# Bridge Report

### Bridge Salon

## *Bridge Report* Digital Information Technologies Corporation (3916)

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

President
Satoshi Ichikawa

Digital Information Technologies Corporation

**— Stock Information —**

| Share Price | Number of shares issued (excluding treasury shares) | Total market cap | ROE (Actual) | Trading Unit |
|---|---|---|---|---|
| 1,398 yen | 15,361,356 shares | 21,475 million yen | 21.1% | 100 shares |

| DPS (Est.) | Dividend yield (Est.) | EPS (Est.) | PER (Est.) | BPS (Actual) | PBR (Actual) |
|---|---|---|---|---|---|
| 14.00 yen | 1.0% | 43.37 | 32.2x | 170.68 yen | 8.2x |

＊The share price is the closing price on September 10. The number of shares issued was taken from the latest brief financial report. ROE and BPS are the values of the pervious 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 | 8..48 | 1.00 |
| Jun. 2014 (Actual) | 8,052 | 330 | 339 | 209 | 16.26 | 1.75 |
| Jun. 2015 (Actual) | 8,492 | 427 | 427 | 297 | 22.93 | 5.00 |
| Jun. 2016 (Actual) | 9,341 | 524 | 553 | 351 | 23.80 | 6.00 |
| Jun. 2017 (Actual) | 10,273 | 653 | 641 | 466 | 30.34 | 7.50 |
| Jun. 2018 (Actual) | 11,076 | 787 | 790 | 531 | 34.57 | 11.00 |
| Jun. 2019 (Forecast) | 11,904 | 1,000 | 997 | 666 | 43.37 | 14.00 |

*The forecast is from the company. A 2-for-1 share split was implemented on October 1, 2016 and April 1, 2018. 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 fiscal year June 2018 earnings results of Digital Information Technologies Corporation, the interview with the new president, Mr. Ichikawa, etc.

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## Key Points

・The sales in the fiscal year ended June 2018 were 11,076 million yen, up 7.8% year on year (YoY). The embedded product solution unit greatly contributed to sales, while the sales of the original product unit were also healthy. The increase in SG&A expenses remained in the single digits, and operating income increased 20.5% YoY to 787 million yen.
Sales and profits reached a record high for the eighth consecutive fiscal year.

・The sales for the fiscal year ending June 2019 are expected to be 11,904 million yen, up 7.5% YoY, and operating income is expected to increase 26.9% YoY to 1,000 million yen. Every business unit is expected to experience sales growth. Although the company will continue to focus on investing in new businesses, profit rate is expected to rise and profit is forecasted to grow by double digits. It is estimated that sales and profit will grow for the 9th consecutive term, marking a record high. The interim and term-end dividend amounts are estimated to be both 7 yen/share, totaling up to 14 yen/share. The estimated payout ratio is 32.3%.

・We had an interview with the new president, Mr. Ichikawa. In taking office as president, he upholds two words, namely, "never-changing" and "changing", and is willing to clarify the parts that will remain unchanged and the parts that must be changed, actively communicate with employees, penetrate the philosophy and mission again in the company, and promote awareness reform among employees. In addition, according to him, there is much room for improvement in profitability in the business solution unit, embedded product solution unit and original product unit.

・As mentioned in the previous report, in the fourth quarter, the company's operating income tends to be lower than other quarters due to acceptance of new employees and payment of year-end bonus. However, compared with the fourth quarter (April-June) of last year and two years ago, operating income margin is on an upward trend. As mentioned in the interview with President Ichikawa, there seems to be much room for improving profitability in major business units. In the short term, whether they can achieve an operating income of 1 billion yen in the current fiscal year or not is a point of interest. And in the medium to long term, how far they can increase the profit margin of the entire company at the time when the original product unit is monetized is a point of interest.

## 1.　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 former president Norikazu Ichikawa (current Representative Director and Chairman) 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 turning 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.

In July 2018, Mr. Satoshi Ichikawa, who used to be Representative Director and Senior Managing Officer, took up the office of Representative Director and President to rejuvenate the management structure under the business environment where change is accelerating and make a system to enable prompt decision-making.

## 【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)
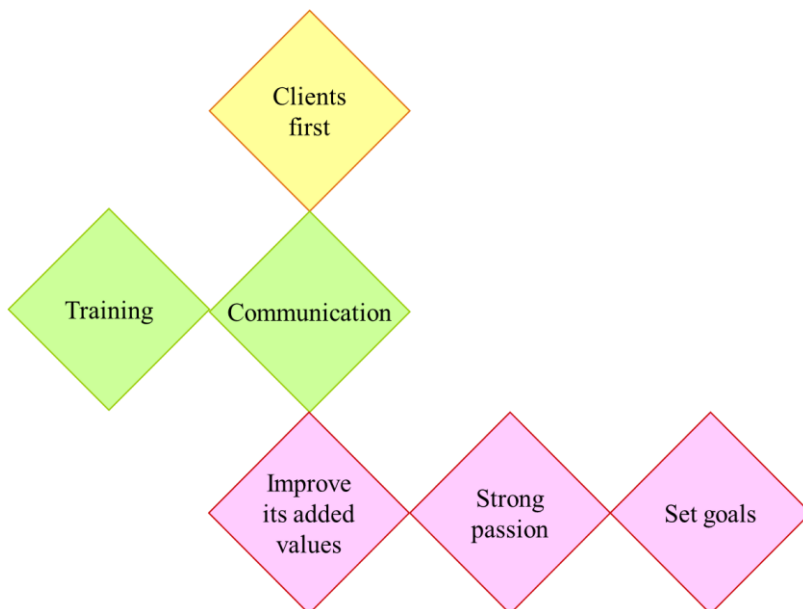
(From the company's website)

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.

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## 【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 2018, unit: million yen)
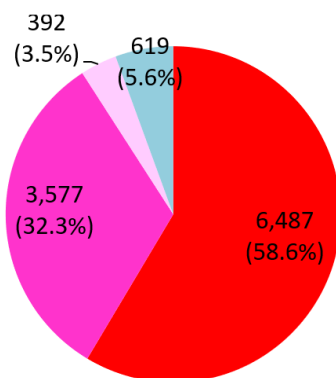


- ■ Business Solution Unit
- ■ Embedded Product Unit
- ■ Original Product Business Unit
- ■ Computer Sales Unit

**(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, medicine/pharmacy, 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 14 consecutive years.
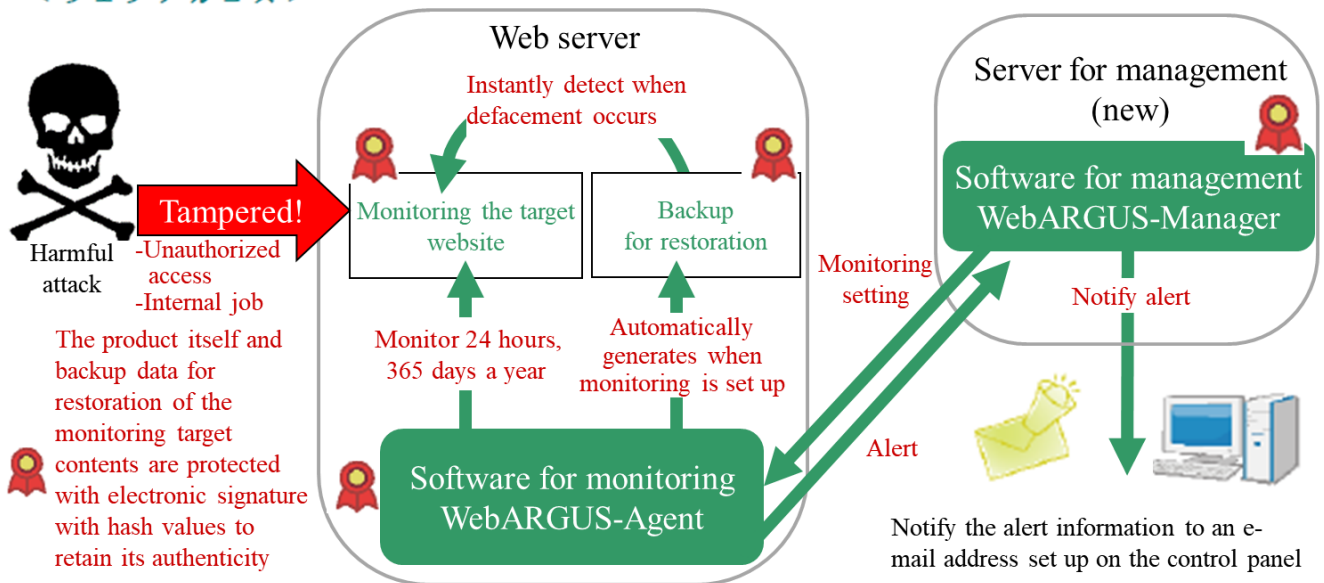
**2. Main Strategic Products**
**1) "WebARGUS," a new website security solution**
WebARGUS is a new security solution which detects tampered websites instantaneously and immediately restores it to its original state. By detecting and restoring immediately when incident occurs, WebARGUS protects corporate 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.

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 incident report published by "JPCERT Coordination Center", about 100 cases are reported every month, and websites including the ones of government agencies are constantly exposed to threats, whether the case is major or minor.

"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.

◎ **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.

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◎　**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 and currently makes agency contracts with 37 companies in total.
They have been actively involved in development collaborations with data centers and cloud service corporations.

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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.

The company also began offering "SaaS" to enhance user convenience and promote further popularization of the products.

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.
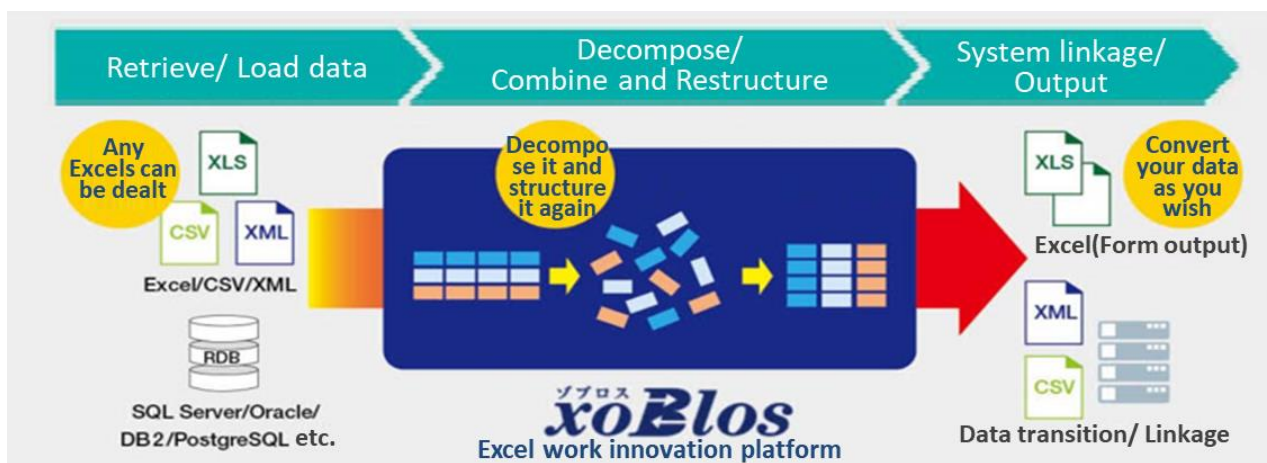


(Taken from the reference materials of Digital Information Technologies Corporation)

◎ **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.

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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-style 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.

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.

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- 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 310 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.

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**2) A wide range of customer base**

The company has approximately 2,600 business partners, ranging from listed companies and their affiliates to small and medium enterprises.With about 70% of customers, the company has direct transactions.

**3) 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.<br>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.<br>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. |

**4) Development and sales of original own-brand products**

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

## 2. The Fiscal Year June 2018 Earnings Results

**(1) Consolidated business results**                                            (unit: million yen)

| | FY 17/6 | Ratio to sales | FY 18/6 | Ratio to sales | YOY | Compared with forecasts |
|---|---|---|---|---|---|---|
| Sales | 10,273 | 100.0% | 11,076 | 100.0% | +7.8% | +2.4% |
| Gross margin | 2,376 | 23.1% | 2,595 | 23.4% | +9.2% | - |
| SG&A expenses | 1,722 | 16.8% | 1,807 | 16.3% | +4.9% | - |
| Operating income | 653 | 6.4% | 787 | 7.1% | +20.5% | +7.9% |
| Ordinary income | 641 | 6.2% | 790 | 7.1% | +23.3% | +9.1% |
| Net income | 466 | 4.5% | 531 | 4.8% | +14.0% | +7.9% |

**Increase in sales and profit for the eighth consecutive fiscal year. They also exceeded the estimate.**

Net sales increased 7.8% year on year to 11,076 million yen. The embedded product solution unit greatly contributed, and the original products grew steadily. SG&A expenses stood at a single digit growth, and operating income increased 20.5% year on year to 787 million yen.

The company has posted record highs for the eighth consecutive year for both revenue and earnings.

**(2) Trends by segment**                                                        (unit: million yen)

| | FY 17/6 | Composition ratio | FY 18/6 | Composition ratio | YOY |
|---|---|---|---|---|---|
| Software Development Business | 9,635 | 93.8% | 10,457 | 94.4% | +8.5% |
| System Sales Business | 638 | 6.2% | 619 | 5.6% | -2.9% |
| Total sales | 10,273 | 100.0% | 11,076 | 100.0% | +7.8% |
| Software Development Business | 659 | 6.8% | 798 | 7.6% | +21.2% |
| System Sales Business | -7 | - | -10 | - | - |
| Adjustment | 2 | - | -0 | - | - |
| Total operating income | 653 | 6.4% | 787 | 7.1% | +20.5% |

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

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（Sales trends by segment）　　　　　　　　　　　　　　　　　　　　　（unit: million yen）

| | FY 17/6 | Composition ratio | FY 18/6 | Composition ratio | YOY |
|---|---|---|---|---|---|
| Business Solution Unit | 6,258 | 60.9% | 6,487 | 58.6% | +3.6% |
| Embedded Product Solution Unit | 3,071 | 29.9% | 3,577 | 32.3% | +16.5% |
| Original Product Unit | 304 | 3.0% | 392 | 3.5% | +29.0% |
| System Sales Business | 638 | 6.2% | 619 | 5.6% | -2.9% |

◎　**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

There was a significant increase in sales. Introduction of "WebARGUS" in large companies has gradually been progressing with a release of its enterprise edition.

The number of projects related to "xoBlos" has also significantly increased against the backdrop of product series development and improving awareness as an effective tool for working style reform.

◎**System Sales Business**

Decrease of sales and profit slightly deteriorated.

"Rakuichi," which is produced by Casio Computer Co., Ltd. for small and medium enterprises, performed as well as the same term of the previous year.

**(3) Financial condition and cash flow**

◎**Main BS**　　　　　　　　　　　　　　　　　　　　　　　　　　　　（unit: million yen）

| | End of Jun. 2017 | End of Jun. 2018 | | End of Jun. 2017 | End of Jun. 2018 |
|---|---|---|---|---|---|
| **Current assets** | 3,139 | 3,447 | **Current liabilities** | 1,023 | 1,305 |
| **Cash and deposits** | 1,346 | 1,627 | **Trade payables** | 317 | 328 |
| **Trade receivables** | 1,555 | 1,562 | **Short-term debts** | 32 | - |
| **Inventories** | 144 | 136 | **Noncurrent liabilities** | 275 | 155 |
| **Noncurrent assets** | 574 | 635 | **Long-term debts** | 4 | - |
| **Property, plant and equipment** | 91 | 115 | **Total liabilities** | 1,299 | 1,461 |
| **Intangible assets** | 23 | 18 | **Net assets** | 2,414 | 2,621 |
| **Investments and other assets** | 458 | 501 | **Equity** | 2,408 | 2,610 |
| **Total assets** | 3,713 | 4,083 | **Total liabilities and net assets** | 3,713 | 4,083 |
| | | | **Balance of debts** | 37 | - |

Current assets increased 308 million yen from the end of the previous year, due to an increase of cash and deposits. Noncurrent assets increased 61 million yen due to an increase of Investments and other assets. Total assets rose 369 million yen to 4,083 million yen.

Total liabilities increased 162 million yen to 1,461 million yen.

Net assets increased 207 million yen to 2,621 million yen, due to the growth of retained earnings.

As a result, the equity ratio decreased 0.8 points from the end of the previous year to 63.7 %.

◎**Cash Flow**　　　　　　　　　　　　　　　　　　　　　　　　　　　　(units: million yen)

| | FY6/17 | FY6/18 | YY Change |
|---|---|---|---|
| **Operating Cash Flow** | 221 | 747 | +525 |
| **Investing Cash Flow** | 125 | -94 | -219 |
| **Free Cash Flow** | 347 | 653 | +306 |
| **Financing Cash Flow** | -97 | -373 | -276 |
| **Cash, Equivalents** | 1,346 | 1,627 | +281 |

The surplus of operating CF increased due to an increase in profit, etc. Although investing CF became negative because there was no longer any income made as a result of selling property, plants, and equipment, the surplus of free CF expanded.

While there were no longer any proceeds from issuance of common shares, the deficit of financing CF expanded due to the acquisition of treasury stock.

The cash position improved.

## 3. Fiscal Year June 2019 Earnings Estimates

**(1) Full-year earnings forecast**　　　　　　　　　　　　　　　　(unit: million yen)

| | FY 6/18 | Ratio to sales | FY 6/19 (Forecast) | Ratio to sales | YY Change |
|---|---|---|---|---|---|
| Sales | 11,076 | 100.0% | 11,904 | 100.0% | +7.5% |
| Operating income | 787 | 7.1% | 1,000 | 8.4% | +26.9% |
| Ordinary income | 790 | 7.1% | 997 | 8.4% | +26.1% |
| Net income | 531 | 4.8% | 666 | 5.6% | +25.3% |

*The estimated values are from the company.

**Sales and profit are estimated to grow for the ninth consecutive terms in a row.**

Sales and operating income are estimated to be 11,904 million yen, up 7.5% YoY, and 1,000 million yen, up 26.9% YoY, respectively.

Every business is expected to experience sales growth. Even though the company will keep on investing in new businesses, profit rate is expected to rise and profit is forecasted to grow by double digits.

It is estimated that sales and profit will grow for the 9th consecutive term, marking a record high.

The interim and term-end dividend amounts are estimated to be both 7 yen/share, totaling up to 14 yen/share. The estimated payout ratio is 32.3%.

**(2) Strategies and topics**

| Strategies | Future Measures |
|---|---|
| Construction of stable foundations | ✧ Expand the scale of projects in advantageous areas, such as the financial and in-vehicle fields. |
| | ✧ Develop a new business that combines its accumulated know-how on SI and operational services with original products. |
| Concentration of management resources in a growing field | ✧ Focus on automotive related fields with considerable market growth (self-driving, in-vehicle communication devices, security) |

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| | |
|---|---|
| | ✧ Use accumulated knowledge and technology to further develop cutting-edge fields (Cloud, IoT, FinTech, etc.). |
| Provide new values centered on the original products | ✧ Promote introduction of the enterprise edition WebARGUS to large-scale users and promote SaaS development utilizing multi-tenant correspondence by distributor. |
| | ✧ Diversify security products such as WebARGUS Fortify. Strengthen marketing capabilities through collaboration with other companies in the same industries in Japan and overseas. |
| | ✧ Promote commercialization of the IoT edition WebARGUS. |
| | ✧ Promote solutions according to customer needs regarding budget performance management, which is the most popular application field of xoBlos. |
| | ✧ Collaborate with various RPA manufactures and handling agents to expand sales of xoBot that works seamlessly with RPA. |

**(3) Trend of strategies of each business unit.**　　　　　　　　　　　　　　(unit: million yen)

| | FY 18/6 | Composition ratio | FY 19/6 (Forecast) | Composition ratio | YY Change |
|---|---|---|---|---|---|
| Business Solution Unit | 6,487 | 58.6% | 6,886 | 57.9% | +6.2% |
| Embedded Product Solution Unit | 3,577 | 32.3% | 3,849 | 32.3% | +7.6% |
| Original Product Unit | 392 | 3.5% | 533 | 4.5% | +36.0% |
| System Sales Business | 619 | 5.6% | 635 | 5.3% | +2.5% |

◎ 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.

| Strategy | Future Measures |
|---|---|
| ◆ Expansion of stable foundations | ・ Deepen its strengths in the finance field, grow in the finance field by further increasing orders for finance contracts, and greatly increase profits. |
| | ・ Promote new technologies that utilize the cloud environment by participating in projects that involve building cloud environments, IoT infrastructure, etc. Acquire new customers. |
| | ・Promote further expansion of direct contracting projects and proposal-based sales of one-stop solutions as the scale and number of projects of end users and subsidiaries of major customers in the information system field are steadily expanding. |
| ◆ Provide comprehensive service | ・Provide a total service through collaboration between SI know-how of business base and operation service and its original products "xoBlos" and "WebARGUS". |
| ◆ Business expansion utilizing local bases | ・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**

Demand for in-vehicle product development is healthy, and both development and verification are going well. IoT related projects are expanding and are expected to increase. Semiconductor related embedded product development projects will also be healthy.

| Strategy | Future Measures |
|---|---|
| ◆ Focus on the in-vehicle business | ・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). |
| | ・Focus on expansion of direct transactions with research institutions of major automobile manufactures |
| ◆　Expansion of the semiconductor field | ・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 IoT fields | ・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 field**

With the tide of increasing security demand, shortening working time and working style reform, high growth is expected for both "WebARGUS" and "xoBlos".

「WebARGUS」

| Strategy | Future Measures |
|---|---|
| ◆　Enhance sales capabilities | ・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 |
| | ・Promote total security proposals (collaboration with major security companies including F-Secure of Finland) |
| | ・In addition to direct sales, promote expansion of order opportunities in collaboration with agencies and other companies in the same industry in Japan and overseas. |
| ◆　Upgrade products | ・Capture large-scale users with the enterprise edition released in November 2017 and develop SaaS for multi-tenants. |
| | ・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 | ・Expand the applicable area of the IoT version of WebARGUS, which is based on system resilience ideology (*) |

**(\*) WebARGUS Fortify: a next-generation type cloud WAF (Web Application Firewall) which is alternative for appliance type WAF. It can protect Website services from invisible threads, without technical knowledge or large-scale investments.**

**(\*) 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. |
| | ・Promote sales by the sales subsidiary (Toyo Infonet). |
| ◆　Upgrade products | ・Promote solutions according to customer needs concerning budget performance management, which is the most popular application area of xoBlos. |
| | ・In autumn, release xoBot corabo, which manage multiple xoBots at the higher level, aiming for sales expansion that captures the tide of working style reform. |
| ◆　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. |

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◎**System Sales Business**

Centered on new sales and replacement of "Rakuichi", the company will aggressively carry out sales promotion of its original products and network equipment and anticipate an increase in sales.

| Strategy | Future Measures |
|---|---|
| ◆ Sales expansion of existing customers | ・Increase sales with product replacement by increasing the offers to raise the level of products from the standalone edition for customers to the server edition for large companies and increase sales by strengthening repeated sales.<br>・Strengthen sales by diversifying products such as creating collaborative packages between Rakuichi (sales management) and the company's original product, xoBlos. |
| ◆ Sales expansion by obtaining new customers | ・Increase new customers for small and medium enterprises by strengthening introduction support and follow-ups (i.e. operation guidance, maintenance) |

# 4. Medium and long-term growth strategy and Usage of funds

**(1) Strategy overview**

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.

Following the fiscal year ended June 2016, which was focusing on "maintenance", the company positioned the fiscal years ended June 2017 and 2018 as "strengthening" years and the fiscal year ending June 2019 and later as an "expansion and stabilization" year. As a medium-term goal, it is aiming to realize "Triple 10", namely, **"sales of 10 billion yen, an operating income of 1 billion yen, and an operating income margin of 10%"**. As for sales, it already achieved the goal in the fiscal year ended June 2017.

It believes that an operating income of 1.0 billion yen will be surely achieved during this fiscal year.



\* Unit : 100 million yen
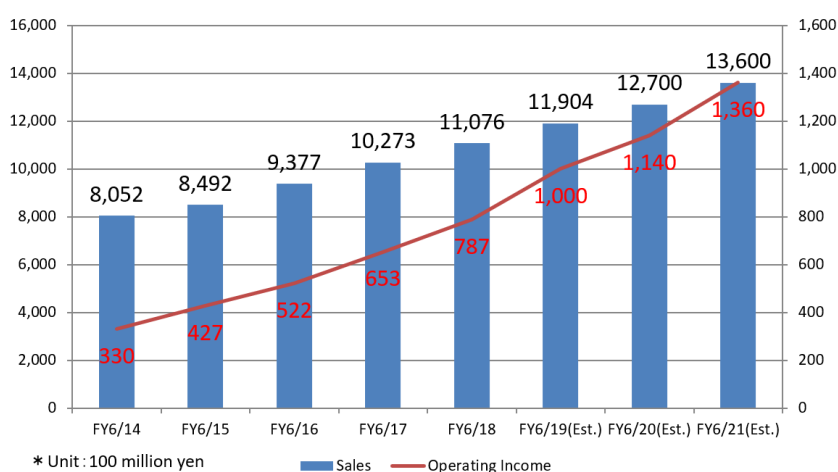
| Sales | 10 billion yen | FY ended June 2017 |
|---|---|---|
| Operating income | 1 billion yen | FY ending June 2019 |
| Operating income margin | 10% | FY ending June 2021 |

**(2) Usage of funds**
It will promote effective use of funds to further enhance corporate value.

(M&A)
To address HR shortage for the existing businesses, it is considering M&A of the most suitable companies in the business solution field and embedded product solution field.

(Collaboration/cooperation)
It will promote collaboration and cooperation with companies that offer complementary products or business fields.

(Return to shareholders)
It has a policy to gradually increase the payout ratio while looking at the balance with large investment for growth such as investment in security products related to IoT.

## 5. Interview with President Ichikawa

We interviewed Mr. Satoshi Ichikawa who assumed office as Representative Director and President on July 1, 2018 to rejuvenate the management structure and enable quick decision making under the rapidly changing management environment and asked him to tell us about the future activities and current status of the business, and give messages to shareholders and investors.

**Q: "What message are you sending to the employees as newly appointed president?"**
**A: "In taking office as the president, I emphasized two words, "never-changing" and "changing". I will clarify the points that will remain the same and the points that must be changed, and actively communicate with the employees, penetrate our philosophy and mission again within the company, and promote awareness reform."**

I emphasized two words, "never-changing" and "changing".

Concerning "never-changing", there are three points that will never change even after the president and managerial structure change.
The first point is to thoroughly utilize the characteristics of each person.
It is impossible to recruit manpower with perfect talent and skills. However, if we merge all the characteristics and strengths of each employee and create a great power, we will become competitive. This is what the founder always said.
Under this way of thinking, we have been trying to make employees more competitive over the years, and this is the basis of our strengths.

The next point is "Starting from Customers", which is in our management philosophy.
We believe that everything will start from here, and we will continue to penetrate this idea within the company.

The third point is the organizational management in smaller units.
This is also the founder's philosophy. As the organization becomes bigger, the mobility will decline and, at the same time, it tends to lose sight of its faults and bad points. This is why we adopt the in-house company system, and as we continue to increase the number of employees, we will create a new organization and revitalize it.

Next is about "changing". There are also 3 points that we need to change.
The first point is to change the management system. Up to now, company management has been promoted under the strong leadership of the founder, but in the future, management will be conducted by the organization.

On the other hand, it is true that we tend to focus on taking actions according to the founder's instructions. But in future, we need to improve this point.

I will facilitate awareness reform among employees to emphasize self-direction and autonomy.

The third point is to change the compensation package for the employees who are important stakeholders of the company to match the current business environment. In other words, we will strengthen our "trunk".
From the viewpoint of recruitment and prevention of job turnover, we will come up with institutional designs such as incentives that include evaluation systems, salary and stock options.

By clarifying the above-mentioned "never-changing parts" and "parts that must be changed", I will actively communicate with employees, penetrate our philosophy and mission again within the company, and promote awareness reform.

**Q："We would like to ask about the current situation of the business. Please tell us the forecast of the business solution unit, embedded product solution unit and original product unit in terms of enhancing profit margins, which is your company's goal".**
**A："There is still much room to improve profit margins for the business solution unit and embedded product solution unit.**
**We are not yet generating revenue from the original product unit, but we believe in high growth for both "WebARGUS" and "xoBlos", taking advantage of the rise in cybersecurity demand, shortening of work time and working style reform. If profitability can be secured at an early stage, profit margin will rise significantly.**
**Of course, for that reason, we must produce results that sufficiently meet customer expectations, and we will continue to aggressively make investments in R&D with a target ratio to sales of approximately 1%".**

Concerning the business solution unit, in the finance field, which is our core customer, our main style has been to dispatch people. However, recently, the contracting style business is increasing. Therefore, if we deliver the work securely on a short delivery date, we can earn higher gross profit than before.
Also, we will focus on developing new customers in the future, as direct contracts with end users will lead to higher profit margins.

The main projects of the embedded product solution unit were initially related to mobile phones. However, in these days, the main customers are from the in-vehicle device industry.
In addition, many of our customers in the in-vehicle device industry have currently a strong business performance, so we have been able to realize profit margins at a different level than before.
Also, as with the business solution unit, the contract style projects are on the rise, and there is still much room for improvement in profitability.

Regarding the original product unit, we have not yet generated revenue, but we believe in high growth for both "WebARGUS" and "xoBlos", taking advantage of the rise in cybersecurity demand, and shortening of work time and work-style reform. If profitability can be secured at an early stage, profit margin will rise significantly.
Of course, for that reason, we have to produce results that sufficiently meet customer expectations, and we will continue to aggressively make investments in R&D with a target ratio to sales of approximately 1%.

**Q："In the end, please give messages to shareholders and investors".**
**A："In this fiscal year, the entire company is striving together under the new management with a goal of achieving operating income of 1 billion yen, which is one of the targets of "Triple 10" listed in the medium to long-term management strategy. We would like our shareholders and investors to support our company from a medium to long-term perspective, as we aim for stability and growth by improving added value and responding to changes".**

Within the medium to long-term business plan starting from the fiscal year ended June 2016, we are aiming to achieve "Triple 10" within 5 years, namely, achieving net sales of 10 billion yen, an operating income of 1 billion yen in the period ending June 2019, and an operating income margin of 10% in the fiscal year ending June 2021.

Regarding net sales of 10 billion yen, we have already achieved it in the fiscal year ended June 2017. In the current fiscal year, our goal is to achieve an operating income of 1 billion yen, and the entire company is striving to achieve it under the new management structure.

We would like our shareholders and investors to support us from a medium to long-term perspective, as we aim for stability and growth by improving added value and responding to changes."

## 6. Conclusions

It is obvious from the graph below that, as mentioned in the previous report, in the fourth quarter, the company's operating income tends to be lower than other quarters due to acceptance of new employees and payment of year-end bonus. However, compared with the fourth quarter (April-June) of last year and two years ago, operating income margin is on an upward trend.

As mentioned in the interview with President Ichikawa, there seems to be much room for improving profitability in major business units. In the short term, whether they can achieve an operating income margin of 10% or not is a point of interest, and in the medium to long term, how far they can increase the profit margin of the entire company at the time when the original product unit is monetized is points of interest.
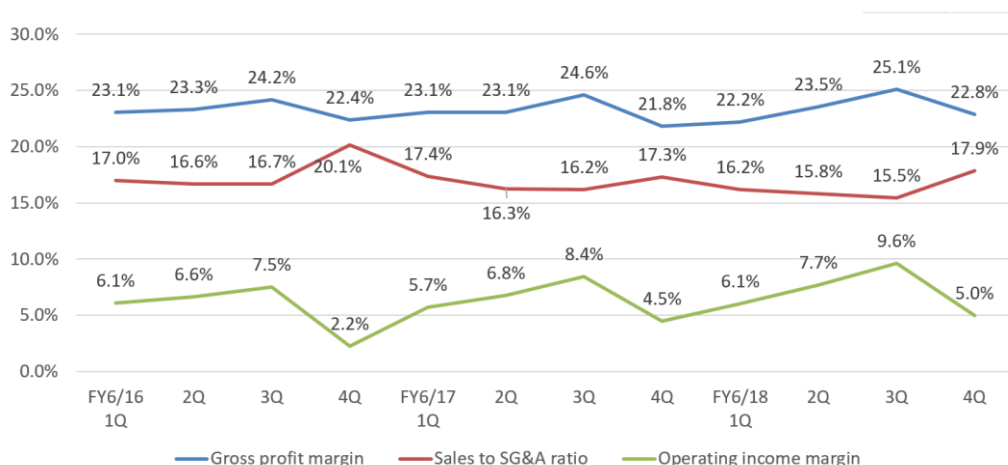


**<Reference: Regarding corporate governance>**
◎ **Organization type, and the composition of directors and auditors**

| 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: June 13, 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.

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<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>
All principles are stated based on the corporate governance code before the revision in June 2018. Updates based on the revised corporate governance code will be completed by December 2018.

| 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. |

<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 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. (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. (5) The reasons for nomination and appointment of each director or auditor are described in the notice of general shareholders' meeting. |
| <Principle 5-1> | The company is making efforts in collaboration with relevant departments, led by the President, to achieve constructive dialogue with shareholders. 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.<br><br>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.<br><br>The company also ensures appropriate management of insider information during dialogues with shareholders and investors in accordance with the internal regulations. |
|---|---|