

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FIRST QUARTER OF THE FISCAL YEAR ENDING

June 30, 2019 (July 1, 2018 to September 30, 2018)



November 9, 2018

Digital Information Technologies Corporation is listed on the First Section of the Tokyo Stock Exchange under the securities code number 3916.

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Quarterly Securities Report filing date (planned): November 13, 2018

Supplemental materials prepared for quarterly financial results: Yes

Holding of quarterly financial results meeting: No

Dividend payment commencement date (planned): —

(Millions of yen rounded down)

1. Consolidated Performance for the First Quarter of FY 2018 (July 1, 2018 to September 30, 2018)

(1) Consolidated Business Results

(% figures for the interim period are the increase / (decrease) for the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY2018	2,876	5.1	225	36.0	225	40.7	151	39.2
1Q FY2017	2,737	15.0	165	22.2	160	18.1	109	25.0

(Note) Comprehensive income: 1Q FY2018: ¥154 million (28.2%) 1Q FY2017: ¥120 million (33.2%)

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
1Q FY2018	9.89	—
1Q FY2017	7.07	—

Notes: 1. The Company conducted a two-for-one split of common stock on April 1, 2018. The figures for “Net Income per Share” and “Diluted Net Income per Share” are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

2. Diluted net income per share is not presented because there are no dilutive securities.

(1) Consolidated Financial Position

	Total Assets	Net Assets	Net Assets to Total Assets
	Millions of yen	Millions of yen	%
As of September 30, 2018	3,997	2,684	67.2
As of June 30, 2018	4,083	2,621	64.2

(Reference) Shareholders' equity: As of September 30, 2018: ¥2,684 million As of June 30, 2018: ¥2,621 million

3. Dividends

	Cash Dividends per Share of Common Stock				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	10.00	—	6.00	—
FY 2018	—				
FY 2018 (planned)		7.00	—	7.00	14.00

Note: Revision to the most recently announced cash dividend forecast: None

The Company conducted a two-for-one split of common stock on April 1, 2018. Accordingly, the year-end dividend for

FY6/18 takes into account this stock split. Of note, without taking the stock split into account, the year-end dividend per share for FY6/18 would have been 12.00 yen, for a total annual dividend of 22.00 yen.

4. Forecast of Consolidated Results for FY 2018 (July 1, 2018 to June 30, 2019)

(% figures for the full fiscal year represent year-on-year increase or decrease)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	Yen
Full Fiscal Year	11,904	7.5	1,000	26.9	997	26.1	666	25.3

Note: Revision to the most recently announced operating results forecast: No

*Notes

(1) Changes in important subsidiaries during the period (changes in specified subsidiaries in accordance with changes in the scope of consolidation): No

New: — (Company name: —), Excluded: — (Company name: —)

(2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

1) Changes of accounting principles in line with revisions to accounting and other standards: No

2) Changes of accounting principles other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(3) Number of shares issued and outstanding (common shares)

1. Number of shares issued and outstanding as of the end of the period (including treasury stock)

As of September 30, 2018: 15,501,820 shares As of June 30, 2018: 15,501,820 shares

2. Number of treasury stock

As of September 30, 2018: 140,518 shares As of June 30, 2018: 140,464 shares

3. Average number of shares for the year

First quarter fiscal 2018: 15,361,333 shares First quarter fiscal 2017: 15,443,614 shares

Note: The Company conducted a two-for-one split of common stock on April 1, 2018. The figures for number of shares issued and outstanding (common shares) are calculated assuming the subject stock split was conducted at the beginning the previous fiscal year.

* The financial statement summary is not subject to auditing by certified public accountants or audit firms.

* Cautionary Statement Concerning Operating Results Forecasts and Other Special Items

The forecasts of operating results and other items concerning the future contained in this document are based on management's assumptions and beliefs that are determined to be reasonable in light of currently available information. Digital Information Technologies Corporation cautions readers that due to a variety of factors actual results may differ materially from forecasts. For the assumptions that underpin operating results forecasts as well as cautionary notes on the use of operating results forecasts, please refer to "1. Qualitative Information on Financial Results for the Subject Period (1) Explanation of Business Results" on page 4.

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1. Qualitative Information on Financial Results for the Subject Period

(1) Explanation of Business Results

During the subject first quarter cumulative period (July 1, 2018 to September 30, 2018), despite such concerns as the U.S.-China trade friction overseas and severe natural disasters in Japan, the business climate continued to improve, supported by internal demand centered on the favorable U.S. economy and capital investment.

In Digital Information Technologies Corporation (DIT)'s main business industry of information services, despite the chronic issue of a shortage of IT personnel, Japanese companies continued to increase investment in software. Continued growth was also evident in new sectors such as artificial intelligence (AI), the Internet of Things (IoT), robotic process automation (RPA, the automation and efficiency enhancement of tasks using software robots), and Fintech (finance technology, innovative measures to link financial services with information technology). These developments presented the DIT Group with increased opportunities to enter new businesses, and expand its business scope.

Also, as a result of a series of data breaches and other cybersecurity incidents, there has been an increasing trend toward strengthening security countermeasures for information systems overall, as well as continued interest in working-style reforms, which have become a national issue for Japan. These developments provided a favorable boost to the DIT Group, since it has effective solutions to address these issues.

Under such conditions, the DIT Group formulated the following five business strategies as its medium-term management plan, and continued to take proactive measures to achieve them.

- ・ Renovation (Stabilize management through reform of existing businesses)
- ・ Innovation (Create new value centered on in-house products)
- ・ Shift from competition to collaboration (Expand business through cooperative efforts)
- ・ Shift from development to services (Expand business from service-oriented perspective)
- ・ Secure and develop human assets (Hire and train personnel)

During FY6/19, the first year of the new medium-term management plan, DIT will continue its two-pronged business strategy of “stabilize the business foundation” and “strengthen growth factors,” while also pursuing a new level of management to achieve Triple 10*, its medium-term targets for FY6/21.

* Triple 10

- ・ Net sales of ¥10.0 billion in FY6/17 (already achieved)
- ・ Operating income of ¥1.0 billion in FY6/19
- ・ Operating profit margin of 10% in FY6/21

In terms of renovation, DIT achieved steady growth as a result of continued investment in information technology by financial institutions, and an increase in capital investment in the automotive industry.

In terms of innovation, DIT achieved steady growth as a result of ongoing efforts to enhance product appeal and strengthen sales for WebARGUS¹, DIT's in-house products built on proprietary technology, and the Excel process innovation platform xoBlos².

Also, in the previous fiscal year strong-performing businesses drove growth, offsetting slowdowns in poorly performing areas, but in the subject fiscal year profitability has improved overall, with an increase in the operating profit margin.

As a result, net sales in the subject first quarter cumulative period amounted to ¥2,876,152 thousand (up 5.1% from the same period of the previous fiscal year), with operating income of ¥225,381 (up 36.0%), ordinary income of ¥225,406 (up 40.7%), and profit attributable to owners of parent of ¥151,932 thousand (up 39.2%).

Notes

1. WebARGUS is a new type of website security solution that detects the tampering of websites as it occurs, and immediately restores the site to its original state. Instant detection and restoration protects corporate and other websites from malicious, unknown cyber-attacks, while at the same time prevents the escalation of the damage, such as viruses spreading via the tampered website.
2. xoBlos is an innovation platform for Excel to automate inefficient Excel-based tasks, allowing for dramatic improvements in efficiency in a short period.

Results by segment are as follows.

Of note, figures for segment net sales and earnings (operating income) are prior to offsets for intracompany transactions.

1. Software Development Business

In the business solutions unit, orders remained firm, centered mainly on existing customers. Sales to the mainstay finance industry showed an upward trend from the previous stagnation, along with growth in the logistics sector, providing a steady start to the fiscal year.

In the embedded product solutions unit, business got off to a solid start, with steady growth in products for in-vehicle devices, including an increase in orders for the communication module products that are a particular strength of the DIT Group.

In the original products unit, sales grew steadily as a result of the group's product and sales strategies. For WebARGUS, DIT expanded sales opportunities as a result of gradual adoption by major users, and pursuing collaborations with external cybersecurity specialist companies. For xoBlos, with the release of the xoBot* product that works seamlessly with various types of RPA products, DIT actively participated in trade shows and exhibitions, greatly increasing the volume of customer inquiries.

*xoBot is a advanced product of xoBlos utilizing its core technology. In addition to the main function of Excel processing, automated processing has been further strengthened by incorporating connectivity functions to RPA products and other systems.

As a result, net sales in the Software Development segment amounted to ¥2,715,637 thousand (up 5.6% from the same period of the previous fiscal year), with operating income of ¥209,859 thousand (up 24.8%).

2. System Sales Business

The main product of the System Sales segment is "Rakuichi," a management support system for small and medium-sized enterprises manufactured by Casio Computer Co., Ltd. As a result of an increase in sales of the server edition, which has a higher profit margin compared to previous products, the business had a strong start in terms of operating income, even though sales declined.

As a result, net sales in the System Sales segment amounted to ¥161,355 thousand (down 4.2% from the same period of the previous fiscal year), with operating income of ¥15,505 thousand (compared to an operating loss of ¥2,517 thousand a year earlier).

(2) Explanation of Financial Position

The status of assets, liabilities, and net assets in the end of the subject fiscal period is as follows.

(Current Assets)

Current assets amounted to ¥3,266,625 thousand, a decrease of ¥130,700 thousand compared to the end of the previous fiscal year. This was due mainly to a decrease of ¥183,468 thousand in cash and deposits; against increases of ¥9,986 thousand in notes and accounts receivable—trade; ¥16,989 thousand in merchandise; and ¥25,901 thousand in work in process.

(Noncurrent Assets)

Noncurrent assets amounted to ¥730,597 thousand, an increase of ¥44,712 thousand compared to the end of the previous fiscal year. This was due mainly to an increase of ¥50,191 thousand in investments and other assets; against decreases of ¥2,760 thousand in property, plant, and equipment; and ¥2,717 thousand in intangible assets.

(Current Liabilities)

Current liabilities amounted to ¥1,223,606 thousand, a decrease of ¥80,984 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥16,736 thousand in accounts payable—trade; and ¥126,261 thousand in provision for bonuses; against decreases of ¥91,815 thousand in income taxes payable; and ¥132,302 thousand in other.

(Noncurrent Liabilities)

Noncurrent liabilities amounted to ¥89,031 thousand, a decrease of ¥67,678 thousand compared to the

end of the previous fiscal year. This was due mainly to decreases of ¥65,665 thousand in long-term accounts payable—other; and ¥2,250 thousand in other.

(Net Assets)

Net assets amounted to ¥2,684,585 thousand, an increase of ¥62,675 thousand compared to the end of the previous fiscal year. This was due mainly to an increase of ¥59,764 thousand in retained earnings.

(3) Explanation of Results Forecasts and Other Future Predictions

Consolidated results forecasts for the full fiscal year ending June 2019 are unchanged from those announced on August 10, 2018.

2. Consolidated Quarterly Financial Statements and Major Notes

(1) Consolidated Quarterly Balance Sheets

(Thousands of yen)

	End of the Fiscal Year Ended June 30, 2018 (As of June 30, 2018)	End of the First Quarter of the Fiscal Year Ending June 30, 2019 (As of September 30, 2018)
ASSETS		
Current assets:		
Cash and deposits	1,627,409	1,443,941
Notes and accounts receivable — trade	1,562,636	1,572,622
Merchandise	13,252	30,241
Work in process	123,328	149,230
Other	70,907	70,796
Allowance for doubtful accounts	(209)	(206)
Total current assets	3,397,326	3,266,625
Noncurrent assets:		
Property, plant and equipment	115,160	112,399
Intangible assets	18,628	15,910
Investments and other assets:		
Other	585,240	635,401
Allowance for doubtful accounts	(33,144)	(33,114)
Total investments and other assets	552,095	602,287
Total noncurrent assets	685,884	730,597
Total assets	4,083,210	3,997,223
LIABILITIES		
Current liabilities:		
Accounts payable — trade	328,674	345,411
Income taxes payable	188,096	96,280
Provision for bonuses	—	126,261
Provision for loss on order received	74	210
Other	787,745	655,442
Total current liabilities	1,304,590	1,223,606
Noncurrent liabilities:		
Long-term accounts payable — other	130,611	64,946
Net defined benefit liability	4,561	4,799
Other	21,536	19,285
Total noncurrent liabilities	156,709	89,031
Total liabilities	1,461,300	1,312,637
NET ASSETS		
Shareholders' equity:		
Capital stock	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	1,835,232	1,894,996
Treasury stock	(137,223)	(137,291)
Total shareholders' equity	2,610,379	2,670,075
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	9,117	12,345
Foreign currency translation adjustments	2,413	2,165
Total accumulated other comprehensive income	11,531	14,510
Total net assets	2,621,910	2,684,585
Total liabilities and net assets	4,083,210	3,997,223

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Consolidated Quarterly Statements of Income)
(First Quarter Cumulative)

	(Thousands of yen)	
	Fiscal 2017 (July 1, 2017 to September 30, 2017)	Fiscal 2018 (July 1, 2018 to September 30, 2018)
Net sales	2,737,111	2,876,152
Cost of Sales	2,129,251	2,200,665
Gross profit	607,860	675,486
Selling, general and administrative expenses	442,184	450,105
Operating income	165,675	225,381
Non-operating income		
Interest income	35	86
Dividend income	26	38
Commission fee	1,087	891
Subsidy income	2,130	—
Other	281	149
Total non-operating income	3,560	1,166
Non-operating expenses		
Interest expenses	304	95
Donations for disaster relief	—	1,000
Foreign exchange losses	1,087	45
Loss on insurance cancellation	2,385	—
Office transfer expenses	4,606	—
Other	675	—
Total non-operating expenses	9,060	1,141
Ordinary income	160,176	225,406
Net income before income taxes	160,176	225,406
Income taxes — current	58,472	79,990
Income taxes — deferred	(7,446)	(6,515)
Total income taxes	51,025	73,474
Net income	109,150	151,932
Profit attributable to owners of parent	109,150	151,932

(Consolidated Quarterly Statements of Comprehensive Income)
(First Quarter Cumulative)

	(Thousands of yen)	
	Fiscal 2017 (July 1, 2017 to September 30, 2017)	Fiscal 2018 (July 1, 2018 to September 30, 2018)
Net income	109,150	151,932
Other comprehensive income		
Other valuation difference on available-for-sale securities	11,638	3,227
Foreign currency translation adjustments	32	(248)
Total other comprehensive income	11,670	2,979
Comprehensive income	120,821	154,911
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	120,821	154,911

(3) Notes to Consolidated Financial Statements
(Notes Regarding Going-Concern Assumption)

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

From the subject fiscal year, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). Deferred tax assets are shown in "Investments and other assets," and deferred tax liabilities are shown in "Noncurrent liabilities."

(Segment and Other Information)

Segment Information

I. The First Quarter of Fiscal 2017 (July 1, 2017 to September 30, 2017)

1. Information Relating to the Amounts of Net Sales, Profit, and Loss

(Thousands of yen)

	Reporting Segments			Adjustment amount (Note 1)	Amount recorded on consolidated quarterly statements of income (Note 2)
	Software Development Business	System Sales Business	Total		
Net sales					
Net sales to outside customers	2,569,037	168,074	2,737,111	—	2,737,111
Intrasegment net sales and transfers	1,461	300	1,761	(1,761)	—
Total	2,570,498	168,374	2,738,872	(1,761)	2,737,111
Segment income (loss)	168,176	(2,517)	165,659	16	165,675

Notes:

1. The ¥16 thousand adjustment to segment income (loss) is mainly intersegment eliminations.
2. Segment income (loss) is adjusted with operating income in the consolidated quarterly statements of income.

II. The First Quarter of Fiscal 2018 (July 1, 2018 to September 30, 2018)

1. Information Relating to the Amounts of Net Sales, Profit, and Loss

(Thousands of yen)

	Reporting Segments			Adjustment amount (Note 1)	Amount recorded on consolidated quarterly statements of income (Note 2)
	Software Development Business	System Sales Business	Total		
Net sales					
Net sales to outside customers	2,715,577	160,575	2,876,152	—	2,876,152
Intrasegment net sales and transfers	60	780	840	(840)	—
Total	2,715,637	161,355	2,876,993	(840)	2,876,152
Segment income	209,859	15,505	225,364	16	225,381

Notes:

1. The ¥16 thousand adjustment to segment income is mainly intersegment eliminations.
2. Segment income is adjusted with operating income in the consolidated quarterly statements of income.