provision for bonuses	-140	-107
Interest and dividend income	-0	-0
Interest expenses	6	4
Share of loss (profit) of entities accounted for using equity method	-2	—
Loss on extinguishment of Share-based remuneration expenses	—	119
Loss (gain) on sale of businesses	-9	—
Loss (gain) on investments in investment partnerships	-107	-27
Loss (gain) on sales of investment securities	-687	—
Loss on retirement of non-current assets	0	6
Decrease (increase) in trade receivables	1,148	—
Decrease (increase) in trade receivables and contract assets	—	978
Decrease (increase) in investment securities for sale	1,376	-455
Decrease (increase) in inventories	-6	-2
Increase (decrease) in trade payables	951	-323
Decrease (increase) in accounts receivable - other	247	-231
Increase (decrease) in accounts payable - other	-197	-41
Increase (decrease) in accrued expenses	-68	-145
Increase (decrease) in accrued consumption taxes	219	-15
Other	-163	-88
Subtotal	14,126	-500
Interest and dividends received	0	0
Interest paid	-6	-4
Income taxes paid	-714	-2,749
Income taxes refund	0	—
Cash flows from operating activities	13,406	-3,254
Cash flows from investing activities		
Purchase of property, plant and equipment	-274	-2
Purchase of Intangible assets	-280	-203
Payments for asset retirement obligations	-20	—
Purchase of investment securities	-41	-866
Proceeds from sales of Investment securities	692	—
Proceeds from withdrawal of investment securities	52	—
Proceeds from sale of businesses	9	—
Payments of leasehold and guarantee deposits	-3	-4
Proceeds from refund of leasehold and guarantee deposits	215	—
Collection of loans receivable	0	—
Other	-43	-49
Cash flows from investing activities	305	-1,127

	FY 2021 Q1 From January 1, 2021 to March 31, 2021	FY 2022 Q1 From January 1, 2022 to March 31, 2022
Cash flows from financing activities		
Repayments of long-term borrowings	-484	-84
Proceeds from issuance of share acquisition rights	—	350
Proceeds from share issuance to non-controlling shareholders	393	4
Repayments to non-controlling shareholders	-1,467	—
Purchase of treasury shares	-423	-1,087
Decrease (increase) in deposits for the acquisition of treasury shares	-577	-1,911
Dividends paid	-772	-2,044
Dividends paid to non-controlling interests	-26	-0
Other	-0	-0
Cash flows from financing activities	-3,357	-4,774
Effect of exchange rate change on cash and cash equivalents	83	150
Net increase (decrease) in cash and cash equivalents	10,438	-9,006
Cash and cash equivalents at beginning of period	27,054	37,539
Cash and cash equivalents at end of period	37,493	28,533

(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 758,500 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 1,085 million during FY 2022 Q1, and treasury shares at the end of the first quarter of the current fiscal year was JPY 4,784 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" to the balance at the beginning of the current fiscal year, revenue decreased by JPY 16,245 million and cost of sales decreased by JPY 16,245 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 contract 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 first 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 Para-

graph 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 Q1 (From January 1, 2021, to March 31, 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	2,060	21,669	12,054	35,785	—	35,785
Intersegment net sales or transfer	115	139	0	254	-254	—
Total	2,175	21,809	12,054	36,040	-254	35,785
Profit (loss) of segment *2	-66	1,217	10,902	12,053	-653	11,399
EBITDA *3	-16	1,308	10,956	12,249	-558	11,690

Notes:

1. The - JPY 653 million adjustment to profit (loss) of segment includes - JPY 653 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 Q1 (From January 1, 2022, to March 31, 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	1,656	2,919	71	4,647	—	4,647
Intersegment net sales or transfer	15	42	0	58	-58	—
Total	1,671	2,962	71	4,705	-58	4,647
Profit (loss) of segment *2	-49	398	31	381	-749	-368
EBITDA *3	23	512	43	579	-730	-151

Notes:

1. The - JPY 749 million adjustment to profit (loss) of segment includes - JPY 746 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 Significant subsequent events

I. Sale of shares of a material subsidiary

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 Hakuholdo DY Holdings Inc. (hereinafter "Hakuholdo DY") and entered into a tender agreement with Hakuholdo 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) Name of the company to which the shares will be sold

Hakuholdo DY Holdings Inc.

(ii) Schedule of the Tender Offer

1) Conclusion of the Tender Agreement	February 9, 2022
2) Tender offer period	From February 10, 2022, to March 28, 2022
3) Announcement of the results of the Tender Offer	March 29, 2022
4) Stock transfer date	April 1, 2022

(iii) Name and business of the Company's consolidated subsidiary and its business relationship with the Company

1) Name	SoldOut, Inc.
2) Business	Internet business support business
3) Business relationship with the company	The Company and its wholly owned subsidiary, OPT, Inc., are engaged in advertising transactions with SoldOut.

(iv) Number of shares to be tendered in the Tender Offer, transfer price, and number of shares held before and to be held after the Tender Offer

1) Number of shares held before the Tender Offer	5,914,080 shares
2) Number of shares were tendered in the Tender Offer	5,914,080 shares
3) Transfer price in the Tender Offer	JPY 10,698 million (JPY 1,809 per share)
4) Number of shares to be held after the Tender Offer	0 shares

(v) Impact of this event on consolidated business results

In accordance with the Tender Offer completion, the company will record an extraordinary profit of JPY 8,867 million in the second quarter of the fiscal year ending December 2022.

End