BRIDGE REPORT                                    Bridge Salon

| | |
|---|---|
| President Satoshi Ichikawa | Digital Information Technologies Corporation (3916)<br><br>Digital Information Technologies Corporation |

## Company Information

| | |
|---|---|
| Exchange | TSE 1st Section |
| Industry | Information and Communications |
| President | Satoshi Ichikawa |
| HQ Address | FORECAST Sakurabashi, 4-5-4 Hatchobori, Chuo-ku, Tokyo |
| Year-end | End of June |
| Homepage | https://www.ditgroup.jp/english/ |

## Stock Information

| Share Price | Number of shares issued (excluding treasury shares) | Total market cap | ROE (Actual) | Trading Unit |
|---|---|---|---|---|
| 1,425yen | 15,361,302shares | 21,889 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 yen | 32.9x | 170.68 yen | 8.3x |

*The share price is the closing price on March 26. The number of shares issued was taken from the latest brief financial report. ROE and BPS are the values of the pervious term.

## Consolidated Earnings

| 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.

*Unit: million yen

This Bridge Report introduces the first half of the fiscal year June 2019 earnings results of Digital Information Technologies Corporation.

**BRIDGE REPORT**                                           Bridge Salon

## Table of Contents

## Key points

- The sales in the first half of the fiscal year ending June 2019 were 5,957 million yen, up 8.0% year on year (YoY). The sales of the business solution unit and the embedded solution unit were healthy, and the original product unit greatly contributed to sales. Gross margin ratio increased, and gross margin saw a two-digit growth while the increase in SG&A expenses remained in the single digits, and operating income rose 52.0% YoY to 577 million yen. Sales and profit marked record highs for the second quarter.

- The full-year earnings forecast remains unchanged. Sales are expected to be 11,904 million yen, up 7.5% YoY, and operating income is expected to increase 26.9% YoY to 1 billion 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 projected to rise and profit is forecasted to grow by double digits. It is estimated that sales and profit will grow for the nine consecutive term, marking the highest on record. 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%, exceeding 30% for the second consecutive term.

- The sales in the first half of the fiscal year ending June 2019 remained healthy for all the business units, leading a significant increase in profit. As for profit margin, which Investment Bridge has been observing continuously, both gross margin ratio and operating income margin in the second quarter (October to December) marked record highs for the past few terms with 25.6% and 11.4% respectively, where operating income margin already exceeded 10%, which was the target of the medium-term business plan for the fiscal year ending June 2021. In addition to the sales growth of the original product unit, the profitability of the company's major business units, i.e., the business solution unit and the embedded solution unit, which had been expected to increase the profit margin further, certainly improved, and it is highly appreciated. In the medium - term, investors should pay attention to the progress of "WebARGUS Total Security" and "xoBlos Plus-One Concept."

## 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.

**BRIDGE REPORT**                                                Bridge Salon

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)
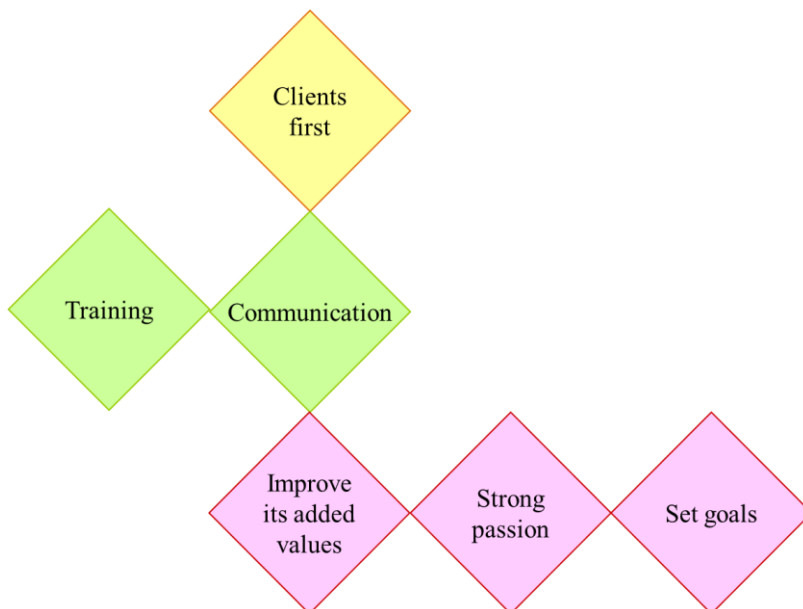


(From the company's website)

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.

BRIDGE REPORT      Bridge Salon

## 1-3 Business contents
### 1-3-1 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 solution unit and original product unit.

Sales by Business Unit
(FY June 2018, unit: million yen)

392
(3.5%)

619
(5.6%)

3,577
(32.3%)

6,487
(58.6%)

■ Business Solution Unit    ■ Embedded Solution Unit
■ Original Product Unit    ■ System Sales Unit
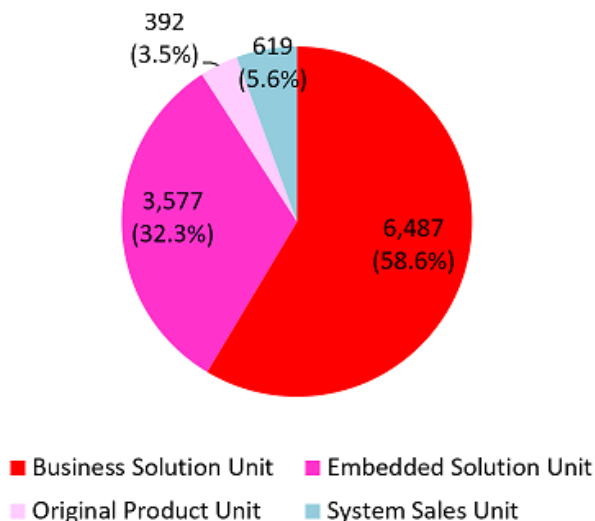
## 1）Software Development Business
### *Business Solution Unit
**(Business system development unit)**

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.

### *Embedded 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

**\*Original Product 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.

### 1-3-2 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.
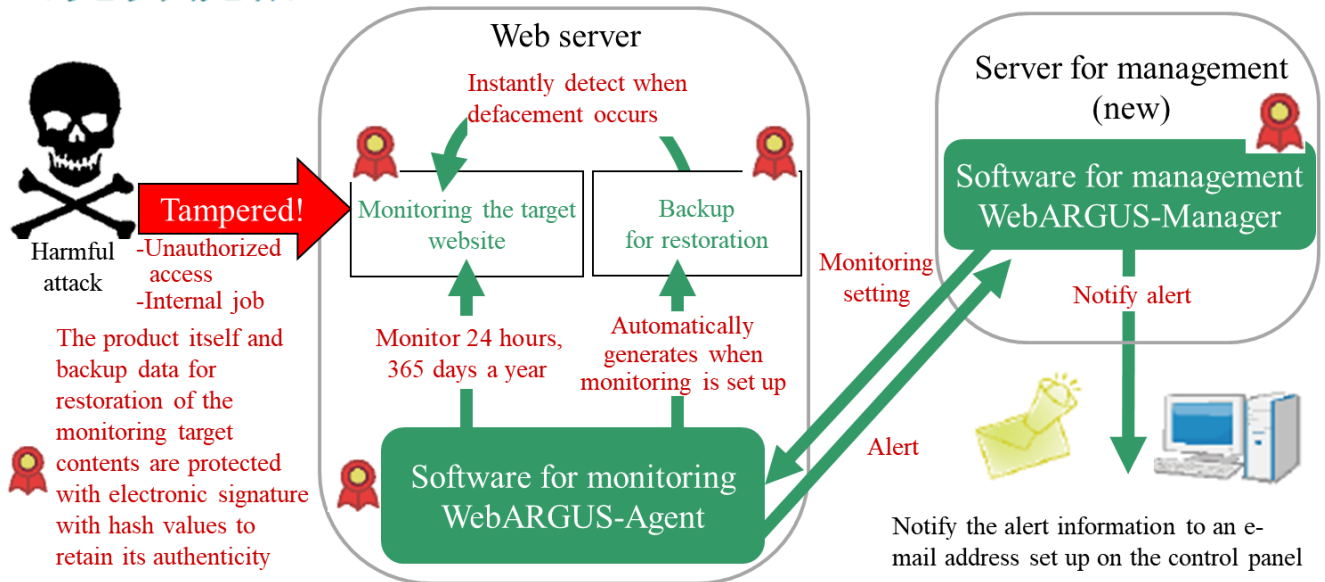


| Automatic restoration from defacement under a second. | Deal with defacement of setting files and execution modules in web servers. | Instant detection and restoration against methods protection software cannot respond to. |

**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.
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 the enterprise edition, which was targeted at large-scale companies 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" in May 2018 to enhance user convenience and further popularize the products, and collaborated in full scale with F-Secure Corporation, a Finnish cyber security company, in June 2018. The company established a total security provision system using the complementary relationship between F-Secure's "F-Secure RADAR," a vulnerability scanning tool for IT system, and DIT's "WebARGUS."

The company also began offering "SaaS" in May 2018 to enhance user convenience and further popularize the products, and collaborated in full scale with F-Secure Corporation, a Finnish cyber security company, in June 2018. The company established a total security provision system using the complementary relationship between F-Secure's "F-Secure RADAR," a vulnerability scanning tool for IT system, and DIT's "WebARGUS."

The company enhanced the varieties of the security solution products through various measures including the above alliance, and it is also considering to expand the range of applications of products in anticipation of needs for security measures for the IoT generation, including WebARGUS for embedded products.

For example, the spread and penetration of automatic driving have made the securement of safety an important mission for the companies providing automatic driving systems, and it is expected that the field where they work actively will grow further.

As for the embedded edition, the company started up an official project and is continuously carrying out discussions and technical investigation of concrete business plans for its commercialization. Although commercialization will take time, the company aims to realize it earlier through the accumulation of its steady business accomplishments.

**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.
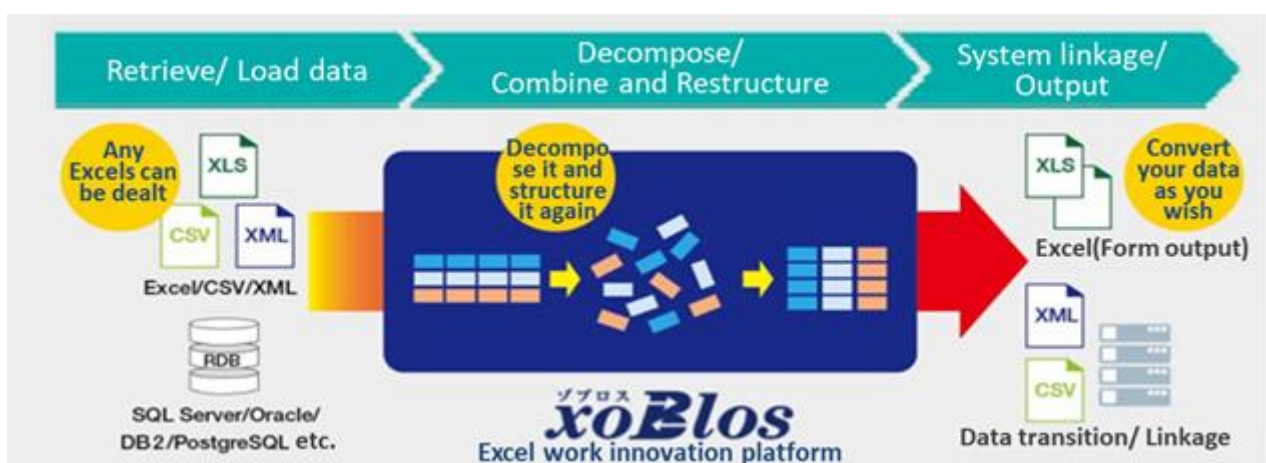


(Taken from the reference materials of Digital Information Technologies Corporation)

**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-style reform trends centered on revising long work hours grow stronger. Indeed, the times have caught up with xoBlos and the company.

For further enhancement of product competitiveness, the company strengthened the automatic processing of Excel work by providing a function linked with RPA* products and other systems in February 2018. This function can be operated on a PC client as well as a Web Server, leading to improvements in convenience for wider users.

* 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.

The domestic RPA market is projected to double to 80 billion yen in the next few years, and RPA-related services, which occupy 80% of the market, are expected to have a higher growth rate than RPA tool products, which occupy only 20%. Based on this, xoBlos, which can be considered as an RPA-related service, is anticipated to have high growth potential. Introduction of xoBlos brought significant operational efficiency in many companies, including the cases given below.

**\* A sample use case : Accordia Golf Co., Ltd. "Reduced the number of work hours by about 20,000 hours annually"**
(Excerpt/summary by Investment Bridge with reference to the materials of the company)

The Accordia Golf Group runs golf courses and golf ranges in 161 locations in Japan, engaging in golf course and golf range management businesses, etc.

(Situation before the installation of xoBlos)
At the end of every month, a massive number of reports on business results, including sales, were collected in the form of Excel files in various formats from 161 bases in the country, but data totalization work was an extremely difficult task since some bases had restaurants, shops, hotels, resort facilities, etc., attached to the golf courses.
Also, as these figures were managed and analyzed in detail for each base, business unit, department, and employee, the back-office department had concerns about sustainability due to increased size of Excel files and maintenance at a macro level.

(Reasons for choosing xoBlos）
Most importantly, it is a high-speed engine. A system becomes useless despite its ability to process Excel files, if it is slow.

**BRIDGE REPORT**

**Bridge Salon**

Therefore, the fact that xoBlos can process a large number of Excel files at high speed was an important factor for selection for the company. In addition, the company valued the fact that it did not require database and could be used without programming as control sheets were also in Excel, and its cost was reasonable.

(After the installation of xoBlos)

Since the format differed for each base, a large number of work hours used to be required, but the adoption of xoBlos led to reduction in the number of work hours by about 20,000 hours (estimated) annually, and the information required by the management team for management could now be delivered swiftly and accurately.

With RPA in mind, the company is considering the utilization of xoBlos for further improvement of workflow and operational efficiency.

**Toward further value improvement of the platform "xoBlos Plus-One Concept"**

"xoBlos" is already highly rated as a work innovation platform that supports in bringing significant operational efficiency by fully automatizing the inefficient work based on Excel, but the company started taking initiatives to make it a platform that offers more high-added value to clients to respond to the changing times and customer needs.

"xoBlos Plus-One Concept" is the result of the above initiatives.

The main concept of "xoBlos Plus-One Concept" is "improvement of data value."

Companies carry out various activities, and they have different systems for the management of each activity.

For example, a company has a system for ERP, which drafts a plan for the appropriate distribution of resources including personnel, things, capital and information, and their effective utilization, at the top, and other systems for CRM for customer management, inventory management, management of acceptance & placement of orders, attendance data, personnel and accounts.

A large amount of data is extracted from each system, and in recent years, there has been a skyrocketing need for enhancement of operational efficiency and visualization of a company's own state by integrating and combining the data, instead of handling them individually.

However, realization of the above is not easy for a company as it requires a large number of work hours and involves huge costs.

In such a situation, clients who installed xoBlos, which processes data efficiently at high speed, achieved efficiency in reporting and are able to utilize the data of by integrating and combining the data easily at a reasonable cost.

Also, it is one of the major features of "xoBlos Plus-One Concept" that it allows the use of data in a desired format of each division and department, from the upstream management team to downstream departments of production, sales, general affairs and administration.

Although it is still a "concept" at present, the company has just begun to carry out activities for its realization, and it plans to link various systems on xoBlos through tie-ups with manufacturers, and propose a concrete image of "xoBlos Plus-One Concept" to its client companies.

**\* A sample use case : MARUZEN-YUSHODO Co., Ltd. "Greatly reduced the number of work hours for IT department"**

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

Maruzen-Yushodo Co., Ltd. offers academic materials for educational and research institutions in the country including universities, and also provides outsourcing services for management for libraries and other educational institutions. In addition, it also undertakes design, supervision and contract work of construction, as well as management consulting work related to school education business.

(Situation before the installation of xoBlos)

There were mainly two tasks.

The first task was to realize data coordination between ORO Co., Ltd.'s ERP "ZAC Enterprise" for the education environment solutions department which was planned to be installed, and the accounting system of the whole company.

The second task was to improve the quality of data services to offer necessary data in a stable and efficient manner to user department.

As the company, too, runs multiple systems (core, accounting, personnel and operational systems), a large amount of processing work for data coordination is carried out among the systems. In addition, the company is actively taking efforts in EDI coordination with suppliers and clients to promote common processing related to data coordination.
When the company adopted ERP, it was planning to handle it within the conventional framework at first, but characteristics of ERP made it necessary to extract and process the data using multiple APIs for data coordination, increasing the complicatedness of the conventional method, which subsequently gave rise to concerns of increased costs.

As for data services, the company received a large number of requests mainly from divisions which were in charge of selling books, and operations division, which was responsible for procurement, order placement & acceptance and receipt & shipment of products, to offer data of the core system only after extracting the necessary items for each division, etc., but it would involve substantial costs to add functions to the core system to meet such diversified requests, and it was also difficult to handle requests urgently.
The company took efforts in improving operational efficiency through application of automation tools, but they lacked real-time properties, and many other difficulties remained in handling the cases where extraction conditions changed for each request.

(After installing xoBlos)
・The number of work hours for development reduced to half compared to the number required in the conventional method.
・As for data services, the number of work hours for IT department reduced as the whole process can be completed by the end users. The company is replacing the work requiring about 20 hours monthly with xoBlos.
・The previous data service had seen cases where re-processing was required using Excel, etc., to make the format into the one desired by end users, but presently, xoBlos processes and offers the desired data in an instantly-usable format, leading to the decreased number of work hours.

Maruzen-Yushodo highly values xoBlo for its functions, user-friendliness, and reasonable cost.
While xoBlos's actual capability, which is its strong data processing function, has not been sufficiently utilized yet, the company plans to expand its application area as its effects are increasing greatly.
Also, the application area of xoBlos is expanding. For instance, the development team is considering the possibilities of other utilization methods of xoBlos which were not planned initially, such as using it as a simple upgrading tool of DB.

**Introduction and sales**
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. The company has established a network of about 30 primary agencies including Daiko Denshi Tsushin, Ltd. The company has established a network of about 30 primary agencies including Daiko Denshi Tsushin, Ltd. At present, the company made introductions to over 350 companies, and it plans to increase the number by 100-120 annually.

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.
At present, the company made introductions to over 350 companies, and it plans to increase the number by 100-120 annually.
It also hopes to expand sales through the adoption of a subscription model that utilizes cloud.

**BRIDGE REPORT**                                                        Bridge Salon

## 1-4 Characteristics and strengths

### 1-4-1 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.

### 1-4-2 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.

### 1-4-3 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. 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. |

**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.First half of the Fiscal Year June 2019 Earnings Results

**2-1 Consolidated business results**

|  | FY 18/6 1H | Ration to sales | FY 18/6 1H | Ration to sales | YOY |
|---|---|---|---|---|---|
| Sales | 5,516 | 100.0% | 5,957 | 100.0% | +8.0% |
| Gross margin | 1,261 | 22.9% | 1,464 | 24.6% | +16.0% |
| SG&A expenses | 882 | 16.0% | 887 | 14.9% | +0.6% |
| Operating income | 379 | 6.9% | 577 | 9.7% | +52.0% |
| Ordinary income | 374 | 6.8% | 577 | 9.7% | +54.4% |
| Net income | 250 | 4.5% | 394 | 6.6% | +57.8% |

*Unit: million yen

**Both sales and profit increased. Marking a record high for the second quarter.**

The sales in the first half of the fiscal year ending June 2019 were 5,957 million yen, up 8.0% YoY. The sales of the business solution unit and the embedded solution unit were healthy, and the original product unit greatly contributed to sales. Gross margin ratio increased, and gross margin saw a two-digit growth while the increase in SG&A expenses remained in the single digits, and operating income rose 52.0% YoY to 577 million yen.

Sales and profit marked record highs for the second quarter.

**2-2 Trends by segment**

|  | FY 6/18/ 1H | Ratio to sales | FY 6/19 1H | Ration to sales | YOY |
|---|---|---|---|---|---|
| Software Development Business | 5,188 | 94.0% | 5,617 | 94.3% | +8.3% |
| System Sales Business | 328 | 6.0% | 339 | 5.7% | +3.5% |
| Total sales | **5,516** | **100.0%** | **5,957** | **100.0%** | **+8.0%** |
| Software Development Business | 385 | 7.4% | 534 | 9.5% | +38.7% |
| System Sales Business | -5 | - | 42 | 12.5% | - |
| Adjustment | 0 | - | 0 | - | - |
| Total operating income | 379 | 6.9% | 577 | 5.9% | +52.0% |

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

*Unit: million yen

（Sales trends by segment）

| | FY 6/18 1H | Ration to sales | FY 6/19 1H | Ration to sales | YOY |
|---|---|---|---|---|---|
| Business Solution Unit | 3,148 | 57.1% | 3,479 | 58.4% | +10.5% |
| Embedded Solution Unit | 1,848 | 33.5% | 1,921 | 32.2% | +3.9% |
| Original Product Unit | 190 | 3.4% | 216 | 3.6% | +13.7% |
| System Sales Unit | 328 | 5.9% | 339 | 5.7% | +3.5% |

*Unit: million yen

**Software Development Business**

Both sales and profit increased.

*Business solution unit

The business system development unit in the field of finance grew and the operation support unit was healthy. The system development in the field of distribution also expanded.

*Embedded solution unit

The sales of in-vehicle devices grew steadily. In particular, the orders for connected car-related products, whose demand is expected to expand further, increased. The customer base shifted to the favorable one, and profit ratio improved.

*Original product unit

There was a significant increase in sales as a result of product and sales strategies carried out by the company so far.

Introduction of "WebARGUS" progressed to large number of users through the increased awareness of companies to prevent tampering, and functional enhancement of the product. Also, sales opportunities expanded as a result of collaborating with an external cyber security company.

The number of projects related to "xoBlos" significantly grew as a result of actively exhibiting the product in various exhibitions with a release of its function to coordinate with various RPAs seamlessly, and improvement in awareness as an effective tool for working style reform.

**System Sales Business**

Sales increased and the business turned profitable.

Sales increased as it related to replacement and repair work of systems grew as a result of the reduced tax rate and change of the name of the era. Also, the subsidies provided by the ministry of Economy, Trade and Industry for the purpose of upgrading their systems led small and medium enterprises to introduce products, contributing to sales increase. introductions to small and medium enterprises increased because of the subsidies provided by the Ministry of Economy, Trade and Industry for upgrading their systems. In addition, the business turned profitable since the sales of the server edition of "Rakuichi" having a high profit rate improved.

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**2-3 Financial condition and cash flow**

**Main BS**

| | End of June 2018 | End of Dec. 2018 | | End of June 2018 | End of Dec. 2018 |
|---|---|---|---|---|---|
| **Current assets** | 3,397 | 3,584 | **Current liabilities** | 1,304 | 1,298 |
| **Cash and deposits** | 1,627 | 1,596 | **Accounts payable** | 328 | 338 |
| **Trade receivables** | 1,562 | 1,728 | **Fixed liabilities** | 156 | 86 |
| **Noncurrent assets** | 685 | 721 | **Total labilities** | 1,461 | 1,385 |
| **Property, plant and equipment** | 115 | 109 | **Net assets** | 2,621 | 2,921 |
| **Investments and other assets** | 552 | 598 | **Capital stock** | 2,610 | 2,912 |
| **Total assets** | 4,083 | 4,306 | **Total liabilities, net assets** | 4,083 | 4,306 |

*Unit: Million yen

Current assets increased 187 million yen from the end of the previous fiscal year, due to an increase of accounts receivable. Noncurrent assets grew 35 million yen from the end of the previous fiscal year due to an increase of investments and other assets. Total assets rose 222 million yen from the end of the previous fiscal year to 4,306 million yen.

Total liabilities decreased 76 million yen from the end of the previous fiscal year to 1,385 million yen due to a drop in long-term prepaid expenses.

Net assets grew 299 million yen from the end of the previous fiscal year to 2,921 million yen, due to the growth of retained earnings.

As a result, equity ratio improved 3.6 points from the end of the previous fiscal year to 67.8%.

**Cash Flow**

| | FY 6/18 1H | FY6/19 1H | YY change |
|---|---|---|---|
| **Operating Cash Flow** | 235 | 116 | -118 |
| **Investing Cash Flow** | -43 | -50 | -7 |
| **Free Cash Flow** | 192 | 65 | -126 |
| **Financing Cash Flow** | -285 | -96 | +189 |
| **Cash, Equivalents** | 1,254 | 1,596 | +342 |

*Unit: Million yen

The surplus of operating CF and free CF decreased due to an increase in trade receivables, etc.

The deficit of financing CF decreased since the expenses incurred in the acquisition of treasury stocks fell YoY. The cash position improved.

## 3. Fiscal Year June 2019 Earnings Estimates

### 3-1 Full-year earnings forecast

|  | FY 6/18 | Ratio to sales | FY 6/19 (forecast) | Ration to sales | YY change | Progress rate |
|---|---|---|---|---|---|---|
| Sales | 11,076 | 100.0% | 11,904 | 100.0% | +7.5% | 50.0% |
| Operating income | 787 | 7.1% | 1,000 | 8.4% | +26.9% | 57.7% |
| Ordinary income | 790 | 7.1% | 997 | 8.4% | +26.1% | 58.0% |
| Net income | 531 | 4.8% | 666 | 5.6% | +25.3% | 59.3% |

*The estimated values are from the company.

*Unit: Million yen

**Earnings forecast remains unchanged. 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%, exceeding 30% for the second consecutive term.

### 3-2 Strategies and topics

| Strategies | Achievements in the first half | Future Measures |
|---|---|---|
| Construction of stable foundations | Progressed well due to continued investments in IT by financial institutions and an increase in equipment investment in automotive-related fields. | Expand the number and scale of projects in advantageous areas, such as financial and in-vehicle fields. |
| | Promoted building of infrastructure at the time of installation of original products and provided support after the installation through collaboration with an in-house company. | 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 | The proportion of in-vehicle devices increased further. In particular, the orders for connected car-related products increased. | Focus on automotive related fields with considerable market growth (self-driving, in-vehicle communication devices, security) |
| | Orders grew for construction of a cloud platform and development of IoT-related products coordinated with electrical & gas appliances, in-vehicle device, etc. | Use accumulated knowledge and technology to further develop cutting-edge fields (Cloud, IoT, FinTech, etc.). |
| Provide new values created on the original products | Strengthened initiatives to promote the enterprise edition WebARGUS to large-scale users.<br>Increased the number of companies introducing the products and promoted | Promote installation to large-scale users and strengthen the stock business through collaboration with agencies. |

| | | |
|---|---|---|
| | stock enhancements by promoting business negotiations with medium-scale users with SaaS development through collaboration with agencies and promoted stock enhancement. | |
| | Offered vulnerability scanning services through collaboration with F-Secure (Finnish firm). Jointly held seminars. | Promote the development of the brand of the company's security products, mainly WebARGUS, as DIT Security. Collaborate with security vendors in Japan and overseas, and offer security products to clients comprehensively in the future. |
| | Continued with the research and development for expanding the application field of IoT edition WebARGUS. | Promote commercialization of the IoT edition WebARGUS. |
| | Collaborated with RPA-related vendors and actively participated in seminars and exhibitions. Received more inquiries from clients who had and hadn't introduced RPA. | Strengthen product capabilities through coordination with RPA products of Japan and overseas. Collaborate with handling agencies to expand sales. |

## 3-3 Trend of strategies of each business unit

| | FY 6/18 | Composition ration | FY 6/19 (forecasted) | Composition ration | YY change | Progress rate |
|---|---|---|---|---|---|---|
| Business Solution Unit | 6,487 | 58.6% | 6,886 | 57.9% | +6.2% | 50.0% |
| Embedded Solution Unit | 3,577 | 32.3% | 3,849 | 32.3% | +7.6% | 49.9% |
| Original Product Unit | 392 | 3.5% | 533 | 4.5% | +36.0% | 40.5% |
| System Sales Unit | 619 | 5.6% | 635 | 5.3% | +2.5% | 53.5% |

*Unit: Million yen

**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 foundation | ・ 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 | ・Expand SI projects including a disaster prevention system, coordinated with the company's original product "xoBlos," and offer total services for development and infrastructure, based on original products. |
| 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.

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## Embedded 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).<br>・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 Product Unit

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) |
| Upgrade products | ・Promote functional enhancement of the enterprise edition based on customer requirements, and approach large-scale users. |
| | ・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 business negotiations of solutions for budget performance management that have strong customer needs, and prepare to serialize the solutions. |
| | ・Aim for sales expansion that captures the tide of working style reform by offering a function that can be coordinated with RPA seamlessly. |
| Expand the applicable area | ・Take opportunities to be recognized as an open innovation platform that collaborates with other |

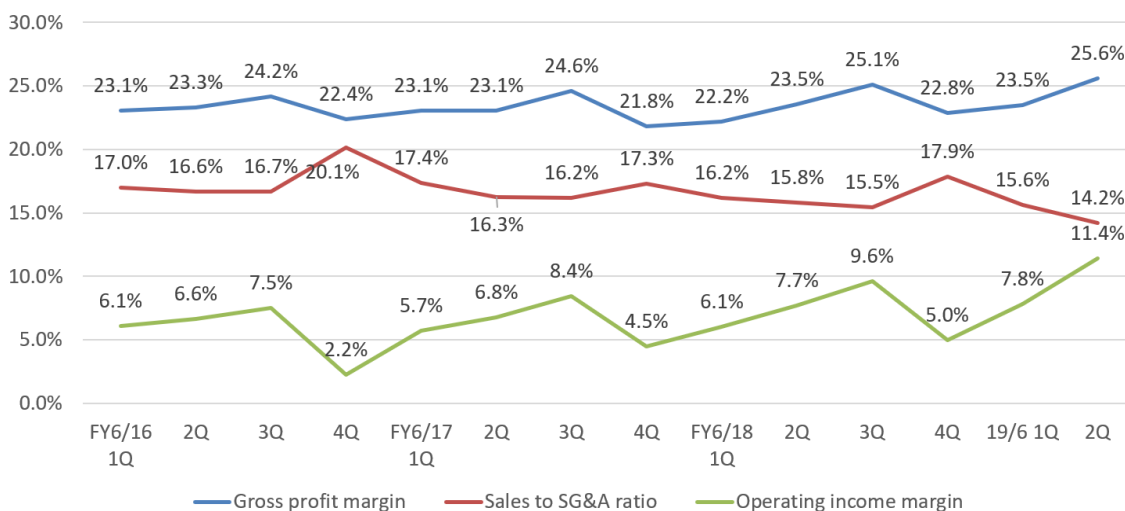| | companies' products and services, and provide more new services by collaborating with a variety of services, such as AI. |
|---|---|
| | ・Promote xoBlos Plus-One Concept that raises the value of data by adding data of different perspectives to the specific information of various systems, such as RPA and ERP. |

**System Sales Unit**

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 | ・Recover sales with product replacement due to increased offers to improve products from the standalone edition for customer to the server edition for large companies and aim to promote introduction of improvement to customers and expand the initiatives for strengthening repeated sales. Strengthen sales by diversifying products such as creating collaborative packages between Rakuichi (sales management) and the company's original product, xoBlos. ・Expand sales from system replacement and repair-related orders, which will grow with the reduction in tax rate and change of the name of the era. |
| Sales expansion by obtaining new customers | ・Increase new customers for small and medium enterprises through sale of system products, and strengthen sales of xoBlos for large and medium companies. |

# 4. Conclusion

The sales in the first half of the fiscal year ending June 2019 remained healthy for all the business units, leading a significant increase in profit. As for profit margin, which Investment Bridge has been observing continuously, both gross margin ratio and operating income margin in the second quarter (October to December) marked record highs for the past few terms with 25.6% and 11.4% respectively, where operating income margin already exceeded 10%, which was the target of the medium-term business plan for the fiscal year ending June 2021. In addition to the sales growth of the original product unit, the profitability of the company's major business units, i.e., the business solution unit and the embedded solution unit, which had been expected to increase the profit margin further, certainly improved, and it is highly appreciated. In the medium-term, investors should pay attention to the progress of "WebARGUS Total Security" and "xoBlos Plus-One Concept."

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# <Reference1: Medium and long-term growth strategy and Usage of funds>

## 1-1 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    ── Operating Income
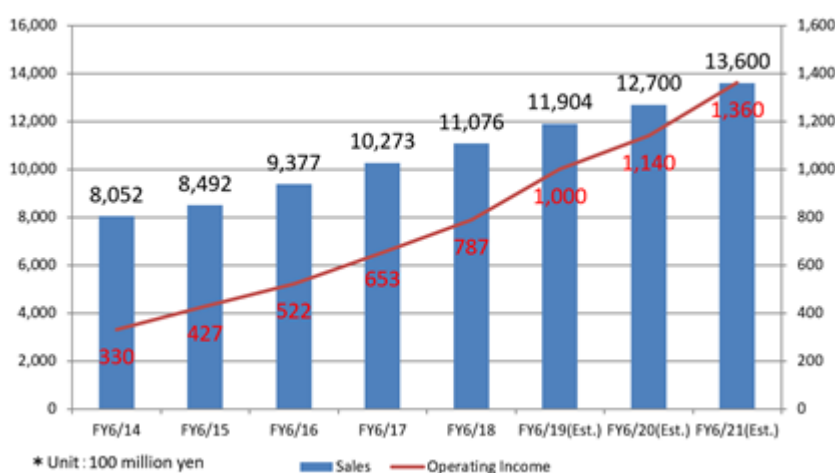
| Sales | 100 billion yen | FY ending June 2017…achieved |
|---|---|---|
| Operating income | 10 billion | FY ending June 2019 |
| Operating income margin | 10% | FY ending June 2021 |

## 1-2 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.

## <Reference2: Regarding corporate governance >

**Organization type, and the composition of directors and auditors**

| Organization type | Company with audit and supervisory board |
|---|---|
| Directors | 9 directors, including 2 external ones |
| Auditors | 3 auditors, including 2 external ones |

**Corporate Governance Report**

Last Update: February 14, 2019

<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>

| 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 4-10-1> | 2 out of 9 board directors of our company are independent outside directors. They do not account for the majority, but each independent outside director plays an important role in decision making with expertise and wide experience. Although the company currently receives advice from the independent outside directors concerning the nomination and remuneration of board directors, we will establish a system where their opinions are reflected more strongly. |

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

| Principles | Disclosure contents |
|---|---|
| <Principle 1-4> | <Policy and principle related to reduction in strategically-held shares> In case the company expects synergy effects with its important stakeholders such as business partners, it will strategically hold the shares of the concerned companies, based on its basic principles to enhance corporate value in the mid/long term and ensure sustainable growth while promoting co-existence and co-prosperity with all the stakeholders. The company will clarify the objective when acquiring new shares, and verify the trading activity periodically after the acquisition. If the company finds no mid/long term prospect of enhancing its corporate value, it will reduce the number of shares through sale or any other means. |

| | |
|---|---|
| | <Verification details to determine the appropriateness of holding strategically-held shares><br>The appropriateness of possessing strategically-held shares is verified periodically. Recently, regarding all the trade partners, the company verified the mid/long term prospect of enhancing its corporate value and confirmed its intention of continued holding of the concerned shares at a board meeting held on December 13th, 2018.<br><br><Standards for exercising voting rights concerning strategically-held shares><br>The company will decide whether to give approval for exercising the voting rights of strategically-held shares after a careful individual examination to confirm that there is no possibility of damaging our corporate value. |
| <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).<br>【 Information for financial results briefings 】 https://www.ditgroup.jp/ir/kessan.html<br>(2) Our actions concerning corporate governance are published on our webpage (at the following URL).<br>【Corporate Governance】 https://www.ditgroup.jp/ir/governance.html<br>(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.<br>（4）We have established the standard to appoint board directors and auditors. Taking into account the overall performance, knowledge and experiences of each candidate and advice from the outside directors, the representative director and 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 shareholder's meeting. As for proposal for dismissal of a director, the decision will be made at a board meeting, based on the company's rules for officers.<br>(5) The reasons for nomination and appointment of each director or auditor are described in the notice of general shareholders' meeting. We will also describe the reasons for dismissal, in case of any. |
| <Principle 5-1> | The company is making efforts in collaboration with relevant departments, led by the President, to achieve constructive dialogue with shareholders.<br>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. |
| | 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. |
| | The company also ensures appropriate management of insider information during dialogues with shareholders and investors in accordance with the internal regulations. |