BRIDGE REPORT

Bridge Salon

President Satoshi Ichikawa	Digital Information Technologies Corporation (3916)
	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	Total Market Cap	ROE (Actual)	Trading Unit
1,764 yen	15,501,820 shares	27,345 million yen	26.5%	100 shares

DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
18.00 yen	1.0%	51.81 yen	34.0 x	193.31 yen	9.1 x

*The share price is the closing price on October 3. The number of shares issued, ROE, DPS, EPS and BPS were taken from the brief financial report of FY 6/19.

Consolidated Earnings

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (yen)	DPS (yen)
Jun. 2016 (Actual)	9,341	524	553	351	23.80	6.00
Jun. 2017 (Actual)	10,273	653	641	466	30.33	7.50
Jun. 2018 (Actual)	11,076	787	790	531	34.57	11.00
Jun. 2019 (Actual)	12,355	1,095	1,106	737	48.07	16.00
Jun. 2020 (Forecast)	13,030	1,180	1,177	790	51.81	18.00

*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 fiscal year June 2019 earnings results of Digital Information Technologies Corporation.

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Key Points

- The sales for the fiscal year ended June 2019 were 12,355 million yen, up 11.5% year on year. The business solution unit grew significantly. Operating income increased 39.0% year on year to 1,095 million yen, exceeding the medium-term goal: 1 billion yen. Gross margin ratio rose and gross margin grew by double digits, due to the growth of its original products, the increase in profit rate of verification services, the improvement in profitability of Ehime Office, etc. On the other hand, the augmentation rate of SG&A expenses was only 2.6%, although personnel cost increased. Both sales and profit exceeded the revised estimates, marking a record high.

- For the fiscal year ending June 2020, it is estimated that sales will grow 5.5% year on year to 13,030 million yen and operating income will increase 7.7% year on year to 1,180 million yen. It is expected that sales and profit will increase for the tenth consecutive term, hitting a record high. Each business unit is projected to grow steadily. Operating income margin is forecasted to rise 0.2 points year on year to 9.1%. As for dividends, interim and term-end dividends are both to be 9 yen/share, for an annual dividend of 18 yen/share. The estimated payout ratio is 35.0%, exceeding 30% for the third consecutive term.

- The financial results were favorable, as sales and profit grew from the previous term, exceeding the estimates. The sales of the business solution unit increased 12.7% in the previous term due to large-scale transactions, and are estimated to rise 4.0% this term. Although sales growth rate is projected to be one-digit, sales and profit are forecasted to increase for the tenth consecutive term. DIT mentioned that the estimates are their minimum goals, and the company has always exceeded the estimates since listing. Investment Bridge suggests investors to pay attention to whether the company will exceed the estimates this term, too.

- The business performance has been favorable, but the company considers that it is necessary to improve business partners (outsources) from qualitative and quantitative viewpoints, in order to expand the business further. In order to enter the growing markets, mainly that of in-vehicle devices, on a full-scale basis, it is indispensable to have strategic partners for the medium/long term rather than those for each transaction, and the company is forming alliances at the top or management level.

- In order to attain the last goal of Triple 10, that is, "an operating income margin of 10%," it is necessary to expand the sales of original products, for which the company aims to increase their sales composition ratio to around 10%, and increase outsourced projects. It is essential to form a high-quality partnership, in order to not only attain the goals for the next term, but also grow further in the future. Investors should pay attention to them, in addition to the progress to the growth in sales and profit for the tenth consecutive term.

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 Philosophy

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)
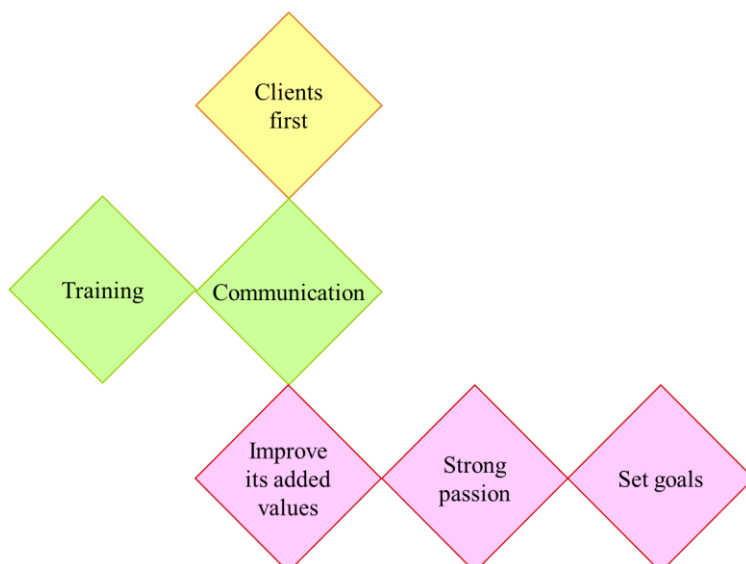
(From the company's website)

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The above diagram is the unfoldment of the cube. According to the president Ichikawa, it emphasizes "clients first; this is where it all starts." Furthermore, the logo represents "training employees" and "communication with clients and among employees." These are important values to the company. Additionally, we implore employees to "improve its added values," "have passion" and "have a sense of purpose."
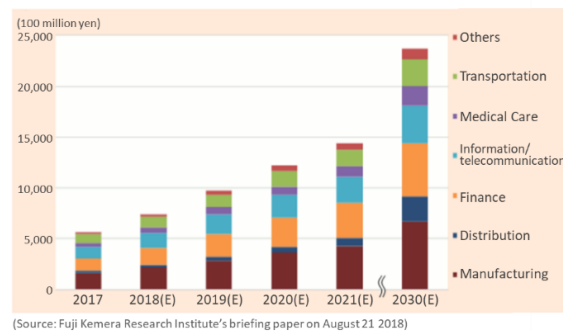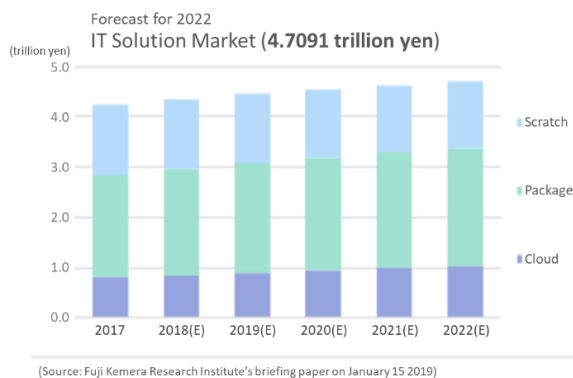
Employees are to uphold this company policy as their creed and follow these principles at all times.

1-3 Market environment

The outlines of the market environment and growth potential of each business unit of the company mentioned in Section 1-4 "Business Description" are as follows.

(1) Business Solution Unit

The market of IT solutions, which helps deal with the shortage of manpower and the streamlining of business operations, has grown steadily. Cloud services & packaged software have been adopted by small and medium-sized enterprises and large companies.

In addition, digital transformation (DX), including the use of AI, IoT, RPA, and robotics, is expected to progress rapidly.
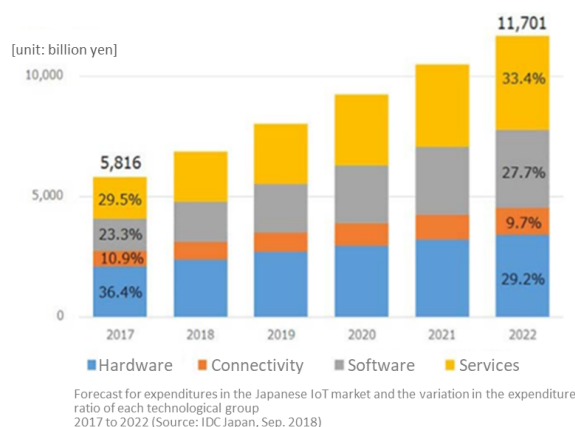

(Source: Fuji Kemera Research Institute's briefing paper on January 15 2019)

(Source: Fuji Kemera Research Institute's briefing paper on August 21 2018)

(Taken from the reference materials of Digital Information Technologies Corporation)
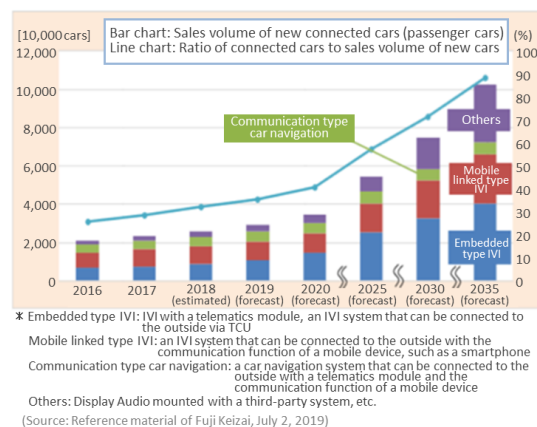
(2) Embedded Solution Unit

The Japanese IoT market, especially services, is expected to grow considerably.

The industry of in-vehicle devices is forecasted to see the rapid growth of "connected cars," which would create a variety of value, by having the functions as ICT terminals, obtaining various data, including vehicle states and surrounding road conditions, with sensors, and collecting and analyzing them via networks.

Forecast for expenditures in the Japanese IoT market and the variation in the expenditure ratio of each technological group
2017 to 2022 (Source: IDC Japan, Sep. 2018)

∗ Embedded type IVI: IVI with a telematics module, an IVI system that can be connected to the outside via TCU
Mobile linked type IVI: an IVI system that can be connected to the outside with the communication function of a mobile device, such as a smartphone
Communication type car navigation: a car navigation system that can be connected to the outside with a telematics module and the communication function of a mobile device
Others: Display Audio mounted with a third-party system, etc.
(Source: Reference material of Fuji Keizai, July 2, 2019)

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

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(3) Original Product Unit
① WebARGUS

In the Japanese market of network security, both products and services are estimated to grow, and there are growing needs for the detection and elimination of threats before intrusion, as well as response after intrusion.
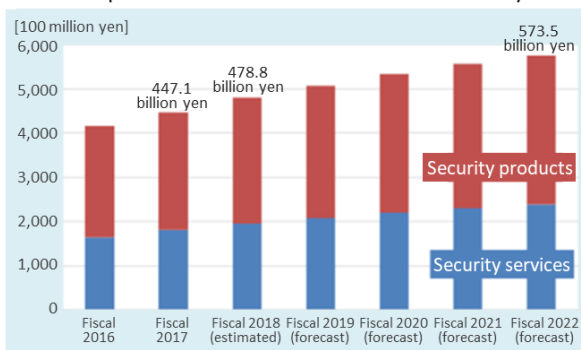
■ **Forecast for the Japanese market of network security in fiscal 2022 (compared with fiscal 2017)**
　・Security services: 238.7 billion yen, up 32.0%
　 Security products: 334.8 billion yen, up 25.8%
　・**Web security category: 53.7 billion yen, up 46.7%　　EDR: 12.3 billion yen (2.4 times)**

Japanese market related to network security

"Cybersecurity Management Guidelines Ver. 2.0" proposed by the Ministry of Economy, Trade and Industry diffused the policy of putting importance on not only the detection and elimination of threats before intrusion, but also the response after a threat intrudes into a network. The recognition level of EDR increased steeply, and the demand for products targeted at huge companies that have tens of thousands of control terminals grew rapidly. Then, the scale of the market in fiscal 2017 was 5.1 billion yen, 2.7 times larger than that in the previous year.

■ EDR

| Fiscal 2017	Fiscal 2022 (forecast)	Comparison from fiscal 2017
5.1 billion yen	12.3 billion yen	2.4 times

*EDR stands for Endpoint Detection and Response.

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

② xoBlos

RPA (Robotic Process Automation), which is a system for supporting the significant streamlining of business operations, is attracting attention.
RPA means the automation of processes using robots. By using technologies, such as artificial intelligence (AI) and machine learning, in which AI learns things through repetition, white-collar tasks, especially back-office ones, are handled. Just by registering procedures of human tasks on an operation screen, it is possible for them to handle the tasks using various apps, including software, browsers, and cloud.

It is expected to spread rapidly, as one of means for reforming the ways of working, which is an issue to be overcome by Japanese enterprises.
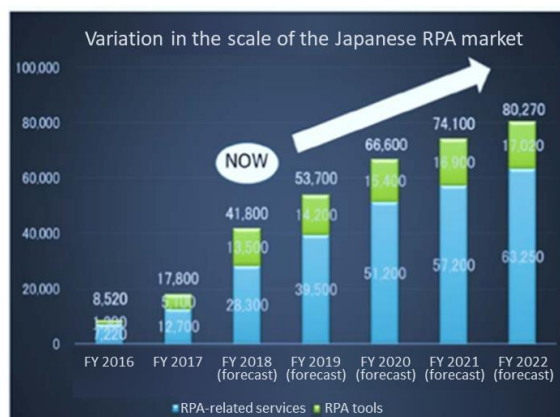
(Reference: Yano Research Institute, Results of a survey on the Japanese RPA market in fiscal 2018)

The full-scale diffusion of RPA progresses.

■ The scale of the Japanese RPA market in fiscal 2018 (sales of enterprises) is projected to be 41.8 billion yen, up 134.8% from fiscal 2017.

■ The RPA boom in the first half will subside in the second half. As the outcomes that would improve organizational operation and business performance will be emphasized, it will be diffused on a full-scale basis, increasing users' investment and growing the market.

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

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1-4 Business Description
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 2019, unit: million yen)

- Business Solution Unit ■ Embedded Solution Unit
- Original Product Unit ■ System Sales Unit
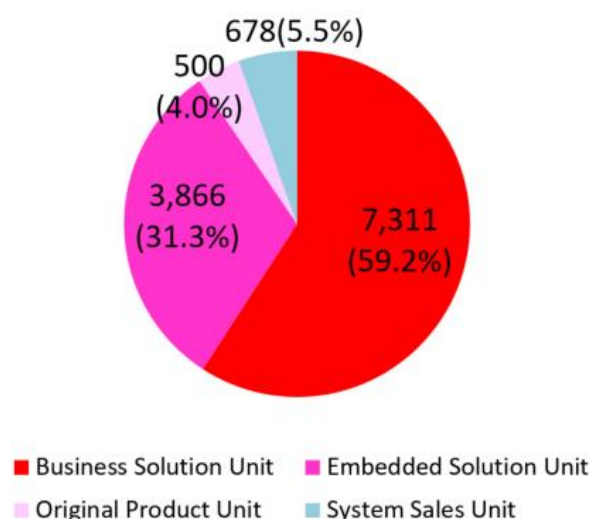
1) Software Development Business
*Business Solution Unit
(Business system development unit)
The sales for this business unit is mostly from custom development for end-users and information systems companies which are clients' subsidiaries in a wide variety of industries including finance, medicine/pharmacy, 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.

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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, DIT Marketing Service 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.

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WebARGUS is software for detecting tampered website and restoring the website instantly. Even when the attack breaks through the protection, it helps minimize defacement to nearly zero.
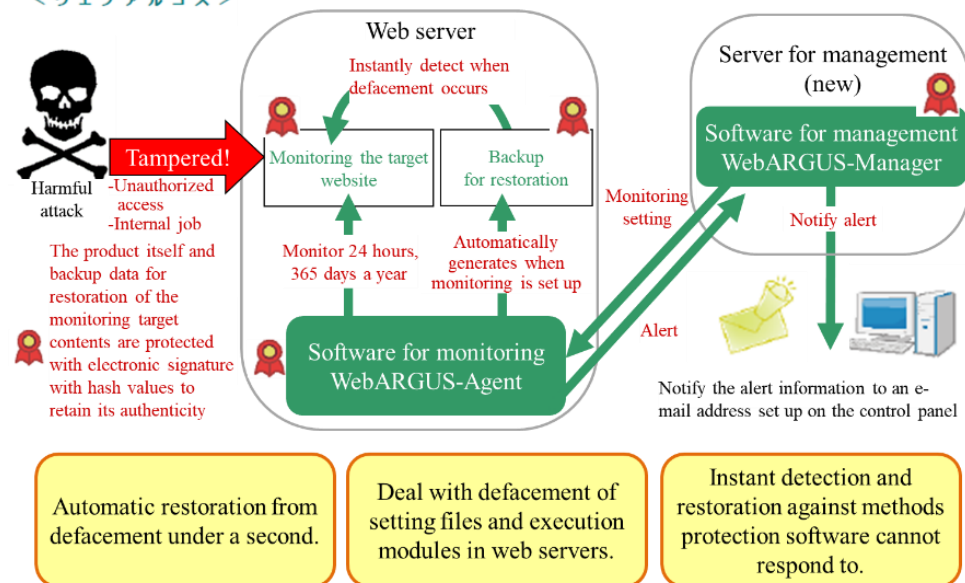
(Taken from the reference materials of Digital Information Technologies Corporation)

Increasing tampering of websites

According to the 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
.

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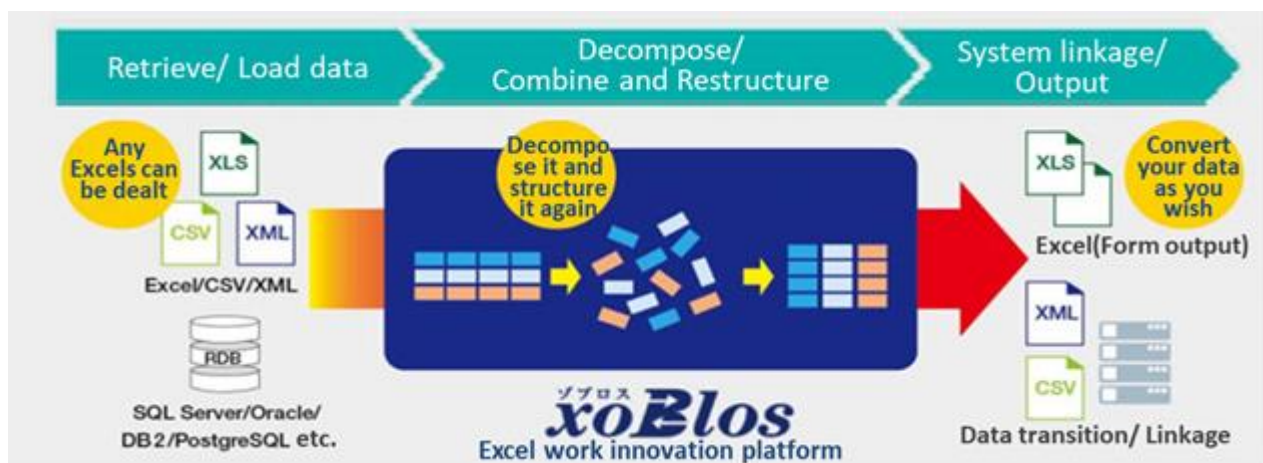
(Taken from the reference materials of Digital Information Technologies Corporation)

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.

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.
(Every excerpt/summary by Investment Bridge with reference to the materials of the company)

* A sample use case: Accordia Golf Co., Ltd. "Reduced the number of work hours by about 20,000 hours annually"
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. 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"

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 xoBlos 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.

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.

1-4 Characteristics and strengths

### 1) Multifaceted and diverse IT company

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

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

2) A wide range of customer base

There are about 2,600 client companies. Main clients for the software development business are listed companies and their affiliates, while main clients for the system sales business are small and medium-sized enterprises. Since the business categories of clients are diverse as shown below and stable long-term business is mainly operated, its business base is stable.

The ratio of sales of end users, including information system subsidiaries, is about 80%.

Sales composition by industry
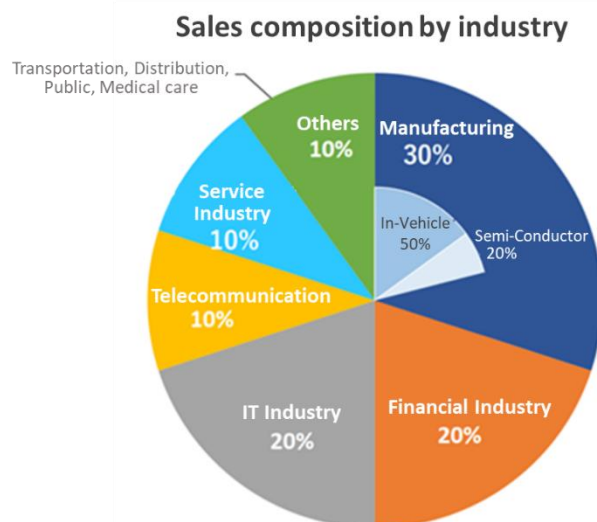
(Taken from the reference materials of Digital Information Technologies Corporation)

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.

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(Overview of each in-house company)

Main business unit	Company name	Overview
Business system development unit	**Business Solution Company**	This company develops a proposal style SI business to provide solutions for clients. Especially in the fields of finance, communications and distribution, this company undertakes design and development of a wide range of software such as general-purpose systems, website systems, mission-critical systems and information systems for leading companies in each industry. It also provides a new business area, ASP business for "Insurance Pharmacy Integrated Management System (Phant's)."
	e-business Services Company	This company provides website system architecture and maintenance for e-commerce websites and service websites for clients mainly for finance and major retail industries for many years. It provides a one stop service to suit clients' requirements with technologies which it has developed through experience.
Operation support unit	**Support Business Company**	This company's engineers have a wide range of knowledge enabling it to provide one stop optimal IT environment (service) to suit clients' requirements including support for introducing systems, infrastructure-building, network operation management and middleware development.
Embedded product development unit	**Embedded Product Solution Company**	This company specializes in control system development focused on embedded systems for in-vehicle devices, communication devices, industrial equipment and digital home appliances. It has many engineers with highly specialized skills for embedded system development. Because of the physical conditions of hardware, embedded systems development can be very restrictive, and requires a meticulous level of problem-solving that differs from general application development.
Embedded product verification unit	**Quality Engineering Company**	This company has a wide range of software validation and verification businesses from in-vehicle devices such as car navigation systems to medical devices, communication infrastructure and mobile terminals. It gives priority to improving the quality of products and provides total service from planning, designing, implementing, operating and analyzing tests to consulting. It has collaborated with DIT America, LLC, a local subsidiary in the U.S.A. since 2011. It also provides verification services overseas.
(Combination)	**Western Japan Company**	Activities are based west of Nagoya, with a focus on Osaka. DIT takes part in three businesses: business system development and operational support, mobile and web application development, and embedded systems development (in-vehicle devices and security-related matters). Recently, the company is aiming to expand into the IoT and Web service businesses, taking advantage of multi-skilling.
	Ehime Company	This company is located in Ehime and provides a high added-value one stop service for product development to meet the regionally specific requirements for a variety of industries and businesses as well as sales of software and system devices, operation and system support, and contributes to local revitalization. It also employs engineers locally at a multi-purpose IT development center to tackle the engineer shortage in the other companies, which enables nearshore development.

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.

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2. Fiscal Year June 2019 Earnings Results

2-1 Consolidated business results

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YOY	Compared with the initial forecasts	Compared with revised forecasts
Sales	11,076	100.0%	12,355	100.0%	+11.5%	+3.8%	+0.5%
Gross profit	2,595	23.4%	2,949	23.9%	+13.6%	-	-
SG&A	1,807	16.3%	1,854	15.0%	+2.6%	-	-
Operating Income	787	7.1%	1,095	8.9%	+39.0%	+9.5%	+3.3%
Ordinary Income	790	7.1%	1,106	9.0%	+39.9%	+11.0%	+3.9%
Net Income	531	4.8%	737	6.0%	+38.8%	+10.8%	+1.9%

＊Unit: million yen

Sales and profit grew, hitting a record high and exceeding the estimates.

Sales were 12,355 million yen, up 11.5% year on year. The business solution unit grew significantly. Gross margin ratio rose and gross margin grew by double digits, due to the growth of its original products, the increase in profit rate of verification services, the improvement in profitability of Ehime Office, etc. Operating income increased 39.0% year on year to 1,095 million yen, exceeding the medium-term goal: 1 billion yen, as the augmentation rate of SG&A expenses was only 2.6%, although personnel cost increased.

Both sales and profit exceeded the revised estimates, marking a record high.

2-2 Trends by segment

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YOY
Software Development Business	10,457	94.4%	11,677	94.5%	+11.7%
System Sales Business	619	5.6%	678	5.5%	+9.5%
Total sales	11,076	100.0%	12,355	100.0%	+11.5%
Software Development Business	798	7.6%	1,041	8.9%	+30.4%
System Sales Business	-10	-	53	0.4%	-
Adjustment	-0	-	+0	-	-
Total operating income	787	7.1%	1,095	8.9%	+39.0%

*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 business unit）

	FY 6/18	Ratio to sales	FY 6/19	Ratio to sales	YOY	Compared with revised forecasts
Business Solution Unit	6,487	58.6%	7,311	59.2%	+12.7%	+6.2%
Embedded Solution Unit	3,577	32.3%	3,866	31.3%	+8.1%	+0.4%
Original Product Unit	392	3.5%	500	4.0%	+27.6%	-6.2%
System Sales Unit	619	5.6%	678	5.5%	+9.5%	+6.8%

*Unit: million yen

Software Development Business

Both sales and profit increased.

*Business solution unit

The business system development unit in the field of finance and the operation support unit showed steady growth and the business of development of logistics and public systems grew. The number of orders from mainly existing clients remained healthy.

The number of outsourced projects increased healthily, raising profitability.

*Embedded solution unit

The development and verification units regarding in-vehicle devices remained healthy and grew significantly. They offset the drop-in sales related to semiconductors and cell phones.

The development of mobile devices for IoT progressed.

Through the shift to clients with favorable conditions regarding in-vehicle devices, profitability improved considerably.

*Original product unit

Thanks to the product and sales strategies so far, sales grew steadily. Profit, too, increased considerably.

The recognition level of WebARGUS increased, and it was adopted by large-scale users step by step, and the company proceeded with collaborative business with external cyber security firms. As a result, transactions increased steadily.

As for xoBlos, the company promoted the xoBlos Plus-One Concept, in which data from another perspective are added to specific information held by systems of RPA, ERP, etc. to increase the value of the data. In addition, its recognition level as an effective tool for reforming the ways of working increased, and the number of business inquiries rose significantly.

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.

2-3 Financial condition and cash flow

◎Main BS

	End of June 2018	End of June 2019		End of June 2018	End of June 2019
Current assets	3,397	3,933	**Current liabilities**	1,304	1,601
Cash and deposits	1,627	1,840	**Accounts payable**	328	393
Trade receivables	1,562	1,892	**Fixed liabilities**	156	105
Noncurrent assets	685	721	**Total labilities**	1,461	1,707
Property, plant and equipment	115	132	**Net assets**	2,621	2,947
Investments and other assets	552	578	**Capital stock**	2,610	2,938
Total assets	4,083	4,655	**Total liabilities, net assets**	4,083	4,655

*Unit: Million yen

Current assets increased 536 million yen from the end of the previous term, due to the growth of cash and deposits, accounts receivable, etc. Noncurrent assets rose 36 million yen, while total assets were 4,655 million yen, up 572 million yen from the end of the previous term.

Total liabilities augmented 246 million yen from the end of the previous term to 1,707 million yen.

Net assets grew 325 million yen from the end of the previous term to 2,947 million yen, due to the increase in retained earnings.

As a result, equity ratio was 63.3%, down 0.9 points from the end of the previous term.

◎Cash Flow

	FY 6/ 18	FY 6/ 19	YY change
Operating Cash Flow	747	693	-53
Investing Cash Flow	-94	-70	+23
Free Cash Flow	653	623	-29
Financing Cash Flow	-373	-415	-41
Cash, Equivalents	1,627	1,834	+207

*Unit: Million yen

For any cash flow, there was no significant change from the previous term.
The cash position improved.

2-4 Topics

① Cementing of capital and business alliances with Daiko Denshi Tsushin, Ltd.

The company formed a business tie-up with Daiko Denshi Tsushin, Ltd. (8023, 2nd section of TSE) in February 2016 for the purpose of promoting the sales of xoBlos, and produced some results, but it decided to strengthen the business tie-up and form a capital alliance, too, in June 2019, in order to mutually complement and utilize the specialties and managerial resources (technologies, know-how, human resources, footholds, and customer bases) of the two companies acquired through the business tie-up and fortify the co-creation system.

(Details of the cementing of the business alliance)
In addition to continuing the promotion of xoBlos, the company aims to expand the market by using the basic technologies of the two companies, cross-selling original products, etc., and sharing and complementing their specialties and partner information. Furthermore, by cooperatively adding AI, IoT, etc. to the original products and technologies of the two companies, they will offer digital transformation services to clients on a one-stop basis.

(Details of the capital alliance)
The two companies will acquire the shares of each other on an off-market negotiation basis, etc. The acquisition amount is not significant, and capital contribution ratios are so low that they would not get affiliated to each other.

② Renaming of the subsidiary

In July 2019, the consolidated subsidiary Toyo Infonet Co., Ltd. was renamed DIT Marketing Service Co., Ltd.

The purpose of the renaming is to promote the sales of "xoBlos," a business operation reform solution offered by DIT as a new revenue base, and clarify the position of DIT Marketing Service as a distributor in the DIT Group, as it has been selling mainly "Rakuichi," which is a system for supporting the business operation and administration of small and medium-sized enterprises and is manufactured by Casio Computer Co., Ltd.

③ Linkage between xoBlos and JP1 of Hitachi, Ltd. for the automation of back-office tasks

In August 2019, the company decided to link xoBlos and JP1/CPA, which is a product of Hitachi for automating the business operations of clients, for the purpose of automating complicated Excel tasks, increasing the speed and efficiency of business operation, and reducing costs.

JP1/CPA is a product for managing the execution schedule and procedure of tasks conducted using a PC, including the tasks executed by RPA products.
JP1/CPA enables the scheduling and control of execution of RPA and xoBlos, and facilitates the automation of a broad range of tasks, based on calendars and events. In addition, xoBlos actualizes the processing of complicated data, which cannot be handled by RPA products, and enables the exchange of complicated data.

As mentioned above, DIT is proceeding with the Plus-One Concept, which is to provide specific information held by each system with data from another perspective via xoBlos and improve the value of the data, for the purpose of increasing the convenience of customers. The linkage with JP1, which boasts the top domestic market share among comprehensive system operation management tools, would boost the value of data of other systems and fortify the Plus-One Concept.

3. Fiscal Year June 2020 Earnings Forecasts

3-1 Full-year earnings forecast

	FY 6/ 19	Ratio to sales	FY 6/ 20 Est	Ratio to sales	YOY
Sales	12,355	100.0%	13,030	100.0%	+5.5%
Operating Income	1,095	8.9%	1,180	9.1%	+7.7%
Ordinary Income	1,106	9.0%	1,177	9.0%	+6.4%
Net Income	737	6.0%	790	6.1%	+7.3%

*The estimated values are from the company.

*Unit: Million yen

Sales and profit expected to grow for the 10th consecutive term.

It is estimated that sales will grow 5.5% year on year to 13,030 million yen and operating income will increase 7.7% year on year to 1,180 million yen.

It is expected that sales and profit will increase for the tenth consecutive term, hitting a record high.

Each business unit is projected to grow steadily. The sales of the original product unit are estimated to grow by double digits. Operating income margin is forecasted to rise 0.2 points year on year to 9.1%.

As for dividends, interim and term-end dividends are both to be 9 yen/share, for an annual dividend of 18 yen/share. The estimated payout ratio is 35.0%, exceeding 30% for the third consecutive term.

3-2　Intensive measures

Measure	Outline
Activities for continuing growth (expansion of the growing business domains) "Positioning of the original product unit and in-vehicle device-related business as growing business domains"	*To enrich comprehensive security services based on WebARGUS as DIT Security *Sales promotion of xoBlos with the sales subsidiary DIT Marketing Service *Concentration on the development and verification related to connected cars, mainly communication modules, which are the mainstay
Enhancement of enterprise competitiveness "Increase in profit per employee"	This term is the fiscal year before the year in which the company aims to achieve an operating income margin of 10%. The company will review the working system, improve the added value of employees, etc. to increase profit per employee.
Development of a company that is worth working for "Implementation of measures for developing a company that is worth working for so that employees are vigorous"	*Adoption of the Japanese version of ESOP (Employee Stock Ownership Plan), an incentive plan for offering the shares of the company to employees *Adoption of talent management systems for taking full advantage of the skills and abilities of employees *Enrichment of the systems for educating and training employees

3-3 Trend of each business unit.

	FY 6/ 19	Ratio to sales	FY 6/ 20 Est	Ratio to sales	YOY
Business Solution Unit	7,311	59.2%	7,600	58.3%	+4.0%
Embedded Solution Unit	3,866	31.3%	4,160	31.9%	+7.6%
Original Product Unit	500	4.0%	605	4.6%	+21.0%
System Sales Unit	678	5.5%	665	5.1%	-1.9%

*Unit: Million yen

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Business Solution Unit

(Overview)

The business system development unit in the field of finance is healthy. The operation support unit is estimated to keep growing.

(Intensive measures)

The number of orders from mainly existing clients has been increasing steadily, and it is expected to grow further, through the following intensive measures.

1. To further expand the financial domain, which is a strength of the company.
2. To aim to make transactions for establishing infrastructure utilizing the cloud.
3. To increase direct contracts with end users, and conduct proposal-based promotion for undertaking tasks.
4. To increase the ratio of outsourced projects and conduct thoroughgoing project management.
5. To utilize a local foothold as an advanced near-shore development center, and expand business.

Embedded Solution Unit

(Overview)

The demand for in-vehicle devices is healthy, and the development and verification services will keep growing steadily. From the viewpoint of profitability, the development service has been better, but the profitability of the verification service is improving, as the company is shifting to new clients and the service is highly evaluated.

In addition, IoT-related transactions are increasing, and development projects will increase.

(Intensive measures)

The company still receives many business inquiries from clients related to in-vehicle devices. The company is expected to expand its business scale and increase profit through the following intensive measures.

1. To concentrate on the automobile-related field (automated driving, in-vehicle communication devices, and safety standards). Especially, the company will increase direct transactions with research institutes of leading automobile makers.
2. To apply IoT to automobiles (communication modules), gas equipment (monitoring services), home appliances (provision of recipes via microwave ovens), etc. beyond industrial borders.
3. To smoothly shift from clients from which demand is declining. The company aims to increase profit rate by increasing outsourced projects.

Original Product Unit

(Overview)

Both products will grow, due to the growth of demand for cyber security, the trend of time saving and reform of ways of working. This business unit is expected to move into the black this term.
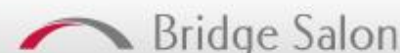
(Intensive measures)

WebARGUS

Demand is expected to grow further. In addition, the accumulation as a subscription model is estimated to increase.

1. To approach mainly large-scale users in an active manner.
2. To offer the SaaS model of WebARGUS to mainly data center enterprises, etc.
3. To attract customers who have strong needs through web marketing.
4. To promote comprehensive security proposal as DIT Security. ・To cement the cooperation with F-Secure Corporation ・To start handling the end-point security product "AppGuard"
5. To keep recommending the IoT version of WebARGUS based on the system resilience (restoration) concept to customers.

The company will concentrate on strengthening the sales system via distributors.

「xoBlos」

Demand is expected to grow further.

1. The cumulative number of companies that have adopted xoBlos exceeded 400. The company will enhance sales to large-scale users further.
2. To promote sales in cooperation with DIT Marketing Service, which is a subsidiary for selling systems.
3. To implement the Plus-One Concept (linkage with other systems, such as RPA and ERP) actively, and increase sales opportunities. After the linkage with RPA and ERP products, the company will connect it with Japanese top-class products as comprehensive system operation management software.
4. To shift to the subscription model in all aspects.

System Sales Unit

(Overview)

Thanks to the growth of demand in response to the reduced tax rate, the performance in the second quarter (July. to September.) will be healthy. The transactions are long-term and stable, so the sales of other products are expected to increase sales.

(Intensive measures)

1. To support the production of management analysis documents required by clients, by utilizing the standard functions of Rakuichi.
2. To suggest various services required by customers, including printers, networks, and security products more strongly.

# 4. Medium-Term Management Plan

4-1 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 ended June 2019 and later as an "expansion and stabilization" year.

4-2 Medium-term goal

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. As for sales, it already achieved the goal in the fiscal year ended June 2019. Therefore, only the operating income margin is left to be achieved and the company is planning to achieve this in the next term, fiscal year ending June 2021.
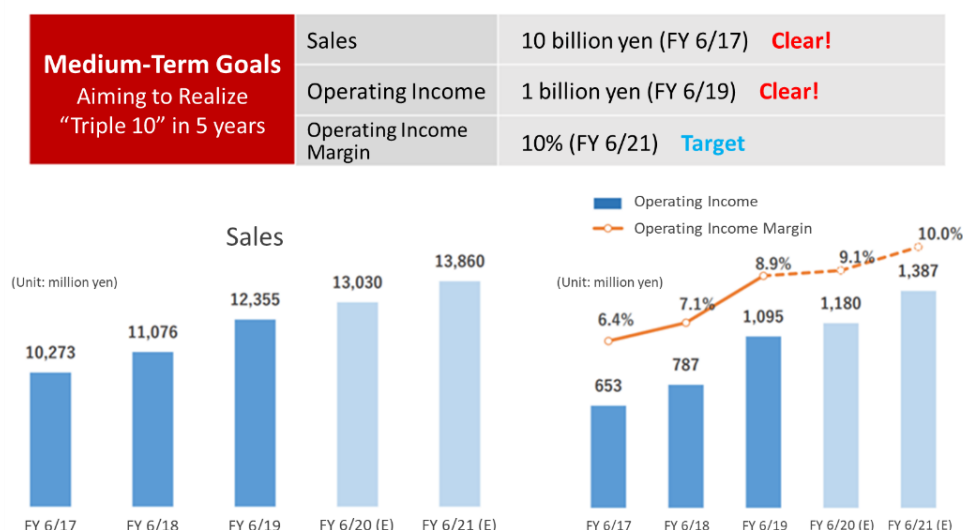
(Taken from the reference materials of Digital Information Technologies Corporation)

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4-3 Ideal state
In addition to self-sustaining growth, the company will pursue the synergy through M&A, and complement its business with cooperation and alliance. Based on these three activities, the company aims to improve its corporate value, and plans to return profit to shareholders.

5. Conclusions

The financial results were favorable, as sales and profit grew from the previous term, exceeding the estimates. The sales of the business solution unit increased 12.7% in the previous term due to large-scale transactions, and are estimated to rise 4.0% this term. Although sales growth rate is projected to be one-digit, sales and profit are forecasted to increase for the tenth consecutive term.

The business performance has been favorable, but the company considers that it is necessary to improve business partners (outsources) from qualitative and quantitative viewpoints, in order to expand the business further. In order to enter the growing markets, mainly that of in-vehicle devices, on a full-scale basis, it is indispensable to have strategic partners for the medium/long term rather than those for each transaction, and the company is forming alliances at the top or management level.

In order to attain the last goal of Triple 10, that is, "an operating income margin of 10%," it is necessary to expand the sales of original products, for which the company aims to increase their sales composition ratio to around 10%, and increase outsourced projects. It is essential to form a high-quality partnership, in order to not only attain the goals for the next term, but also grow further in the future. Investors should pay attention to them, in addition to the progress to the growth in sales and profit for the tenth consecutive term.

＜Reference: 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: September 12, 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
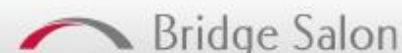
	expertise and wide experience.
	Although the company currently receives advice from the independent outside directors concerning the nomination and remuneration of board directors, we will establish a system where their opinions are reflected more strongly.

\<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\> 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. \<Standards for exercising voting rights concerning strategically-held shares\> 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). 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.

Bridge Salon

	(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. (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. 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.