

# CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

## FIRST HALF OF THE FISCAL YEAR ENDING

### June 30, 2019 (July 1, 2018 to December 31, 2018)



February 14, 2019

**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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Supplemental materials prepared for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and security analysts)

Dividend payment commencement date (planned): March 13, 2019

(Millions of yen rounded down)

#### 1. Consolidated Performance for the First Half of FY 2018 (July 1, 2018 to December 31, 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	%
FY2018 First Half	5,957	8.0	577	52.0	577	54.4	394	57.8
FY2017 First Half	5,516	13.6	379	24.9	374	26.4	250	29.2

(Note) Comprehensive income: FY2018 First Half: ¥391 million (45.6%) FY2017 First Half: ¥268 million (33.0%)

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2018 First Half	25.70	—
FY2017 First Half	16.24	—

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.

##### (2) Consolidated Financial Position

	Total Assets		Net Assets		Net Assets to Total Assets	
	Millions of yen		Millions of yen		%	
As of December 31, 2018	4,306		2,921		67.8	
As of June 30, 2018	4,083		2,621		64.2	

(Reference) Shareholders' equity: As of December 31, 2018: ¥2,912 million As of June 30, 2018: ¥2,610 million

#### 2. Dividends

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

### 3. 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	43.37

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 December 31, 2018: 15,501,820 shares      As of June 30, 2018: 15,501,820 shares
2. Number of treasury stock  
As of December 31, 2018: 140,518 shares      As of June 30, 2018: 140,464 shares
3. Average number of shares for the year  
FY2018 First Half: 15,361,333 shares      FY2017 First Half: 15,402,526 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 Regarding Consolidated Quarterly Business Results (1) Explanation of Business Results" on page 4.

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## 1. Qualitative Information Regarding Consolidated Quarterly Business Results

### (1) Explanation of Business Results

During the subject second quarter cumulative period (July 1, 2018 to December 31, 2018), the business climate remained comparatively firm through the period, despite a succession of natural disasters in Japan, on the back of the strong U.S. economy and internal demand centered on capital investment. Since the beginning of the second half, however, the outlook has become increasingly clouded by such concerns as the intensifying U.S.-China trade friction, and political instability in the U.S. and major European countries.

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.

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 WebARGUS<sup>1</sup>, DIT's in-house products built on proprietary technology, and the Excel process innovation platform xoBlos<sup>2</sup>.

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. The improvement in operating profit margin was particularly strong in the second quarter, exceeding that of the first quarter.

As a result, net sales in the subject second quarter cumulative period amounted to ¥5,957,588 thousand (up 8.0% from the same period of the previous fiscal year), with operating income of ¥577,019 (up 52.0%), ordinary income of ¥577,957 (up 54.4%), and profit attributable to owners of parent of ¥394,741 thousand (up 57.8%).

#### 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 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, sales increased steadily for financial business system development and operational support, along with continued growth in orders centered on existing customers, including expansion in logistics system development.

In the embedded product solutions unit, results were favorable as steady growth continued in software development for in-vehicle devices, including an increase in orders for connected car-related products.

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 features xoBlos 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. Of note, xoBot was integrated with xoBlos in November 2018 as part of a redesign of the xoBlos concept.

As a result, net sales in the Software Development segment amounted to ¥5,617,884 thousand (up 8.2% from the same period of the previous fiscal year), with operating income of ¥534,529 thousand (up 38.7%).

## 2. System Sales Business

The main product of the System Sales segment is "Rakuichi," an operations and management support system for small and medium-sized enterprises manufactured by Casio Computer Co., Ltd. Revenue and earnings increased in this segment as a result of an increase in system renewal and modification-related sales to accommodate the change in the Japanese era name, and the reduced tax rate on certain items to be implemented with the increase in the consumption tax.

As a result, net sales in the System Sales segment amounted to ¥340,705 thousand (up 3.0% from the same period of the previous fiscal year), with operating income of ¥42,456 thousand (compared to an operating loss of ¥5,668 thousand a year earlier).

## (2) Explanation of Financial Position

### 1) Status of assets, liabilities, and net assets

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

#### (Current Assets)

Current assets amounted to ¥3,584,548 thousand, an increase of ¥187,222 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥166,047 thousand in notes and accounts receivable—trade; and ¥33,210 thousand in work in process; against a decrease of ¥30,421 thousand in cash and deposits.

#### (Noncurrent Assets)

Noncurrent assets amounted to ¥721,551 thousand, an increase of ¥35,667 thousand compared to the end of the previous fiscal year. This was due mainly to an increase of ¥46,660 thousand in investments and other assets; against decreases of ¥6,112 thousand in property, plant, and equipment; and ¥4,880 thousand in intangible assets.

#### (Current Liabilities)

Current liabilities amounted to ¥1,298,460 thousand, a decrease of ¥6,129 thousand compared to the end of the previous fiscal year. This was due mainly to increases of ¥9,647 thousand in accounts payable—trade;

¥32,519 thousand in income taxes payable; and ¥84,154 thousand in provision for bonuses; against a decrease of ¥134,999 thousand in “other.”

*(Noncurrent Liabilities)*

Noncurrent liabilities amounted to ¥86,548 thousand, a decrease of ¥70,160 thousand compared to the end of the previous fiscal year. This was due mainly to a decrease of ¥66,585 thousand in long-term accounts payable—other.

*(Net Assets)*

Net assets amounted to ¥2,921,090 thousand, an increase of ¥299,180 thousand compared to the end of the previous fiscal year. This was due mainly to an increase of ¥302,573 thousand in retained earnings; against a decrease of ¥3,189 thousand in valuation difference on available-for-sale securities.

2) Status of cash flows

Cash and cash equivalents (“cash”) at the end of the subject second quarter cumulative period amounted to ¥1,596,987 thousand, a decrease of ¥30,421 thousand from the end of the previous fiscal year. The status of cash flows during the subject period and the primary factors affecting them are as follows.

*(Cash flow from operating activities)*

Cash provided by operating activities amounted to ¥116,743 thousand, compared to ¥235,161 thousand in cash provided in the same period of the previous fiscal year. This was due mainly to profit before income taxes (¥577,957 thousand); increase in provision for bonuses (¥84,154 thousand); increase in notes and accounts receivable—trade (¥166,047 thousand); decrease in long-term accounts payable—other (¥66,585 thousand); decrease in other liabilities (¥101,062 thousand); and income taxes paid (¥148,361 thousand).

*(Cash flow from investing activities)*

Cash used in investing activities amounted to ¥50,999 thousand, compared to ¥43,002 thousand in cash used in the same period of the previous fiscal year. This was due mainly to purchase of investment securities (¥40,369 thousand); and payments for lease and guarantee deposits (¥6,559 thousand).

*(Cash flow from financing activities)*

Cash used in financing activities amounted to ¥96,037 thousand, compared to ¥285,438 thousand in cash used in the same period of the previous fiscal year. This was due mainly to repayments of lease obligations (¥4,205 thousand); and cash dividends paid (¥91,763 thousand).

**(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 Main 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 Second Quarter of the Fiscal Year Ending June 30, 2019 (As of December 31, 2018)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and deposits	1,627,409	1,596,987
Notes and accounts receivable — trade	1,562,636	1,728,683
Merchandise	13,252	22,343
Work in process	123,328	156,538
Other	70,907	80,259
Allowance for doubtful accounts	(209)	(264)
Total current assets	3,397,326	3,584,548
<b>Noncurrent assets:</b>		
Property, plant and equipment	115,160	190,047
Intangible assets	18,628	13,748
Investments and other assets:		
Other	585,240	631,840
Allowance for doubtful accounts	(33,144)	(33,084)
Total investments and other assets	552,095	598,756
Total noncurrent assets	685,884	721,551
<b>Total assets</b>	<b>4,083,210</b>	<b>4,306,100</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable — trade	328,674	338,322
Income taxes payable	188,096	220,615
Provision for bonuses	—	84,154
Provision for loss on order received	74	2,622
Other	787,745	652,746
Total current liabilities	1,304,590	1,298,460
<b>Noncurrent liabilities:</b>		
Long-term accounts payable — other	130,611	64,026
Net defined benefit liability	4,561	4,856
Other	21,536	17,665
Total noncurrent liabilities	156,709	86,548
Total liabilities	1,461,300	1,385,009
<b>NET ASSETS</b>		
<b>Shareholders' equity:</b>		
Capital stock	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	1,835,232	2,137,806
Treasury stock	(137,223)	(137,291)
Total shareholders' equity	2,610,379	2,912,884
<b>Accumulated other comprehensive income:</b>		
Valuation difference on available-for-sale securities	9,117	5,928
Foreign currency translation adjustments	2,413	2,277
Total accumulated other comprehensive income	11,531	8,206
Total net assets	2,621,910	2,921,090
<b>Total liabilities and net assets</b>	<b>4,083,210</b>	<b>4,306,100</b>

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

	(Thousands of yen)	
	First Half of the Fiscal Year Ended June 30, 2018 (July 1, 2017 to December 31, 2017)	First Half of the Fiscal Year Ending June 30, 2019 (July 1, 2018 to December 31, 2018)
<b>Net sales</b>	5,516,574	5,957,588
<b>Cost of Sales</b>	4,254,846	4,493,502
Gross profit	1,261,728	1,464,085
<b>Selling, general and administrative expenses</b>	882,108	887,066
<b>Operating income</b>	379,620	577,019
<b>Non-operating income</b>		
Interest income	35	166
Dividend income	60	82
Commission fee	2,300	2,055
Subsidy income	2,470	—
Other	611	349
Total non-operating income	5,477	2,654
<b>Non-operating expenses</b>		
Interest expenses	607	183
Donations for disaster relief	—	1,000
Foreign exchange losses	1,635	327
Loss on insurance cancellation	2,385	—
Office transfer expenses	5,261	—
Other	927	206
Total non-operating expenses	10,817	1,716
<b>Ordinary income</b>	374,279	577,957
<b>Net income before income taxes</b>	374,279	577,957
Income taxes — current	129,664	187,254
Income taxes — deferred	(5,507)	(4,039)
Total income taxes	124,157	183,215
Net income	250,122	394,741
<b>Profit attributable to owners of parent</b>	250,122	394,741

**(Consolidated Quarterly Statements of Comprehensive Income)**  
**(Second Quarter Cumulative)**

		(Thousands of yen)
	First Half of the Fiscal Year Ended June 30, 2018 (July 1, 2017 to December 31, 2017)	First Half of the Fiscal Year Ending June 30, 2019 (July 1, 2018 to December 31, 2018)
Net income	250,122	394,741
Other comprehensive income		
Other valuation difference on available-for-sale securities	18,890	(3,189)
Foreign currency translation adjustments	(116)	(135)
Total other comprehensive income	18,773	(3,325)
<b>Comprehensive income</b>	<b>268,896</b>	<b>391,416</b>
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	268,896	391,416

### (3) Consolidated Quarterly Statements of Cash Flows

(Thousands of yen)

	First Half of the Fiscal Year Ended June 30, 2018 (July 1, 2017 to December 31, 2017)	First Half of the Fiscal Year Ending June 30, 2019 (July 1, 2018 to December 31, 2018)
<b>Cash Flows from Operating Activities:</b>		
Net Income before income taxes	374,279	577,957
Depreciation and amortization	13,602	15,749
Increase (decrease) in allowance for doubtful accounts	(366)	(4)
Increase (decrease) in provision for loss on order received	284	2,548
Increase (decrease) in provision for bonuses	75,905	84,154
Increase (decrease) in net defined benefit liability	(265,305)	295
Interest and dividends income	(95)	(249)
Interest expenses	607	183
Decrease (increase) in notes and accounts receivable — trade	(53,384)	(166,047)
Decrease (increase) in inventories	17,236	(42,289)
Increase (decrease) in notes and accounts payable — trade	(18,366)	9,647
Increase (decrease) in accounts payable — other and accrued expenses	50,742	(40,162)
Increase (decrease) in long-term accounts payable — other	131,507	(66,585)
Decrease (increase) in other assets	(13,430)	(9,089)
Increase (decrease) in other liabilities	19,143	(101,062)
Other, net	1,523	(3)
<b>Subtotal</b>	<b>333,884</b>	<b>265,039</b>
Interest and dividends income received	95	249
Interest expenses paid	(99)	(183)
Income taxes paid	(98,718)	(148,361)
<b>Net cash provided by (used in) operating activities</b>	<b>235,161</b>	<b>116,743</b>
<b>Cash Flows from Investing Activities:</b>		
Purchase of investment securities	(351)	(41,369)
Purchase of property, plant and equipment	(4,612)	(1,370)
Purchase of intangible assets	(2,796)	—
Collection of loans receivable	431	60
Purchase of insurance funds	(2,710)	(2,827)
Proceeds from cancellation of insurance funds	12,867	—
Payments for lease and guarantee deposits	(45,880)	(6,559)
Proceeds from collection of lease and guarantee deposits	50	67
<b>Net cash provided by (used in) investing activities</b>	<b>(43,002)</b>	<b>(50,999)</b>
<b>Cash Flows from Financing Activities:</b>		
Repayment of long-term loans payable	(31,234)	—
Repayments of lease obligations	(2,070)	(4,205)
Purchase of treasury stock	(136,640)	(68)
Cash dividends paid	(115,494)	(91,763)
<b>Net cash provided by (used in) financing activities</b>	<b>(285,438)</b>	<b>(96,037)</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>1,416</b>	<b>(128)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(91,862)</b>	<b>(30,421)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>1,346,391</b>	<b>1,627,409</b>
<b>Cash and cash equivalents at end of period</b>	<b>1,254,529</b>	<b>1,596,987</b>

#### (4) Notes Regarding the Quarterly 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 first period of 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 Half of Fiscal 2017 (July 1, 2017 to December 31, 2017)

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

	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	5,188,148	328,426	5,516,574	—	5,516,574
Intrasegment net sales and transfers	2,886	2,205	5,091	(5,091)	—
Total	5,191,034	330,631	5,521,666	(5,091)	5,516,574
Segment income (loss)	385,254	(5,668)	379,586	33	379,620

Notes:

1. The ¥33 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 Half of Fiscal 2018 (July 1, 2018 to December 31, 2018)

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

	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	5,617,764	339,823	5,957,588	—	5,957,588
Intrasegment net sales and transfers	120	881	1,001	(1,001)	—
Total	5,617,884	340,705	5,958,590	(1,001)	5,957,588
Segment income	534,529	42,456	576,986	33	577,019

Notes:

1. The ¥33 thousand adjustment to segment income is mainly intersegment eliminations.
2. Segment income is adjusted with operating income in the consolidated quarterly statements of income.