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
1,115yen	15,501,820 shares	17,284 million yen	26.5%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
18.00 yen	1.6%	51.81 yen	21.5 x	193.31 yen	5.8 x

*The share price is the closing price on March 26. The number of shares issued, DPS, and EPS were taken from the brief financial report of the second quarter of FY 6/20. ROE 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.

This Bridge Report introduces the second quarter of the fiscal year ending June 2020 earnings results of Digital Information Technologies Corporation.

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Key Points

- The sales in the second quarter of the fiscal year ending June 2020 were 6,567 million yen, up 10.2% year on year (YoY). The sales of all businesses increased. The embedded solution unit, the original product unit, and system sales unit saw double-digit growth. Profitability improved in each business, and gross profit margin increased 0.7 points YoY. Operating income increased 27.0% YoY to 732 million yen. The increase in training and personnel expenses was absorbed, resulting in double-digit profit growth. Sales and profit marked record highs for the second quarter (cumulative). Both sales and profit marked record highs also on a quarterly basis.

- The full-year earnings forecast remains unchanged. For the fiscal year ending June 2020, sales are projected to be 13,030 million yen, up 5.5% YoY, and operating income is estimated to increase 7.7% YoY to 1,180 million yen. Every business unit is expected to experience sales growth against the backdrop of solid IT investment. It is estimated that sales and profit will grow for the tenth consecutive term and mark record highs. Operating income margin is forecasted to increase 0.2 points YoY to 9.1%. Both the interim and term-end dividend amounts are to be 9 yen/share, and the total dividend amount is to be 18 yen/share. The estimated payout ratio is 35.0%, exceeding 30% for the third consecutive term.

- In addition to a steady increase in contract projects and growth in original products, both gross profit margin and operating income margin in the second quarter reached the highest level following the first quarter. Both sales and profit are progressing well against the full-year plan. Although the impact of the novel coronavirus on the businesses is unknown, the company will examine the need of modifying the full-year forecast based on the results in the third quarter.

- The company's financial year ends on June 30. Therefore, in the fourth quarter (April-June), there will be a seasonality in which profits will decrease due to new graduates joining the company and payment of term-end allowance. Nevertheless, we would like to focus on whether the company can achieve the last remaining goal of "Triple 10" in the medium-term, namely, "An operating income margin of 10%," one year ahead of schedule during this 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.

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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)
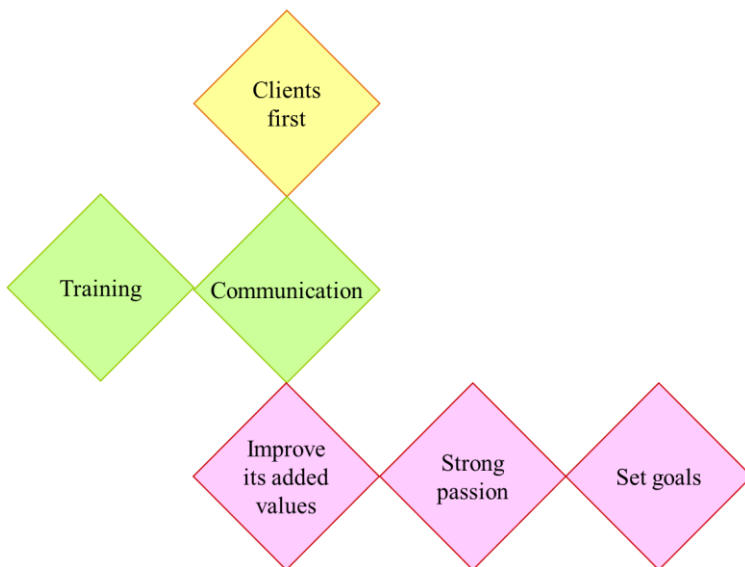
(From the company's website)

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

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

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1-3 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.

Forecast for 2022
IT Solution Market (**4.7091 trillion yen**)
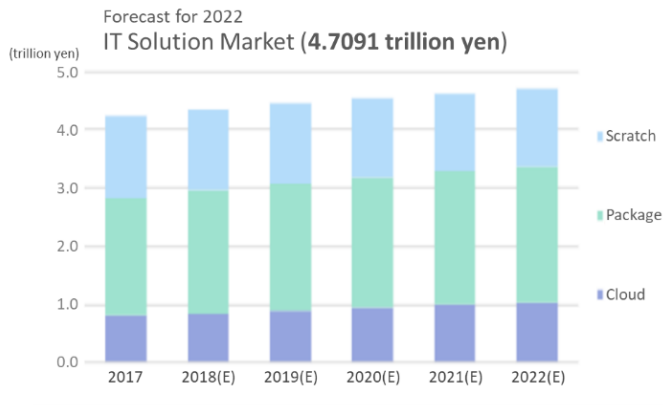
(Source: Fuji Kemera Research Institute's briefing paper on January 15 2019)
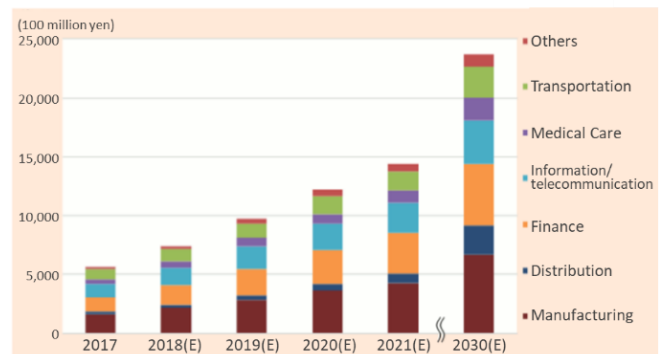
(Source: Fuji Kemera Research Institute's briefing paper on August 21 2018)

(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.

■ The scale of the Japanese IoT market is estimated to grow with a compound annual growth rate (CAGR) of 15.0% until 2022, and the expenditure in 2022 is projected to be 11,701 billion yen. (Source: IDC Japan)
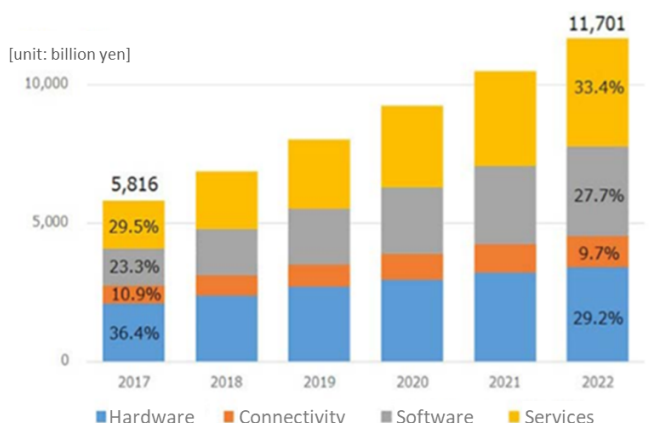
Forecast for expenditures in the Japanese IoT market and the variation in the expenditure ratio of each technological group
2017 to 2022 (Source: IDC Japan, Sep. 2018)

■ Sales volume of new connected cars (passenger cars)

Bar chart: Sales volume of new connected cars (passenger cars)
Line chart: Ratio of connected cars to sales volume of new cars
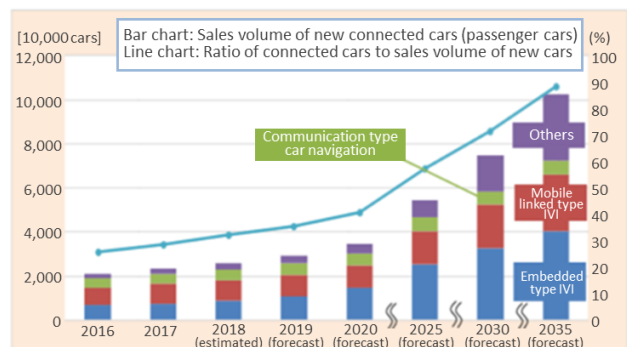
✳ Embedded type IVI: IVI with a telematics module, an IVI system that can be connected to the outside via TCU
Mobile linked type IVI: an IVI system that can be connected to the outside with the communication function of a mobile device, such as a smartphone
Communication type car navigation: a car navigation 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
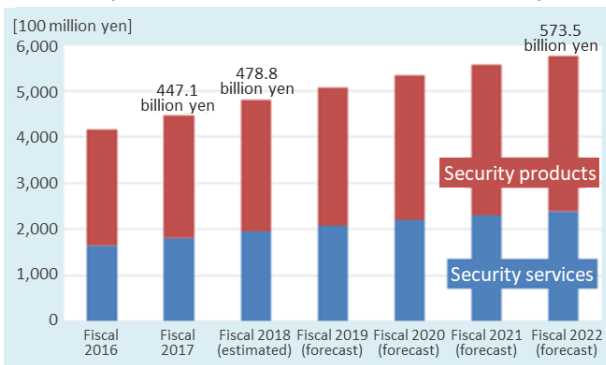
"Cybersecurity Management Guidelines Ver. 2.0" proposed by the Ministry of Economy, Trade and Industry diffused the policy of putting importance on not only the detection and elimination of threats before intrusion, but also the response after a threat intrudes into a network. The recognition level of 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 mean for reforming the ways of working, which is an issue to be overcome by Japanese enterprises.
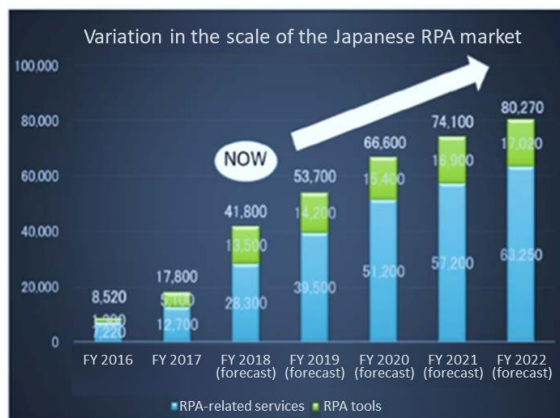
(Reference: Yano Research Institute, Results of a survey on the Japanese RPA market in fiscal 2018)

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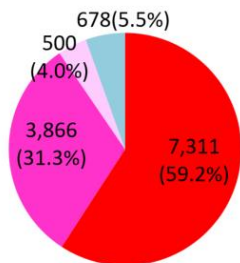
(Taken from the reference materials of Digital Information Technologies Corporation)

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)

678(5.5%)
500
(4.0%)
3,866
(31.3%)
7,311
(59.2%)

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

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

1) Software Development Business
①Business 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.

②Embedded 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 mobiles.

③Original 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 15 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.
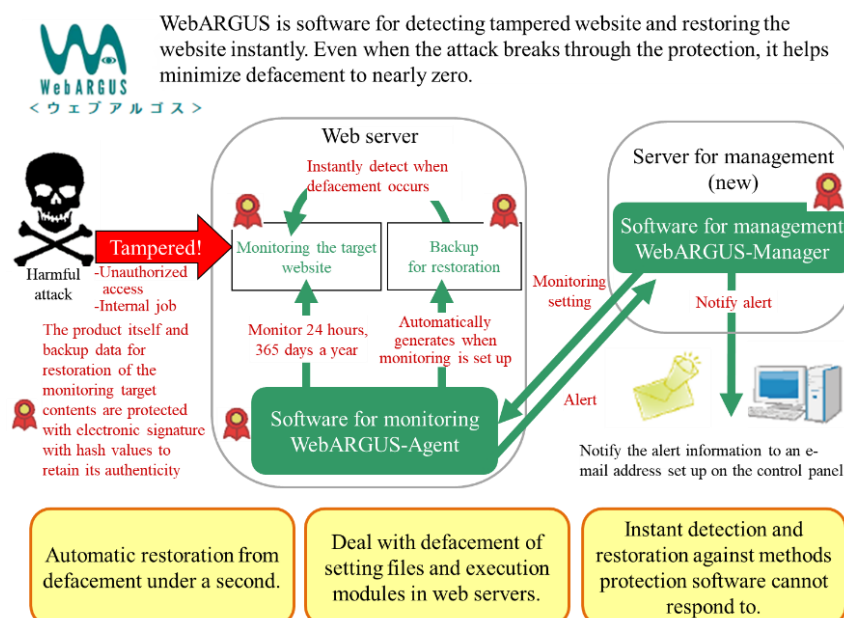
(Taken from the reference materials of Digital Information Technologies Corporation)

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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: 0.03 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.

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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."
It began collaboration with Secure Age, a cyber security company based in Singapore, on information leakage measures (encryption technology) in December 2019 and with SSH Communication Security, a cyber security company based in Finland, on access route optimization in January 2020. The company will continue to establish such alliances.

The company enhanced the varieties of the security solution products through various measures including the above alliance, and it is also considering expanding 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.
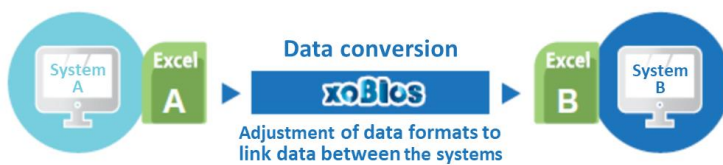The company's original-brand, "xoBlos," entirely automates these inefficient Excel-based tasks and provides drastic improvements to workflow.
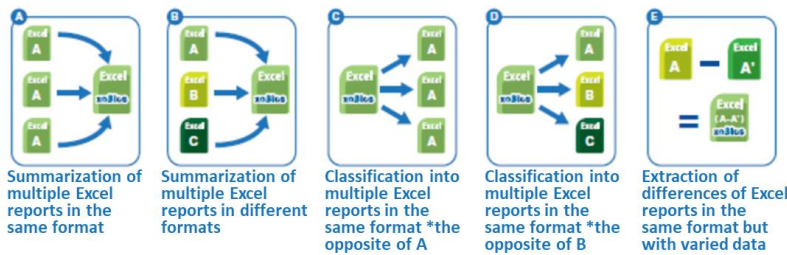
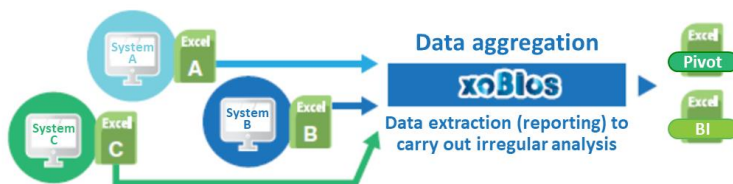**BRIDGE REPORT**   Bridge Salon

(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： Shibukawa City Hall in Gunma Prefecture "Scheduled to install xoBlos aiming to improve the efficiency of administrative work"

(Background of installation of xoBlos)

With the progress of the information society, Shibukawa City Hall started actively using IT in 2007 to improve administrative services and enhance efficiency. In 2018, the City Hall formulated the "Shibukawa City Information Technology Promotion Basic Policy," and in the following 2019, established the "Shibukawa City Information Technology Promotion Implementation Plan," with the goal of improving administrative efficiency.

Specifically, it is aiming to streamline administrative activities using AI, IoT and RPA.

(Reasons for choosing xoBlos)

Initially, the City Hall was considering installing RPA. However, after the vender interviewed the HR Department, it found that Microsoft Excel® is used in many work processes. Based on the result, the City Hall was advised that, for streamlining the work, tools such as xoBlos that is specialized for Excel® would be better for the staff, as they can be handled more easily and results can be obtained more easily, too, compared with other tools such as RPA that can handle general computer works.

Based on the advice, the City Hall compared the Excel® macro function, RPA, and xoBlos.

Macro function of Excel® has a disadvantage that maintenance cannot be performed if a staff member who has detailed knowledge on the function is transferred, and the City Hall actually experienced such an issue before.

Furthermore, although RPA can run applications and software other than Excel®, it requires a lot of man-hours and specialized skills to create automated programs and ensure stable operation.

Meanwhile, xoBlos is easy to use, even for people who are not familiar with IT and will also help the City Hall improve efficiency, as there are many work processes that require Excel® at the City Hall.

(How to use xoBlos)

The City Hall's HR Department annually conducts a questionnaire called a staff survey, in which all 700 employees are asked about their request for transfer and their workplace. They used xoBlos for the calculation of this survey.

Before the installation of xoBlos, the employees filled in the designated survey form on a computer or by hand, and submitted it in a sealed envelope to the HR Department. The HR Department checked them one by one, transcribed the data of over 700 people onto a file using Excel®, and filed them as reference material for personnel transfer.

Because there were so many descriptive questions such as "Request of transfer (name of department)" and "Request for a workplace," the data were huge. Furthermore, because sensitive information was contained in the answers, only 1 person at the HR Department was in charge of the transcription work. Due to confidentiality, the person needed to work at night or in the conference room.

According to the calculation by the City Hall, it took the person 78 man-hours to aggregate the data.

Upon using xoBlos, the City Hall, in collaboration with the vender, first revised the questionnaire survey format to make it compatible with xoBlos.

Next, they imported employees' personal data such as email addresses and dates of birth to xoBlos, and set personal information of each employee in a questionnaire form in advance via xoBlos. The questionnaire was then sent by xoBlos to each employee by a batch email.

When the response was sent back by email, the files were saved in a specified folder and aggregated by xoBlos. The contents of the questionnaire were then automatically displayed in a list, which made it possible to check who has submitted and who has not at a glance.

Finally, as for printing and filing the questionnaire, using an extension application developed by the vendor, the City Hall was also able to print the data all at once from xoBlos and prepare for filing the report with one click.

As a result, the required time for finishing the task was reduced from 78 hours to 7 hours after the installation of xoBlos. The impact of efficiency improvement was extremely large.

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(Comments on the use of xoBlos)
The use of xoBlos this time was experimental, and because most of the installation processes, such as formulating a new process, creating a new format, and configuring xoBlos, were conducted by the vendor, it was extremely easy for the City Hall to handle the set xoBlos. Furthermore, because xoBlos is already installed and used on the existing client computers, there was no need for new capital investment associated with the installation.
The City Hall felt that it was very rare that a new IT initiative could be implemented so smoothly like this.

(Future policy and development)
Because the City Hall was able to confirm the effect of xoBlos in the demonstration experiment at the HR Department, they are willing to expand the use of xoBlos in other departments and other tasks in the future. Because there are so much work using Excel® in the City Hall, they believe that a significant efficiency improvement effect can be expected using xoBlos.

The City Hall also needs to visualize the current work process to streamline the work by xoBlos. In the process, they need to review work and identify which works are not necessary. In this regard, according to the City Hall, installation of xoBlos is a good opportunity not only for improving work efficiency, but also for raising awareness on work.

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 450 companies, and it plans to increase the number by 100-120 annually.
In August 2020, it began using a subscription mode to expand sales stably and improve profitability.

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.

In order to improve the strengths and characteristics of the company, it is essential to acquire new technology and improve the on-site capabilities.
The company has been providing training and education to the employees; however, it is establishing a stronger education system, as it is important to have the latest knowledge ahead of customers in times of rapid changes.

From the perspective of diversity, the company is also working to create an environment in which female employees can easily demonstrate their abilities.
It is making efforts to provide not only on the job training, but also training on managerial skills to promote female employees from mid-level positions to managerial positions including executive positions.

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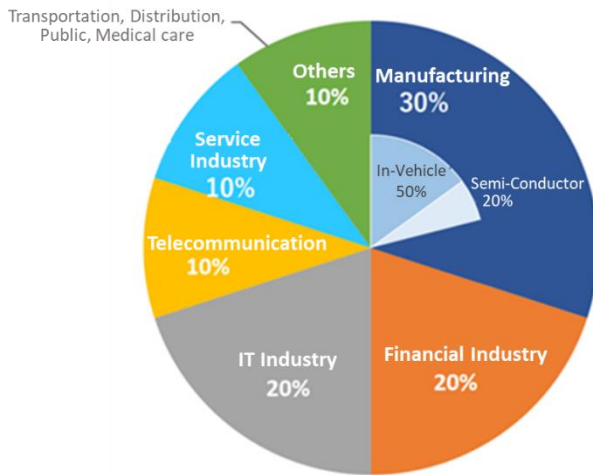
(Taken from the reference materials of Digital Information Technologies Corporation)

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.

(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.

2. The Second Quarter of the Fiscal Year ending June 2020 Earnings Results

2-1 Consolidated business results

	2Q FY 6/19	Ratio to sales	2Q FY 6/20	Ratio to sales	YoY
Sales	5,957	100.0%	6,567	100.0%	+10.2%
Gross profit	1,464	24.6%	1,662	25.3%	+13.5%
SG&A	887	14.9%	929	14.2%	+4.8%
Operating Income	577	9.7%	732	11.2%	+27.0%
Ordinary Income	577	9.7%	736	11.2%	+27.4%
Net Income	394	6.6%	509	7.8%	+29.1%

*Unit: million yen

Sales and profit grew, hitting a record high.

Sales increased 10.2% YoY to 6,567 million yen. Sales increased in all businesses. The embedded solution unit, original product unit, and system sales unit grew by double digits. Profitability improved in each business, and gross profit margin increased 0.7 points YoY.

Operating income increased 27.0% YoY to 732 million yen. The increases in R&D and personnel expenses were absorbed, resulting in a double-digit profit increase.

Both sales and profit have reached record highs for the second quarter (cumulative). Also, on a quarterly basis, both sales and profit marked record highs.

2-2 Trends by segment

	2Q FY 6/19	Ratio to sales	2Q FY 6/20	Ratio to sales	YoY
Software Development Business	5,617	94.3%	6,153	93.7%	+9.5%
System Sales Business	339	5.7%	414	6.3%	+22.0%
Total sales	5,957	100.0%	6,567	100.0%	+10.2%
Software Development Business	534	9.5%	659	10.7%	+23.3%
System Sales Business	42	12.5%	73	17.8%	+74.2%
Adjustment	0	-	-0	-	-
Total operating income	577	9.7%	732	11.2%	+27.0%

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

(Sales trends by business unit)

	2Q FY 6/19	Ratio to sales	2Q FY 6/20	Ratio to sales	YoY
Business Solution Unit	3,479	58.4%	3,696	56.3%	+6.2%
Embedded Solution Unit	1,921	32.2%	2,169	33.0%	+12.9%
Original Product Unit	216	3.6%	286	4.4%	+32.5%
System Sales Unit	339	5.7%	414	6.3%	+22.0%

*Unit: million yen

Software Development Business

Both sales and profit increased.

*Business solution unit

(Overview)

As for business system development, the company covered the decrease in the development of financial and distribution systems, for which large-scale projects were completed in the previous term, by expanding the development of manufacturing and public systems. The operation support unit grew significantly as a result of having a large number of new customers.

(Major results)

As a result of proactive proposal-based sales, the ratio of end users increased and the operating income margin showed an improving trend.

The company has been working on increasing the ratio of contract projects with the aim of improving profitability. While the ratio is steadily increasing, no major trouble cases have been seen.

*Embedded solution unit

(Overview)

The in-vehicle product unit continued to grow as the development and verification of the field expanded. In particular, the orders for connected car-related products increased.

The development of mobile devices for IoT has also progressed.

(Major results)

The sales of in-vehicle products grew steadily thanks to strategic measures. Direct transactions with major automobile manufacturers are steadily increasing.

In addition, the company's performance is recognized, and the number of IoT-related devices is increasing in a horizontal manner among multiple customers.

The company is also working to increase contract projects in this field.

*Original product unit

(overview)

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

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(Major results)

"WebARGUS"

While targeting large-scale users, the company expanded the business steadily, as a result of promoting collaboration with an external security specialist company in order to enhance the lineup of total security services.

Regarding total security, in December 2019, the company started cooperation with a cyber security company, Secure Age Inc., based in Singapore, on information leakage countermeasures (encryption technology). The installation of the SaaS model through agent sales is also in progress.

"xoBlos"

The sales of "xoBlos" was strong as a result of building an integrated sales system with its subsidiary DIT Marketing Services as well as promotion of the xoBlos Plus One concept, which links xoBlos with other products such as RPA and ERP.

The number of companies that use xoBlos exceeded 450. In addition, orders for additional licenses from customers that are already using xoBlos are increasing.

The number of collaborative products is steadily increasing. Especially, the collaboration with RPA Technology's BizRobo! and Oro's ZAC has a proven track record. The company also realized linkage with Hitachi's JP1. From the beginning of the year, the company sells xoBlos using the subscription model to new customers in order to completely move on to the subscription model.

System Sales Business

Both sales and profit increased.

(overview)

In the first quarter, there was a rush demand before the consumption tax hike, and sales of "Rakuichi" increased significantly.

(Major results)

The company prioritized measures for coping with the reduced tax rate, and responded to the needs for replacement and refurbishment of systems that support multiple tax rates. It also responded to the demand for replacement of computers and servers due to the end of the support for Windows 7 and Windows Server 2008.


2-3 Financial condition and cash flow

◎**Main BS**

	End of June 2019	End of December 2019		End of June 2019	End of December 2019
Current assets	3,933	4,142	**Current liabilities**	1,601	1,508
Cash and deposits	1,840	1,944	**Accounts payable**	393	413
Trade receivables	1,892	1,886	**Fixed liabilities**	105	50
Noncurrent assets	721	789	**Total labilities**	1,707	1,559
Tangible fixed assets	132	126	**Net assets**	2,947	3,372
Investments and other assets	578	636	**Capital stock**	2,938	3,310
Total assets	4,655	4,932	**Total liabilities, net assets**	4,655	4,932

*Unit: Million yen

Current assets increased 208 million yen from the end of the previous fiscal year, due to an increase in cash and deposits. Noncurrent assets grew 67 million yen from the end of the previous fiscal year, and total assets rose 276 million yen from the end of the previous fiscal year to 4,932 million yen. Total liabilities decreased 148 million yen from the end of the previous fiscal year to 1,559 million yen. Net assets grew 425 million yen from the end of the previous fiscal year to 3,372 million yen, due to the growth of retained earnings. As a result, equity ratio improved 5.1 points from the end of the previous fiscal year to 68.4%.

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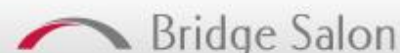
◎Cash Flow

	2Q FY 6/19	2Q FY 6/20	YY change
Operating Cash Flow	116	310	+194
Investing Cash Flow	-50	-64	-13
Free Cash Flow	65	246	+180
Financing Cash Flow	-96	-144	-48
Cash, Equivalents	1,596	1,937	+340

*Unit: Million yen

The surplus of operating CF and free CF increased due to an increase in profits, etc. The cash position improved.

3. Fiscal Year ending June 2020 Earnings Forecasts

3-1 Full-year earnings forecast

	FY 6/ 19	Ratio to sales	FY 6/ 20 Est	Ratio to sales	YOY	Progress Ratio
Sales	12,355	100.0%	13,030	100.0%	+5.5%	50.4%
Operating Income	1,095	8.9%	1,180	9.1%	+7.7%	62.1%
Ordinary Income	1,106	9.0%	1,177	9.0%	+6.4%	62.5%
Net Income	737	6.0%	790	6.1%	+7.3%	64.5%

*Unit: Million yen. The estimated values are from the company.

The earnings forecast remains unchanged. Sales and profit expected to grow for the 10th consecutive term.

The earnings forecast remains unchanged 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 estimated that sales and profit will grow for the tenth consecutive term, marking a record high, against the backdrop of solid IT investment. 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 Trend of each business unit.

	FY 6/ 19	Ratio to sales	FY 6/ 20 Est	Ratio to sales	YOY	Progress Ratio
Business Solution Unit	7,311	59.2%	7,600	58.3%	+4.0%	48.6%
Embedded Solution Unit	3,866	31.3%	4,160	31.9%	+7.6%	52.1%
Original Product Unit	500	4.0%	605	4.6%	+21.0%	47.3%
System Sales Unit	678	5.5%	665	5.1%	-1.9%	62.3%

*Unit: Million yen

**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.

Priority measures	Measures in the second half
1. To further expand the financial domain, which is a strength of the company.	To aim to retain the same level as the previous year in the finance field by completing large-scale contract projects within the fiscal year.

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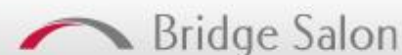
2. To aim to make transactions for establishing infrastructure utilizing the cloud.	To aim to acquire more projects than the first half.
3. To increase direct contracts with end users, and conduct proposal-based promotion for undertaking tasks.	To make efforts like the first half.
4. To increase the ratio of outsourced projects and conduct thoroughgoing project management.	To strengthen project risk management.
5. To utilize a local foothold as an advanced near-shore development center, and expand business.	To make efforts like the first half.

(Major points)

The operation support work, which accounts for about one-third of the business solution unit, has a high degree of close contact with the customers and keeps track of the operation work. Therefore, various suggestions for improvement are possible, and this point is highly appreciated by the customers. When a user changes his/her job, there are many cases in which his/her new company contacts the company regarding the products. This way, new customers are growing, too.

In addition, the company often receives orders for development projects after providing operation support. The company's performance is leading to the establishment of a stable business foundation.

The contract projects that the company was actively working on over the past few years have been steadily resulting in improving profitability.

They are also playing an important role as a venue for employees' development and education as a sub-leader of a project team becomes a leader of another project after gaining experiences through various contract projects.

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.

Priority measures	Measures in the second half
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.	To secure personnel as the top priority and make efforts as in the first half.
2. To apply IoT to automobiles (communication modules), gas equipment (monitoring services), home appliances (provision of recipes via microwave ovens), etc. beyond industrial borders.	To offer IoT services in various industries.
3. To smoothly shift from clients from which demand is declining. The company aims to increase profit rate by increasing outsourced projects.	To make efforts as in the first half.

(Major points)

Automobile manufactures and Tier 1 parts manufactures are affected by the US-China trade friction and the economic slowdown in emerging markets, and the current earnings trend is weakening. However, investment in developing next-generation vehicles such as self-driving cars and connected cars are highly prioritized, and the company expects that strong business demand in the automotive field will continue.

At present, the embedded solutions are mostly used for in-vehicle devices, but the demand for using embedded solutions for other

products such as AI mounted devises is steadily increasing as a result of proposal activities based on the company's unique know-how.

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.

Priority measures	Measures in the second half
1. To approach mainly large-scale users in an active manner.	To start full-scale installation for large-scale users. To continue to approach large-scale users.
2. To offer the SaaS model of WebARGUS to mainly data center enterprises, etc.	To support agencies to increase installation.
3. To attract customers who have strong needs through web marketing.	To carry out activities while inspecting cost effects.
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"	In January, the company began collaboration with a cyber security company, SSH Communication Security based in Finland, for access route optimization, etc. It will continuously make efforts to increase the number of cooperating companies.
5. To keep recommending the IoT version of WebARGUS based on the system resilience (restoration) concept to customers.	To make efforts to be able to propose native programming language versions (C-language).

(Major points)

The company expands the range that it can handle by cooperation and is promoting comprehensive security proposal, so that it can respond to various customer needs for security. The company will continue expanding Alliance strategy.

「xoBlos」

Demand is expected to grow further.

Priority measures	Measures in the second half
1. The cumulative number of companies that have adopted xoBlos exceeded 450. The company will enhance sales to large-scale users further.	To strengthen sales targeting large-scale users.
2. To promote sales in cooperation with DIT Marketing Service, which is a subsidiary for selling systems.	To work towards achieving results.
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.	To achieve the second JP1 collaboration at the beginning of the year. To make efforts to expand the use as the data linkage platform by taking advantage of the strength of being able to work with various products.
4. To shift to the subscription model in all aspects.	To enhance the support system.

(Major points)

For the subscription model where "Maximizing the Customers' Life Time Value (LTV)" is the key to success, the company considers that it is important to prevent their customers from switching to other companies' products. Therefore, it is expanding the support system by telephone and other means.

System Sales Unit

(Overview)

The transactions are long-term and stable, so the sales of other products are expected to increase sales.

(Intensive measures)

Priority measures	Measures in the second half
1. To support the production of management analysis documents required by clients, by utilizing the standard functions of Rakuichi.	To provide support for management analysis materials that are useful for front office operations and support for attendance management in association with work style reforms for small and medium-sized enterprises.
2. To suggest various services required by customers, including printers, networks, and security products more strongly.	To make more proposals for business environment maintenance such as PC support maintenance services and network security products.

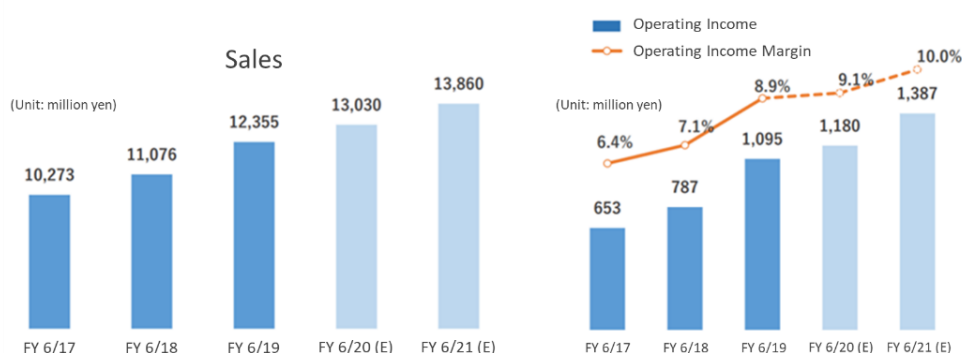# 4. Medium-Term Management Plan

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.

Medium-Term Goals Aiming to Realize "Triple 10" in 5 years	Sales	10 billion yen (FY 6/17) **Clear!**
	Operating Income	1 billion yen (FY 6/19) **Clear!**
	Operating Income Margin	10% (FY 6/21) **Target**

Sales
(Unit: million yen)

FY 6/17	FY 6/18	FY 6/19	FY 6/20 (E)	FY 6/21 (E)
10,273	11,076	12,355	13,030	13,860

Operating Income / Operating Income Margin
(Unit: million yen)

FY 6/17	FY 6/18	FY 6/19	FY 6/20 (E)	FY 6/21 (E)
653	787	1,095	1,180	1,387
6.4%	7.1%	8.9%	9.1%	10.0%

(Taken from the reference materials of Digital Information Technologies Corporation)
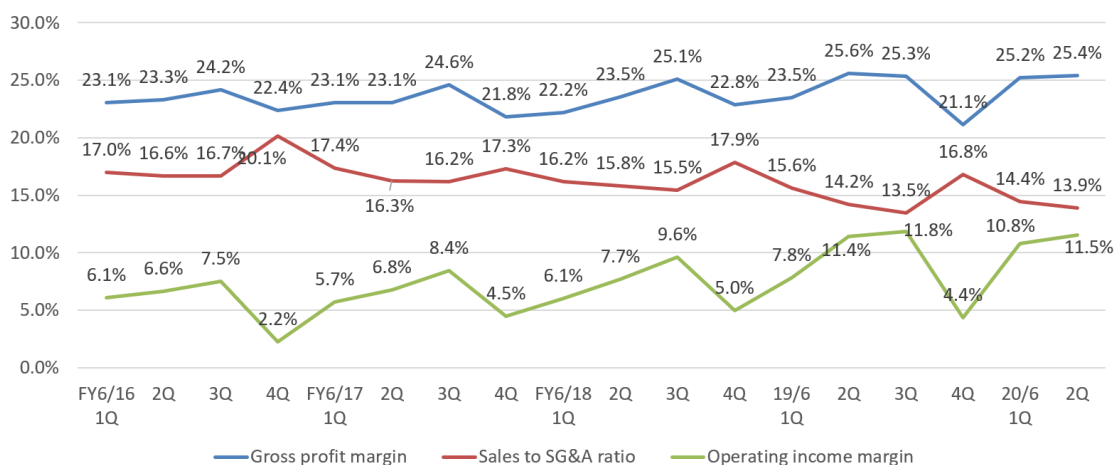
4-3 Ideal state

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

In addition to a steady increase in contract projects and growth in original products, both gross profit margin and operating income margin in the second quarter reached the highest level following the first quarter. Both sales and profit are progressing well against the full-year plan. Although the impact of the novel coronavirus on the businesses is unknown, the company will examine the need of modifying the full-year forecast based on the results in the third quarter.

The company's financial year ends on June 30. Therefore, in the fourth quarter (April-June), there will be a seasonality in which profits will decrease due to new graduates joining the company and payment of term-end allowance. Nevertheless, we would like to focus on whether the company can achieve the last remaining goal of "Triple 10" in the medium-term, namely, "An operating income margin of 10%," one year ahead of schedule during this term.

＜Reference: Regarding Corporate Governance＞

Organization type, and the composition of directors and auditors

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

Corporate Governance Report

Last Update: February 5, 2020

<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>	3 out of 10 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 12th, 2019. <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

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	(3) The principles and procedures to determine remuneration of the board directors are based on the Rules and Regulations for Board of Directors. The remuneration takes into account the common level of remuneration, the Company's business performance and other employees' salaries. It is determined at a board of directors meeting within the limits of total remuneration determined at a general shareholders' meeting. （4）We have established the standard to appoint board directors and auditors. Taking into account the overall performance, knowledge and experiences of each candidate 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.