



Bridge Report Digital Information Technologies Corporation (3916)

 President Norikazu Ichikawa	Company	Digital Information Technologies Corporation	 Digital Information Technologies Corporation
	Code No.	3916	
	Exchange	TSE 1st Section	
	Industry	Information and communications	
	President	Norikazu Ichikawa	
	Address	FORECAST Sakurabashi, 4-5-4 Hatchobori, Chuo-ku, Tokyo	
	Year-end	End of June	
	URL	https://www.ditgroup.jp/	

— Stock Information —

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
2,780 yen	7,680,720 shares		21,352 million yen	21.3%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
20.00 yen	0.7%	64.10 yen	43.4x	311.56 yen	9.0x

*The share price is the closing price on March 23. The number of shares issued was taken from the latest brief financial report.

ROE and BPS are the values for the previous term.

— Earnings Trends —

(Unit: Million yen or yen)

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Jun. 2013 (Actual)	7,391	294	266	109	16.96	2.00
Jun. 2014 (Actual)	8,052	330	339	209	32.51	3.50
Jun. 2015 (Actual)	8,492	427	427	297	45.86	10.00
Jun. 2016 (Actual)	9,341	524	553	351	47.60	12.00
Jun. 2017 (Actual)	10,273	653	641	466	60.67	15.00
Jun. 2018 (Forecast)	10,820	730	725	493	64.10	20.00

*The forecast is from the company. A 2-for-1 share split was implemented on October 1, 2016. EPS and BPS were retroactively recalculated.

*From FY 6/16, net income is profit attributable to owners of the parent. Hereinafter the same will apply.

This Bridge Report introduces the first half of fiscal year June 2018 earnings results of Digital Information Technologies Corporation.

—Table of Contents —

1. Company Overview
 2. The First Half of Fiscal Year June 2018 Earnings Results
 3. Fiscal Year June 2018 Earnings Estimates
 4. Conclusions
- <Reference1: Regarding Growth Strategy>
<Reference2: Regarding Corporate Governance>

Key Points

- Sales in the second quarter of the fiscal year ending Jun. 2018 increased by 13.6% year on year (YoY) to 5,516 million yen. The system sales business, which was sluggish in the first quarter, recovered, and every business saw an increase in sales. The increase in SG&A expenses remained in the single digits, and operating income increased 24.9% YoY to 379 million yen. Sales and profits reached a record high for the second quarter, exceeding the forecasts.
- There is no change in the full-year forecast. Sales for the fiscal year ending Jun. 2018 are expected to increase 5.3% YoY to 10,820 million yen, and operating income is expected to increase 11.7% YoY to 730 million yen. Every business is expected to experience sales growth, so even though the company will continue to concentrate on investing in new businesses, profit is forecasted to grow by double digits and the profit rate is expected to rise. It is estimated that sales and profit will grow for the 8th consecutive term, marking a record high. An interim dividend will be paid from this term. The interim and term-end dividend amounts are both 10 yen/share, totaling up to 20 yen/share. The estimated payout ratio is 31.2%.
- While sales composition of original product units is still comparatively low, both WebARGUS and xoBlos follow current trends and reliably capture demand, and sales for this quarter (Oct.-Dec.) reached 100 million yen for the first time. The company expects this will contribute to earnings starting from the next term, and would like to pay attention to how quickly these products grow in order to achieve a 10% operating income margin for the fiscal year ending June 2021.

【Company Overview】

Digital Information Technologies Corporation is an independent information service company. Its sales are mostly from the undertaking of the development of business systems, embedded devices, etc. for clients mainly in the fields of finance, communications, etc. The company concentrates on the expansion of its products based on its original technologies, including "WebARGUS," a website security solution, and "xoBlos," an Excel work innovation platform. The company has a variety of characteristics, such as "multifaceted, diverse information technologies" and "organizational strategies of partial and total optimizations."

【1-1 Corporate history】

The president Ichikawa discovered a new world of computers and obtained programming qualifications while he was working at Nippon Telegraph and Telephone Public Corporation. He set up his own business because he was willing to take on challenges and found a great appeal in the potential of computers.

In 1996, he was appointed president of Toyo Computer System, Inc. as the successor to one of his acquaintances. He expanded its business area starting from business system development, and then computer sales business(current: system sales business), embedded product development validation business and operation support businesses tuning Toyo Computer System Inc. into a multifaceted and diverse IT company.

In 2002, he established Toyo IT Holdings Corporation, which is the predecessor of current Digital Information Technologies Corporation, by separating several companies under the same group and establishing subsidiaries with 100% ownership. In 2006, he integrated four subsidiaries into one company and renamed it to the current company name.

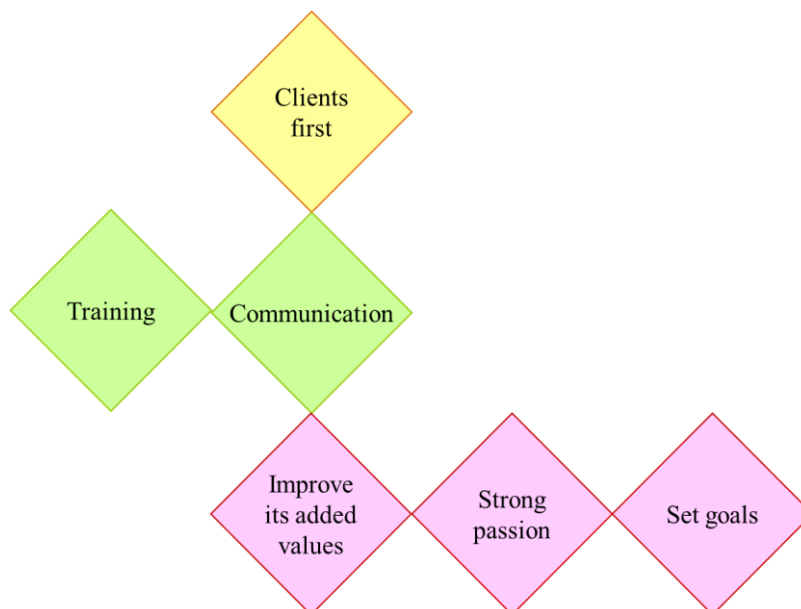
In addition, in January 2011, he established DIT America, LLC in Kansas, U.S.A. Digital Information Technologies Corporation was listed on JASDAQ of Tokyo Stock Exchange (TSE) in June 2015, listed on the second section of TSE in May 2016 and listed on the first section of TSE in March 2017.

【1-2 Corporate ethos, etc.】



Our logo is a collection of cubes with an infinite number of stairs.
 This collection is our company itself, and each cube represents each employee.
 The 6 facets of the cubes represent six values which all employees share and consider valuable.
 Our corporate identity represents these values in three tiers; clients, company and employees.

(From the company's website)



(From the company's website)

The above diagram is the unfoldment of the cube. According to the president Ichikawa, it emphasizes “clients first; this is where it all starts.” Furthermore, the logo represents “training employees” and “communication with clients and among employees.” These are important values to the company. Additionally, we implore employees to “improve its added values,” “have passion” and “have a sense of purpose.”

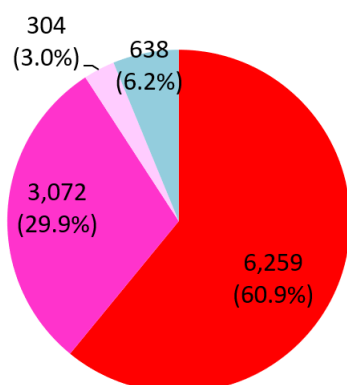
Employees are to uphold this company policy as their creed and follow these principles at all times.

【1-3 Business contents】

1. Segments

There are two segments: software development business and system sales business. The software development business consists of 3 business units: business solution unit, embedded product solution unit and original product business unit.

Sales by Business Unit
(FY June 2017, unit: million yen)



■ Business Solution Unit ■ Embedded Product Unit
 ■ Original Product Business Unit ■ Computer Sales Unit

(1) Software Development Business

1) Business Solution Unit

(Business system development unit)

The sales for this business unit is mostly from custom development for end-users and information systems companies which are clients' subsidiaries in a wide variety of industries including finance, communications, distribution and transportation as well as for leading SI vendors.

Specifically, development for websites and key systems, front and back office operations, new system development and maintenance development with technologies developed in each area. The company has developed trustworthy relationships with leading companies in each area which enables them to secure stable orders.

(Operation support unit)

Main clients include communications carriers, total human service corporations and information system companies which are airlines subsidiaries.

This "business unit to support clients' daily operations through IT" has stable revenue as it is an ongoing business in line with the business website domains of leading companies.

Specific business includes:

- ◇ Support desk operation for end-users who use various business systems.
- ◇ Build and maintain infrastructure (servers and networks).
- ◇ Efficient system operations in line with the latest technology trends.

2) Embedded Product Solution Unit

(Embedded product development unit)

This business unit is trusted by leading manufacturers to directly develop custom software for in-vehicle devices, mobile devices, information home appliances and communication devices. For in-vehicle devices, mobile devices and information home appliances, the unit develops custom software for overall systems including firmware, device business unit controls and applications.

It focuses on Auto-Drive related field with new technology, as well as infotainment for in-vehicle devices as the demand for this market is expected to grow. In addition, it undertakes software development for wireless base stations and communication module devices for communication devices.

(Embedded product verification unit)

This business unit verifies and makes suggestions to improve qualities and functions of products through its verification service.

It provides verification services domestically and internationally (North America, Asia, Europe, etc.) including laboratory tests using specialized devices to verify product operation and function, field tests to verify products in the actual environments, as well as overall system tests conducted as the final quality verification from the perspectives of the third party.

Some of the overseas field tests are designated to its subsidiary, DIT America, LLC, which provides fast service with verification of product usability from the perspective of local staff.

The range of products for verification includes in-vehicle devices, medical devices, communication devices and mobile devices.

3) Original product business unit

The company develops and sells its original products as a growing business, using its unique technology.

Currently, the company strongly focuses on the sales of two products, “**WebARGUS**,” a website security solution, which detects tampered website simultaneously as it occurs and instantly restores the original normal condition, and “**xoBlos**,” an Excel work innovation platform, which features data decomposition and restoration as well as meeting various forms of data business processing needs.

There are other products such as “**APMG** (Anti Phishing Mail Gateway),” a solution to prevent damages from phishing and illegal use of brands by automatically adding electronic signatures on e-mails, and “**Rakuraku page**,” a CMS (content management system), which enables editing and updating websites easily.

(2) System Sales Business

The company and its subsidiary, Toyo Infonet Co., Ltd, sell “**Rakuichi**,” a business support mission-critical system, for small and medium enterprises, manufactured by Casio Computer Co., Ltd.

The sales area is started at Kanagawa first and expanded to Tokyo, Chiba, Gunma and Ehime successively. The Company provides substantial support for their users to increase the client retention rate. In addition, they set up a call center to attract and build a new client base. The number of sales for “Rakuichi” has been recorded to be the highest across all agencies for 13 consecutive years.

2. Main Strategic Products

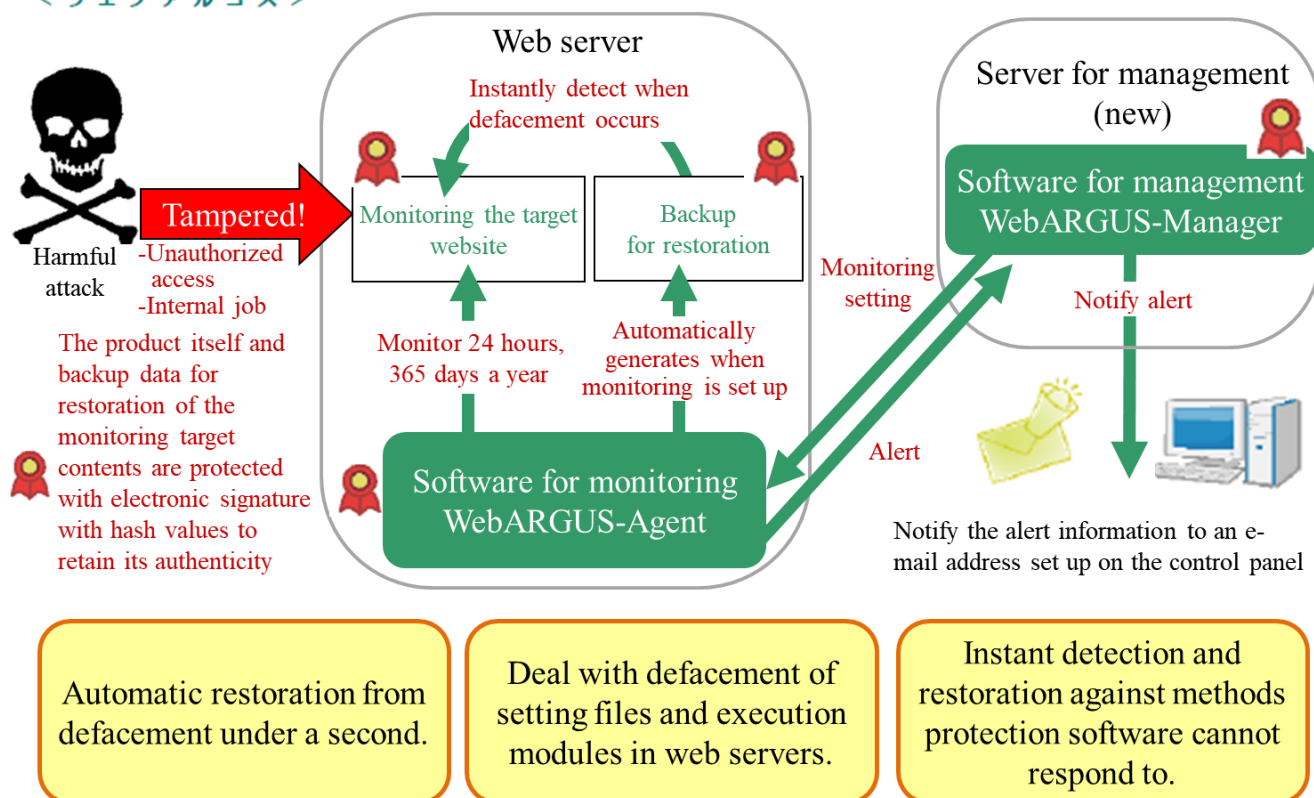
1) "WebARGUS," a new website security solution

WebARGUS is a new security solution which detects tampered websites instantaneously and immediately restores it to its original state. By detecting and restoring immediately when incident occurs, WebARGUS protects corporate websites from damage caused by malicious and unknown cyber-attacks and simultaneously prevents the escalation of the damage from viruses spreading via the tampered website.

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WebARGUS is software for detecting tampered website and restoring the website instantly. Even when the attack breaks through the protection, it helps minimize defacement to nearly zero.

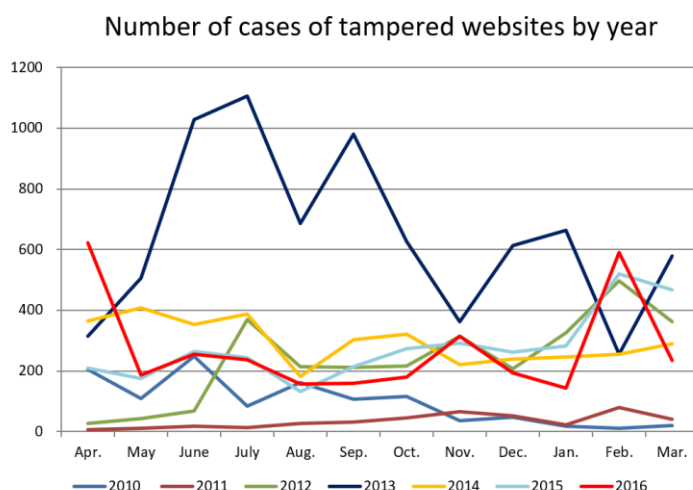


(Taken from the reference materials of Digital Information Technologies Corporation)

◎ Increasing tampering of websites

According to the research conducted by "JPCERT Coordination Center," (*) tampered websites reported to the center was 3,274 in fiscal 2016 (April 2016 to March 2017), smaller than 7,724 cases in 2013, but it is still at a high level.

"JPCERT Coordination Center" (*): This center receives reports concerning computer security incidents including hacking via internet and service disturbance in Japan. It also supports measures, grasps how the problems are generated, analyzes the methods, investigates and advises on measures to prevent recurrences from a technical point of view.



(Prepared from the reference materials of JPCERT)

◎ The background of the development of "WebARGUS"

Under these circumstances, the company, which had already released a solution called "APMG" to prevent damage from phishing and illegal use of brand by automatically adding electronic signature in e-mails, started developing "WebARGUS," based on a core security technology in the spring of 2013, after 2 years of research. Then in July 2014, it released "WebARGUS."

The major characteristic and strength of the company is that it has a variety of rich IT related technologies, and has a highly standardized core security technology. This is because its engineers have a mindset to embrace challenges and are not afraid to take risks. Thus, they are not satisfied with just developing custom products. This is strongly influenced by the company's organization strategy represented by its corporate culture and in-house company system which will be explained later in this report.

◎ The features and overview of the product

Instant detection and restoration for minimizing tampered website to nearly zero
Provide protection from tampering by a fake identity posing as a registered member, internal attack and new methods which can be difficult to protect from.
It detects with high accuracy and uses "electronic signature" technology which protects from even 1 bit of tampering.
Protects from high level attacks aimed at applications and settings files.
The CPU load (usage rate) on a web server is less than 1% while it is monitoring on a regular mode.
Equipped with preservation of evidence function which stores the tampered files as evidence.

When a website has been tampered with, it can take an average of one month to restore. This is because the restoration process includes disabling the website, identifying the damaged files, strengthening protection, website restoration and re-enabling the website. For an e-commerce related website, the damage can be serious, including a drop in sales, time and effort to announce the re-enabling of the website and the difficulties in re-attracting clients who left the website.

On the other hand, if "WebARGUS" is installed, because it instantly detects and restores websites when tampered with, the condition of a website can be maintained in the normal state. Thus, the website does not need to be disabled in a rush when the application detects a threat. Companies can concentrate on pursuing the cause and strengthening protection while its website is kept open to public.

Most of the detection software detects tampered website with a periodic monitoring on pre-configured, specified timing or intervals. With this method, there will be a time lag between when the website is tampered with and when it was detected, so it is inevitable for the website to be tampered. In addition, if the interval is shortened to reduce the time lag, there are other challenges such as increasing CPU load.

On the other hand, when some kind of event occurs (such as data deletion or addition excluding browsing), "WebARGUS" conducts real time scanning to detect the event.

The major feature of this product is that it is also equipped with an instant restoring function which enables restoration to the original state in less than 0.1 seconds after the detection (average time under the demo environment: 0.003 seconds per file). This instant restoration is its unique technology.

The annual license fee of "WebARGUS" is JPY480,000 (excl. tax) per OS with support. This also includes free update modules for minor version updates.

◎ Introduction and sales

When WebARGUS was released, the sales growth was rather slow because general understanding of website security was mainly about protection against hacking into a computer system and awareness about "tampering" was limited. However, the acknowledgment that "software for detection is needed as well as for protection" is growing rapidly due to the more

frequent mentioning of the independent administrative agency, “IPA (Information Processing Association),” taking measures to prevent defacement. This agency is established to support the IT national strategy from a technical and personnel aspect perspective and is supervised by the Ministry of Economy, Trade and Industry.

In addition, “Revised Points for the Cyber-Security Management Guidelines” were announced on November 16, 2017, to which the Ministry of Economy, Trade and Industry added a new key aspect: construction of a system to handle cyber-security risks, including functions such as threat detection and restoration. Because of this, inquiries to the company increased further.

Under these circumstances, the company has carried out promotion and marketing including organizing seminars for target users who recognize the necessity for a higher level of security, and participation in exhibitions.

It focuses on agency sales to strengthening marketability. There are currently a total of 29 companies with agency contracts. They have been actively involved in development collaborations with data centers and cloud service corporations.

Furthermore, the company is expected to expand its business overseas as well as product sales in Japan. The company is preparing to provide support for the tampering of websites across the globe.

◎ Strengthening the feature of merchandise

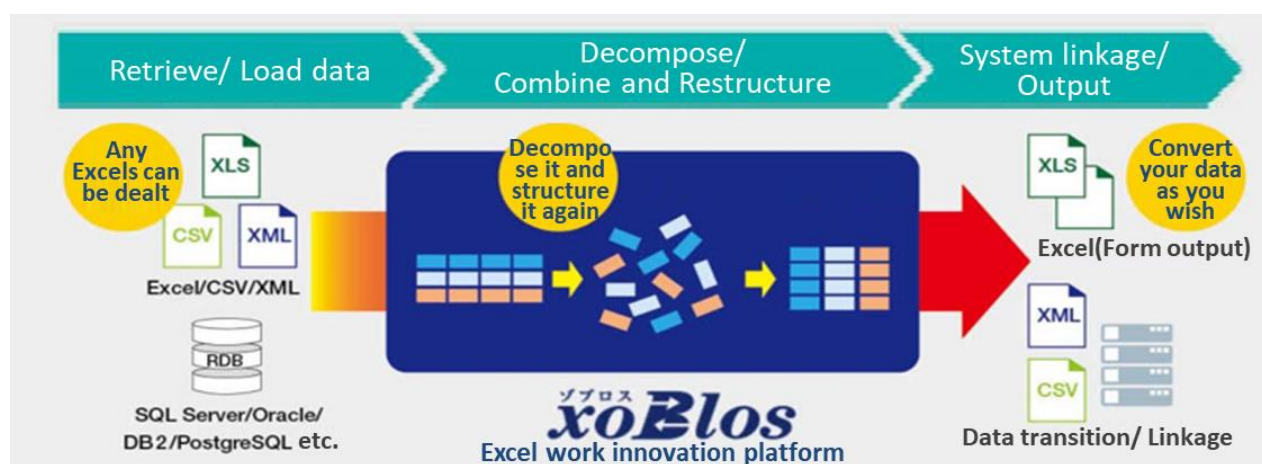
Initially, WebARGUS was only available for Linux, but a Windows version was released in April 2016, and an enterprise edition in September 2017. In February 2018, the company began offering a next-generation cloud WAF (WebARGUS Fortify), which dramatically strengthens the functionality of comprehensive web security. In particular, because of the release of the enterprise edition, which was targeted at large-scale companies, an increasing number of large companies (mainly listed companies) adopt WebARGUS.

In addition, the company is considering expanding the range of applications in anticipation of security measures for the IoT generation, including WebARGUS for embedded systems products. In particular, an official project has been launched for the embedded version, and the company continues to discuss business and conduct technical research with the goal of commercialization.

2) “xoBlos,” an Excel work innovation platform

Even in advanced corporations with a high level of IT, there are numerous Excel-based tasks including manual operations in the office. Most non-routine tasks consist of repetitive manual operations such as processing Excel reports by manually inputting data from paper reports, aggregating totals from multiple Excel sheets and visualizing and analyzing CSV data extracted from packaged system.

The company's original-brand, “xoBlos,” entirely automates these inefficient Excel-based tasks and provides drastic improvements to workflow.



(Taken from the reference materials of Digital Information Technologies Corporation)

◎ Background of development

Many corporations use Excel, the major spreadsheet software, for generating quotations and invoices. However, in cases where they generate these documents in different formats for each client according to the clients' requirements, manual input is mandatory because it is difficult to tally, sort and analyze in a systematic way.

For this, the company developed "xoBlos," an Excel work innovation platform, to automate tasks and significantly improve workflow efficiency.

◎ Product feature, overview and an example of introduction

Enables management of different data formats for tallying and processing
Enables increased efficiency with current Excel spreadsheets.
Process up to dozens of times faster than using macros.
Can be embedded into other packaged products as an engine to output Excel spreadsheets.

xoBlos was released about eight years ago with the aim of drastically improving the efficiency of work using Excel. It is now receiving considerably more attention due to its efficiency "to create a company-wide platform which covers everything from improving work efficiency to providing information useful in managerial decisions, while diverting workflow from areas currently using Excel," in addition to the convenience and relatively cheap introduction cost, because work reform trends centered on revising long work hours grow stronger.

Indeed, the times have caught up with xoBlos and the company.

Also, in order to strengthen product appeal, in February 2018 the company began offering "xoBot," which improved automatic processing in Excel even further.

xoBot, in addition to specializing in Excel processing, is a platform product that further improves automatic processing by forming a link with RPA (*) products and other systems.

After xoBot Solo, an automated business platform that runs on PC clients, in August, the company plans to release another automated business platform, xoBot corabo, which will run on web servers.

The company plans to use the opportunities created by xoBot to provide new products and services based on xoBlos technology, which will be marketed as xoBlos 2.0 and plans to expand sales promotions for the new products.

* RPA (Robotic Process Automation)

RPA refers to efforts to automate work by using robots, and mainly deals with white-collar work in back offices by using AI (artificial intelligence) and "machine learning," in which AI learns through repetition. It is capable of processing across a variety of applications, such as software, browsers, and cloud environments, by simply inputting the processing procedures normally done by humans into the operation screen.

* A sample use case: Sumitomo Forestry Group "Reduced the number of work hours needed for budget aggregation by 180 hours per month"

(Excerpt/summary by Investment Bridge with reference to the materials of the company)

The Sumitomo Forestry Group consists of more than 100 subsidiaries and affiliated companies, centered on Sumitomo Forestry Co., Ltd. (TSE 1st Section, 1911), whose two main pillars are lumber building materials and building new custom houses. It is a large, diversified corporation, expanding into fields such as environmental resources, overseas business, and real estate brokerage. In the term ended March 2017, its sales were 1.1 trillion yen, and operating income was 53.9 billion yen. Full-scale introduction of xoBlos began in May 2014.

(Situation prior to introducing xoBlos)

The business performance management group from the Planning Department at Sumitomo Forestry Co., Ltd.'s housing headquarters was in charge of sales management and account settlement for the housing business, and estimating the monthly profit/loss and deciding on the annual budget was a heavy burden.

Data on the estimated profits/losses of 160 organizations were sent monthly by email from each site, and the person in charge then pasted them into an Excel spreadsheet, consuming half a day's time. It was troublesome and mistakes tended to occur, and in the case of formulating an annual budget, hundreds of entries were required for each site, which required a large amount of manpower to tally them up.

Bridge Report



In addition, at one of the company's subsidiaries, Sumitomo Forestry Information Systems Co., Ltd., the budget totals were distributed across Excel spreadsheets on 5 or 6 different computers and processed, therefore it took the entire day to obtain a result and thus no other work could be done in the meantime.

(After introducing xoBlos)

Introducing xoBlos resulted in the anticipated effect.

- Training was not particularly necessary as usability were not changed from those in Excel, and only a simple manual was provided.
- Previously, the user extracted the monthly data from the core system and transferred the entries one by one, but because xoBlos can integrate with the core system in order to extract the data, it could be done with only one click, and the number of mistakes during transfer fell to zero.
- By eliminating two hours of work at each branch, they were able to cut 120 hours in total. Also, summing up the totals at the headquarters took only 5 minutes to complete, and mistakes could be eliminated.
- In the conventional budget compilation system, it takes 1 to 2 minutes to update one total, but with the Excel-like xoBlos, the same task was finished in only 1 to 2 seconds.
- There are 700 technical (carpentry) positions at Sumitomo Forestry Home Engineering Co., Ltd., which carries out the construction and supervision of custom wooden houses as a group company. It uses a self-assessing skill map sheet to determine what kinds of skills and qualifications are held, and it uses xoBlos to compile. Until now, individuals kept the previous year's skill map sheet and reassessed them each year, but by using xoBlos, it became possible to distribute the previous year's sheets and fill them out while referring to past records. Of course, submission can also be completed with just one click, and distribution can be verified using the aggregation function, so it is easy for the company to analyze the current status of important skills.

Sumitomo Forestry, which introduced xoBlos in 2014, has 11 different necessary work operations related to budget and profits/losses. As a result of advancing RPA in 2015, nine of the eleven tasks are now performed by robots, allowing a reduction of 60 work hours per month. The tasks include: 1. Log in to the accounting system, download and save a record of expenditures; 2. Log in to the housing system, download and save a record of sales; 3. Log in to xoBlos and load the record of expenditures into a spreadsheet; 4. Load the record of sales into a spreadsheet; 5. Print spreadsheets for the previous month's results and next month's forecast; 6. Log into xoBlos, finalize the forecast spreadsheet; 7. Prepare figures on results and forecasts for materials to be used in meetings; 8. Report the forecast to headquarters; and 9. Send meeting materials to participants via email. In addition to the 120-hour reduction made possible by xoBlos, combining it with RPA ultimately enabled Sumitomo Forestry to reduce working time by a total of 180 hours per month.

At Sumitomo Forestry, in addition to the results of xoBlos, DIT's rapid support system is highly evaluated, and there are plans to further utilize xoBlos throughout the group.

◎ Introduction and sales

Currently, there are over 300 companies with "xoBlos."

The company has been expanding sales including hosting seminars jointly with one of its major agencies, Daiko Denshi Tsushin, Ltd (8023, the second section of TSE), by taking full advantage of its wide variety of clients, branches and marketability.

Initially, the company was mainly making introductions to medium-sized companies, but as the need for efficiency in on-site work has increased, there have also been more introductions to large companies. Currently, about 70% of newly introduced companies are large companies.

The company holds a seminar for sales promotion three times per week, and on most occasions every seat is filled.

【1-4 Characteristics and strengths】

1) Multifaceted and diverse IT company

The company has expanded its business areas by flexibly responding to the progress of information technology, from business system development business to computer sales(current: system sales), embedded product development and verification business, and operational support business as well as working on its original products based on its technical strengths which have been developed during the process of business expansion.

One of the major characteristics of the company is that it is a multifaceted and diverse IT company and has a wide range of business activities and provides own-brand product with originality.

2) Organizational strategies of partial and total optimization

Another significant characteristic of the company is that it has an organizational strategy with two opposite factors, partial and total optimization in a well-balanced manner.

For partial optimization, the company has specialized companies under an in-house company system which aim to be the best in each field. It also provides training and produces entrepreneurs with innovative spirits.

For total optimization, the company pursues synergy between companies while respecting independence of each in-house company; through scrap and build done by the headquarters, collaboration between each in-house company and development of new business areas.

(Overview of each in-house company)

Main business unit	Company name	Overview
Business system development unit	Business Solution Company	This company develops a proposal style SI business to provide solutions for clients. Especially in the fields of finance, communications and distribution, this company undertakes design and development of a wide range of software such as general purpose systems, website systems, mission-critical systems and information systems for leading companies in each industry. It also provides a new business area, ASP business for "Insurance Pharmacy Integrated Management System (Phant's)."
	e-business Services Company	This company provides website system architecture and maintenance for e-commerce websites and service websites for clients mainly for finance and major retail industries for many years. It provides a one stop service to suit clients' requirements with technologies which it has developed through experience.
Operation support unit	Support Business Company	This company's engineers have a wide range of knowledge enabling it to provide one stop optimal IT environment (service) to suit clients' requirements including support for introducing systems, infrastructure-building, network operation management and middleware development.
Embedded product development unit	Embedded Product Solution Company	This company specializes in control system development focused on embedded systems for in-vehicle devices, communication devices, industrial equipment and digital home appliances. It has many engineers with highly specialized skills for embedded system development. Because of the physical conditions of hardware, embedded systems development can be very restrictive, and requires a meticulous level of problem-solving that differs from general application development.
Embedded product verification unit	Quality Engineering Company	This company has a wide range of software validation and verification businesses from in-vehicle devices such as car navigation systems to medical devices, communication infrastructure and mobile terminals. It gives priority to improving the quality of products and provides total service from planning, designing, implementing, operating and analyzing tests to consulting. It has collaborated with DIT America, LLC, a local subsidiary in the U.S.A.

		since 2011. It also provides verification services overseas.
(Combination)	Western Japan Company	Activities are based west of Nagoya, with a focus on Osaka. DIT takes part in three businesses: business system development and operational support, mobile and web application development, and embedded systems development (in-vehicle devices and security-related matters). Recently, the company is aiming to expand into the IoT and Web service businesses, taking advantage of multi-skilling.
	Ehime Company	This company is located in Ehime and provides a high added-value one stop service for product development to meet the regionally specific requirements for a variety of industries and businesses as well as sales of software and system devices, operation and system support, and contributes to local revitalization. It also employs engineers locally at a multi-purpose IT development center to tackle the engineer shortage in the other companies.

3) Development and sales of original own-brand products

As mentioned above, the company has developed a variety of original own-brand products like “WebARGUS” with its unique technologies. They are growing to be the primary source of revenue in the future.

2. The First Half of Fiscal Year June 2018 Earnings Results

(1) Consolidated business results

(unit: million yen)

	FY 17/6 2Q	Ratio to sales	FY 18/6 2Q	Ratio to sales	YOY
Sales	4,858	100.0%	5,516	100.0%	+13.6%
Gross margin	1,120	23.1%	1,261	22.9%	+12.6%
SG&A expenses	816	16.8%	882	16.0%	+8.1%
Operating income	304	6.3%	379	6.9%	+24.9%
Ordinary income	296	6.1%	374	6.8%	+26.4%
Net income	193	4.0%	250	4.5%	+29.2%

Both sales and profit increased. A new high was established for the second quarter.

Sales increased 13.6% YoY to 5,516 million yen. The system sales business, which was sluggish in the first quarter, recovered, and every business saw an increase in sales. The increase in SG&A expenses remained in the single digits, and operating income increased 24.9% YoY to 379 million yen.

Sales and profits reached a record high for the second quarter, exceeding the forecasts.

(2) Trends by segment

(unit: million yen)

	FY 17/6 2Q	Composition ratio	FY 18/6 2Q	Composition ratio	YOY
Software Development Business	4,533	93.3%	5,188	94.0%	+14.4%
System Sales Business	324	6.7%	328	6.0%	+1.3%
Total sales	4,858	100.0%	5,516	100.0%	+13.6%
Software Development Business	308	6.8%	385	7.4%	+25.0%
System Sales Business	-5	-	-5	-	-
Adjustment	1	-	0	-	-
Total operating income	304	6.3%	379	6.9%	+24.9%

*Sales mean sales to external clients. The composition ratio of operating income means the ratio of operating income to sales.

(Sales trends by segment)

(unit: million yen)

	FY 17/6 2Q	Composition ratio	FY 18/6 2Q	Composition ratio	YOY
Business Solution Unit	3,057	62.9%	3,148	57.0%	+3.0%
Embedded Product Solution Unit	1328	27.3%	1,848	33.5%	+39.2%
Original Product Unit	147	3.0%	190	3.5%	+28.9%
System Sales Business	324	6.7%	328	6.0%	+1.3%

◎ Software Development Business

Both sales and profit increased.

* Business solution unit

The system development in the fields of mainly finance, and also those for medical care, pharmaceutical products, social infrastructure grew and operation support was healthy.

* Embedded product solution unit

There was a significant increase in sales. Development for in-vehicle applications has been steady for all customer segments and considerably increased. In addition to the development of mobile applications for IoT, in semiconductor-related embedded systems development, software development projects for secure microcomputers have greatly increased. These microcomputers protect data on the in-vehicle network and prevent unauthorized connections to electronic control units (ECU).

* Original product unit

Sales increased significantly. The large-scale orders for “WebARGUS” were placed, and the number of transactions for “xoBlos” significantly increased.

◎System Sales Business

Sales growth and losses are on par with the same period of the previous term.

“Rakuichi,” which is produced by Casio Computer Co., Ltd. for small and medium enterprises, experienced a recovery in sales to repeat customers.

Sales of items such as multifunctional devices and network devices, as well as inquiries about original products increased.

(3) Financial condition and cash flow

◎Main BS

(unit: million yen)

	End of Jun. 2017	End of Dec. 2017		End of Jun. 2017	End of Dec. 2017
Current assets	3,139	3,140	Current liabilities	1,023	1,162
Cash and deposits	1,346	1,254	Trade payables	317	299
Trade receivables	1,555	1,608	Short-term debts	32	6
Inventories	144	127	Noncurrent liabilities	275	159
Noncurrent assets	574	611	Long-term debts	4	-
Property, plant and equipment	91	121	Total liabilities	1,299	1,321
Intangible assets	23	21	Net assets	2,414	2,430
Investments and other assets	458	468	Equity	2,408	2,405
Total assets	3,713	3,752	Total liabilities and net assets	3,713	3,752
			Balance of debts	37	6

Cash and deposits decreased, but current assets remained almost unchanged from the end of the previous term due to an increase in trade receivables, etc. Noncurrent assets increased 37 million yen due to an increase in property, plants, and equipment, and total assets rose 38 million yen to 3,752 million yen.

Bridge Report



Total liabilities increased 22 million yen to 1,321 million yen due to a decrease in debts, appropriations of allowance for bonus, and a decrease in net defined benefit liability.

Net assets increased 15 million yen to 2,430 million yen due to the growth of retained earnings.

Consequently, the equity ratio decreased 0.2 points from the end of the previous fiscal year to 64.8%.

The balance of short to long-term debts declined 31 million yen to 6 million yen.

◎Cash Flow

(units: million yen)

	FY6/17 2Q	FY6/18 2Q	YYChange
Operating Cash Flow	24	235	+210
Investing Cash Flow	4	-43	-47
Free Cash Flow	29	192	+162
Financing Cash Flow	-80	-285	-205
Cash, Equivalents	1,046	1,254	+208

Profits increased, and the surplus of operating CF expanded. Investing CF went into a deficit due to increase in purchase of property, plants, and equipment, but the surplus of free CF expanded.

There was no longer any income made by issuing shares, but due to the acquisition of treasury stock, the deficit of financing CF expanded.

The cash position improved.

(4) Topics

Conducted share split

As of April 1, 2018, the company plans to implement a 2-for-1 share split, with the aim of raising the liquidity of the stock and further expanding the range of investors by lowering the amount per unit of investment.

3. Fiscal Year June 2018 Earnings Estimates

(1) Full-year earnings forecast

(unit: million yen)

	FY 6/17	Ratio to sales	FY 6/18 (Forecast)	Ratio to sales	YYChange	Progress Rate
Sales	10,273	100.0%	10,820	100.0%	+5.3%	51.0%
Operating income	653	6.4%	730	6.7%	+11.7%	52.0%
Ordinary income	641	6.2%	725	6.7%	+13.1%	51.6%
Net income	466	4.5%	493	4.6%	+5.8%	50.7%

*The estimated values are from the company.

Sales and profit are estimated to grow for eight consecutive terms in a row.

Sales and operating income are estimated to be 10,820 million yen, up 5.3% YoY, and 730 million yen, up 11.7% YoY, respectively.

Every business is expected to see sales growth, so, even though the company will keep concentrating on the investment in new businesses, profit is forecasted to grow by double digits and profit rate is expected to rise.

It is estimated that sales and profit will grow for the 8th consecutive term, marking a record high.

An interim dividend will be paid from this term. The interim and term-end dividend amounts are both 10 yen/share, totaling up to 20 yen/share. The estimated payout ratio is 31.2%.

(2) Sales forecast of each business segment and efforts in the 2nd half

(unit: million yen)

Bridge Report



	FY 17/6	Composition ratio	FY 18/6 (Forecast)	Composition ratio	YYChange	Progress Rate
Business Solution Unit	6,259	60.9%	6,503	60.1%	+4.0%	48.4%
Embedded Product Solution Unit	3,072	29.9%	3,232	29.9%	+5.0%	57.1%
Original Product Unit	304	3.0%	427	3.9%	+40.0%	44.5%
System Sales Business	638	6.2%	658	6.1%	+3.1%	49.8%

◎ Business solution unit

Sales are estimated to grow in the fields of mainly finance, and also medical care, pharmaceutical products, social infrastructure, and operation support is expected to be healthy.

◎ Embedded product solution unit

It is forecasted that the demand for development of in-vehicle devices will be strong and the business of development and testing will be healthy. Semiconductor-related embedded systems development projects will progress steadily.

◎ Original product unit

As the demand for security grows and the company follows the trend of shortened working hours and the reform of ways of working, “WebARGUS” and “xoBlos” are estimated to grow considerably.

◎ System Sale Business

As the company actively promotes sales by selling “Rakuichi” to new customers and replacing old products with new ones, sales are forecasted to grow.

(3) Strategies and topics

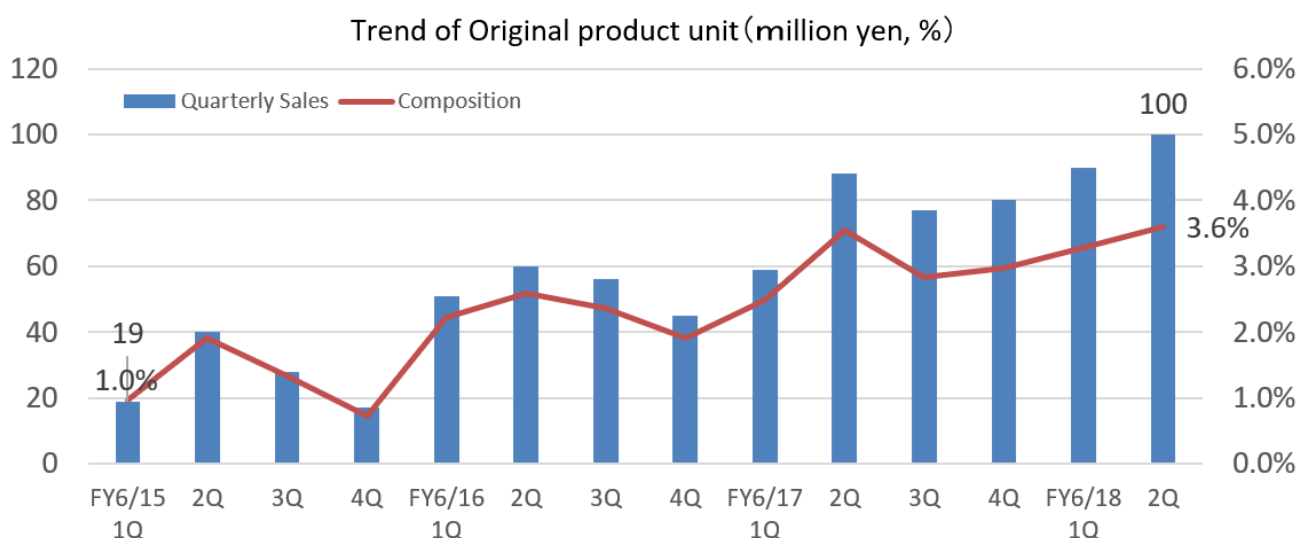
Strategy	Results	Future Measures
◆ Construction of stable foundations	✧ The number of in-vehicle projects expanded dramatically, and in regards to financing, orders were secured for projects that will lead to expansion in the term's second half.	✧ The company plans to expand the scale of projects in advantageous areas, such as the financial and in-vehicle fields.
	✧ The development of security products for existing customers continued steadily.	✧ The company will develop a new business that combines its accumulated SI know-how and operational services with original products.
◆ Concentration of management resources in a growing field	✧ Projects were expanded in the in-vehicle communications and security-related fields.	✧ Focus on automotive related fields with considerable market growth (self-driving, in-vehicle communication devices, security)
	✧ Orders were received for multiple cloud building projects, AI-related projects, and block chain development projects.	✧ Use accumulated knowledge and technology to further develop cutting-edge fields (Cloud, IoT, FinTech, etc.).
◆ Provide new values centered on the original products	✧ The WebARGUS enterprise edition was released.	✧ Promote introduction to large-scale users, and commercialize an IoT version.

	<ul style="list-style-type: none"> ◇ Prepared for the sale of WebARGUS Fortify. 	<ul style="list-style-type: none"> ◇ Enhance sales capabilities by diversifying security products.
	<ul style="list-style-type: none"> ◇ Sales began for a budget performance solution centered on xoBlos. ◇ Introduced a new generation of the Excel work innovation platform by pre-announcing xoBot. 	<ul style="list-style-type: none"> ◇ Provide a series of solution products centered on xoBlos.

5. Conclusions

While sales composition of original product units is still comparatively low, both WebARGUS and xoBlos follow current trends and reliably capture demand, and sales for this quarter (Oct.-Dec.) reached 100 million yen for the first time.

The company expects this will contribute to earnings starting from the next term, and would like to pay attention to how quickly these products grow in order to achieve a 10% operating income margin for the fiscal year ending June 2021.



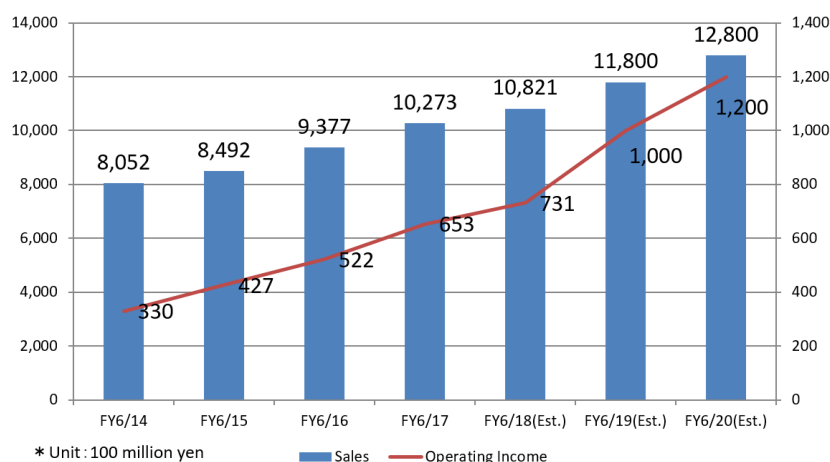
<Reference1 : Regarding growth strategy >

As a medium-term business development, Digital Information Technologies aims to establish a strong business foundation by repeatedly conducting stable transactions in a wide range of business fields, and based on it, provide new value centered on original products. The company aims to grow substantially with these two ideals.

In its business infrastructure, the company will make stable transactions in a wide range of existing business fields to further strengthen its business foundation, and provide new value through growth factors such as original products and other new products.

Following "Development" from the second preceding term (ended June 2016), the company has positioned the previous term (ended June 2017) and the current term (ending June 2018) as "Reinforcement," and from the next term onward it will enter "Expansion and Stabilization." As a medium-term objective, the company aims for "Triple 10s," which consists of **sales of 10 billion yen, an operating income of 1 billion yen, and an operating income margin of 10%.** In regards to sales, it achieved this target in the previous term.

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Sales	10 billion yen	FY ended June 2017
Operating income	1 billion yen	FY ending June 2019
Operating income margin	10%	FY ending June 2021

<Growth strategies and results/Future measures>

Growth strategies, results, and future measures to take in each business are as follows.

◎Business Solution Unit

Strategy	Future Measures
◆ Expansion of stable foundations	<ul style="list-style-type: none"> · Further expand the already strong financial field by increasing orders for financial contracts. · Promote new technologies that utilize the cloud environment by participating in projects that involve building cloud environments, IoT infrastructure, etc. · The end-user and major client information system subsidiary steadily expanded both in terms of scale and number of customers. The company will promote further expansion of direct contracts and proposal-based sales of one-stop solutions.
◆ Provide comprehensive service	<ul style="list-style-type: none"> · Expand SI, which is combined with the company's original product, xoBlos, and includes disaster prevention systems. Provide development and infrastructure as a comprehensive service centering on original products.
◆ Business expansion utilizing local bases	<ul style="list-style-type: none"> · The joint project between the company's local base and the Kanto base steadily expanded. There will be further utilization of "advanced near-shore development*."

* Advanced near-shore: A cost-effective development method carried out by a group of high value-added technicians at local bases in Japan.

◎Embedded Product Solution Unit

Strategy	Future Measures
◆ Focus on the in-vehicle business	<ul style="list-style-type: none"> · Orders from manufacturers who deal with in-vehicle devices have steadily increased, and the in-vehicle business has grown. The company will focus on automotive related fields with considerable market growth (self-driving, in-vehicle communication devices, security).
◆ Expansion of the semiconductor field	<ul style="list-style-type: none"> · In the security field, development projects from major semiconductor manufacturers grew. The company is also focusing on further expansion in the field of in-vehicle semiconductors.
◆ Enter into new fields	<ul style="list-style-type: none"> · Apply technologies cultivated in mobile and information appliances to the development of new fields centered on IoT (development of an IoT communication module, etc.).

◎Original Products Unit

「WebARGUS」

Strategy	Future Measures
◆ Enhance sales capabilities	<ul style="list-style-type: none"> · As awareness of the product increased, the company increased the number of product introductions. They seek out potential customers and actively approach large-scale users. · Prepare for sale in Singapore in order to develop the Southeast Asian market. · Encourage proposals for comprehensive security (collaboration with leading security products).
◆ Upgrade products	<ul style="list-style-type: none"> · Aim to attract large-scale users with the enterprise edition released in the first half (enhanced operational function based on customer's request). · Strengthen product and sales capabilities by diversifying security products, including WebARGUS Fortify*, for which sales preparations were made during the first half.
◆ Expand the applicable area	<ul style="list-style-type: none"> · Promoted operation checks on ARM architecture (*) which has become mainstream in IoT equipment and business meetings and negotiations. · Expand the applicable area of the IoT version of WebARGUS, which is based on system resilience ideology (*)

(*) **ARM Architecture:** A method for designing processors whose intellectual property right is held by ARM in the U.K. and which is widely adopted for semiconductor chips for low power applications such as smartphones and in-vehicle devices.

(*) **System Resilience Ideology:** To be resilient means to show strength of stability and the ability to recover quickly. In the case of WebARGUS, this refers to the instantaneous detection/restoration mechanism (websites are restored to their original state immediately after tampering is detected.)

「xoBlos」

Strategy	Future Measures
◆ Enhance sales capabilities	· xoBlos has been introduced to more than 300 companies in total, and introduction to major companies continues to progress. Sales to large-scale users will be strengthened even further.
◆ Upgrade products	<ul style="list-style-type: none"> · Negotiations progressed for budget performance management solutions with high customer needs. Moving forward, the company will prepare a series of solutions. · Begin providing xoBot from February 15th, which can integrate seamlessly with RPA, and aim to expand sales while taking current work reforms into account.
◆ Expand the applicable area	· Take opportunities to be recognized as an open innovation platform that collaborates with other companies' products and services, and provide more new services by collaborating with a variety of services, such as AI.

◎System Sales Business

Strategy	Future Measures
◆ Increase sales among existing customers	<ul style="list-style-type: none"> · Due to increased proposals for an upgrade from the standalone model to a server model, replacement sales recovered. The company plans to increase introductions of this upgrade to customers, and enhance cross-selling. · Strengthen sales by diversifying products, such as the creation of the xoBlos “Rakuichi Collaborative Pack” (a sales management & xoBlos collaboration).
◆ Increase sales by acquiring new customers	· New customers have increased due to the sale of system products to small and medium enterprises. The company will strengthen sales of xoBlos, targeting large and medium enterprises.

The company will also utilize Toyo Infonet, a sales subsidiary, to further vitalize original product sales.

<Reference2 : Regarding corporate governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory board
Directors	10 directors, including 2 external ones
Auditors	3 auditors, including 2 external ones

◎ Corporate Governance Report

Last Update: February 14, 2018

<Basic principle>

The company recognizes that compliance with laws and regulations, maintaining transparency in management, and improving the soundness and sustainability of its corporate value are the most important management issues.

In order to tackle these issues and to fulfill social responsibilities to shareholders and other stakeholders, the company has established the following corporate governance system. The company considers it important to further strengthen this system, verify its functions on a regular basis, and implement necessary measures.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
<Supplementary principle 1-2-4>	Because the number of foreign shareholders such as foreign companies is small as of the most recent record date, the convening notices of general shareholders' meetings in English version are not provided yet for business efficiency reasons. The company will explore the possibility in accordance with the changes such as the composition of shareholders.
<Supplementary principle 4-11-3 >	Specific ways to analyze and evaluate the effectiveness of the board as a whole are currently under review. Once they are determined, we will disclose them.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
<Principle 1-4>	The company will decide holding of shares of other listed companies after confirming the mid- to long-term prospect of enhancing the company's corporate value at a board meeting. As for the voting rights, the accounting department examines each agenda to see if it will contribute to shareholders' value and makes request for decision by the President.
<Principle 3-1 >	(1) Our management philosophy, business strategies, and business plans are disclosed at financial results briefings and on our webpage (at the following URL). 【Information for financial results briefings 】 https://www.ditgroup.jp/ir/kessan.html (2) Our actions concerning corporate governance are published on our webpage (at the following URL). 【Corporate Governance】 https://www.ditgroup.jp/ir/governance.html (3) The principles and procedures to determine remuneration of the board directors are based on the Rules and Regulations for Board of Directors. The remuneration takes into account the common level of

Bridge Report



	<p>remuneration, the Company's business performance and other employees' salaries. It is determined at a board of directors meeting within the limits of total remuneration determined at a general shareholders' meeting.</p> <p>(4) We have established the standard to appoint board directors and auditors. Taking into account the overall performance, knowledge and experiences of each candidate, the President will propose the final candidate to the board of directors. The directors will deliberate and decide the final candidate, and the name will be submitted as an agenda for a general shareholders' meeting.</p> <p>(5) The reasons for nomination and appointment of each director or auditor are described in the notice of general shareholders' meeting.</p>
<Principle 5-1>	<p>The company is making efforts in collaboration with relevant departments, led by the President, to achieve constructive dialogue with shareholders.</p> <p>As an action to enrich dialogue methods other than individual meetings, the company hosts financial settlement briefings every quarter for the analysts and institutional investors. The IR Department also proactively receives IR interviews through meetings and phone calls from investors.</p> <p>As a measure to appropriately and effectively provide shareholders' opinions and concerns to the executives and board directors, the company regularly reports the questions raised at the financial settlement briefings and opinions from shareholders and investors to the management executives.</p> <p>The company also ensures appropriate management of insider information during dialogues with shareholders and investors in accordance with the internal regulations.</p>

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