

2Q FY 06/2019 Financial Results Briefing (TSE First Section 3916)

February 20, 2019

Digital Information Technologies Corporation



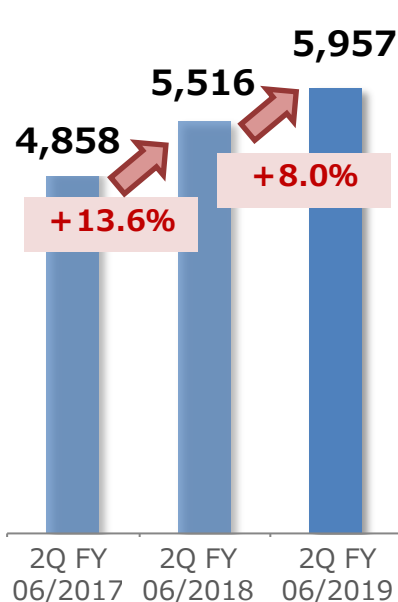
- 1 . Overview of 2Q FY 06/2019**
- 2 . Strategic Policy & Consolidated Earnings Forecast for FY 06/2019
- 3 . Strategies for growth

Overview of 2Q FY 06/2019

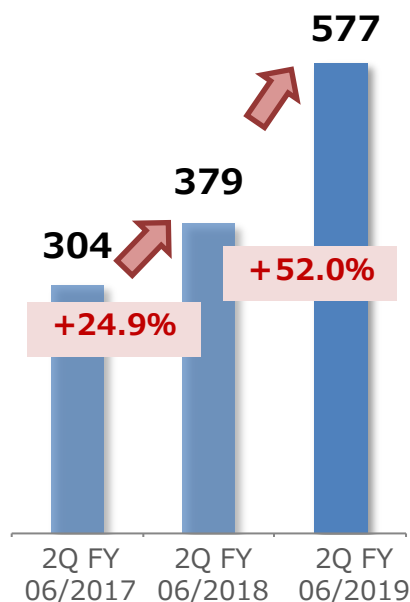
- We registered an increase in net sales and income and delivered the best 1H aggregate performance in the company's history.

(Unit: MM JPY)

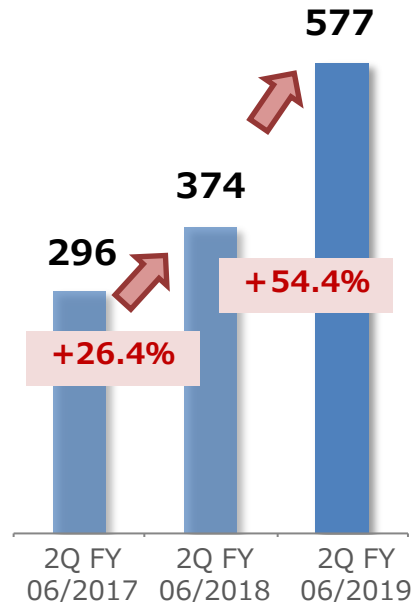
Net Sales



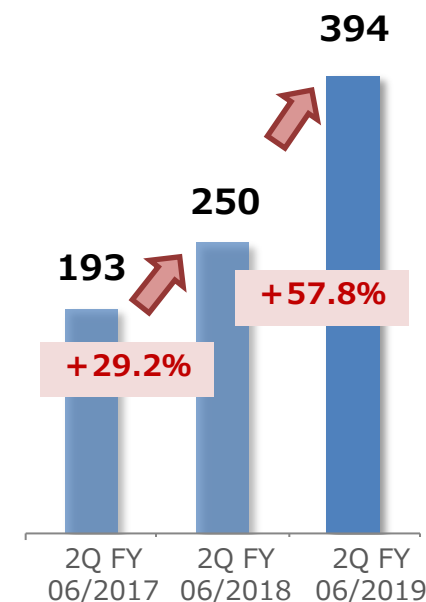
Operating Income



Ordinary Income



Net Income



2Q FY 06/2019 Consolidated Earnings Overview

- Net sales and all the various income metrics grew YoY, allowing us to beat guidance. Profitability was also up across the board.

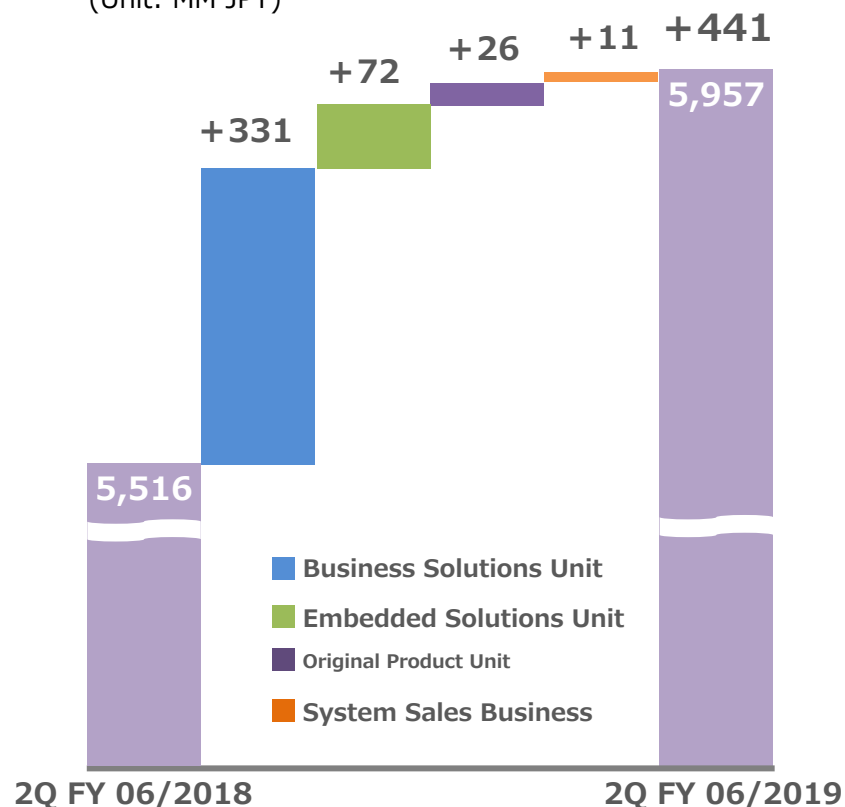
	2Q FY 06/2018		2Q FY 06/2019		FY 06/2019		Change (YoY)	Achievement Ratio
	Realized	Margin (%)	Realized	Margin (%)	Projected	Margin (%)	(%)	(%)
(Unit: MM JPY, %)								
Net Sales	5,516	(100.0)	5,957	(100.0)	11,904	(100.0)	+8.0	50.0
Gross Profit	1,261	(22.9)	1,464	(24.6)	—	—	+16.0	—
SG&A Expenses	882	(16.0)	887	(14.9)	—	—	+0.6	—
Operating Income	379	(6.9)	577	(9.7)	1,000	(8.4)	+52.0	57.7
Non-operating Income	5	(0.1)	2	(0.0)	—	—	△51.5	—
Non-operating Expenses	10	(0.2)	1	(0.0)	—	—	△84.1	—
Ordinary Income	374	(6.8)	577	(9.7)	997	(8.4)	+54.4	58.0
Extraordinary Income	—	—	—	—	—	—	—	—
Extraordinary Losses	—	—	—	—	—	—	—	—
Net Income Before Income Taxes (Quarterly)	374	(6.8)	577	(9.7)	—	—	+54.4	—
Net Income	250	(4.5)	394	(6.6)	666	(5.6)	+57.8	59.3

Factors affecting Net Sales and Operating Income (YoY)

- The Business Solutions Unit made a significant contribution to the metric of net sales and drove growth.
- An improvement in terms of gross profit made up for an increase in expenses associated with SG&A. Operating Income grew 52% YoY.

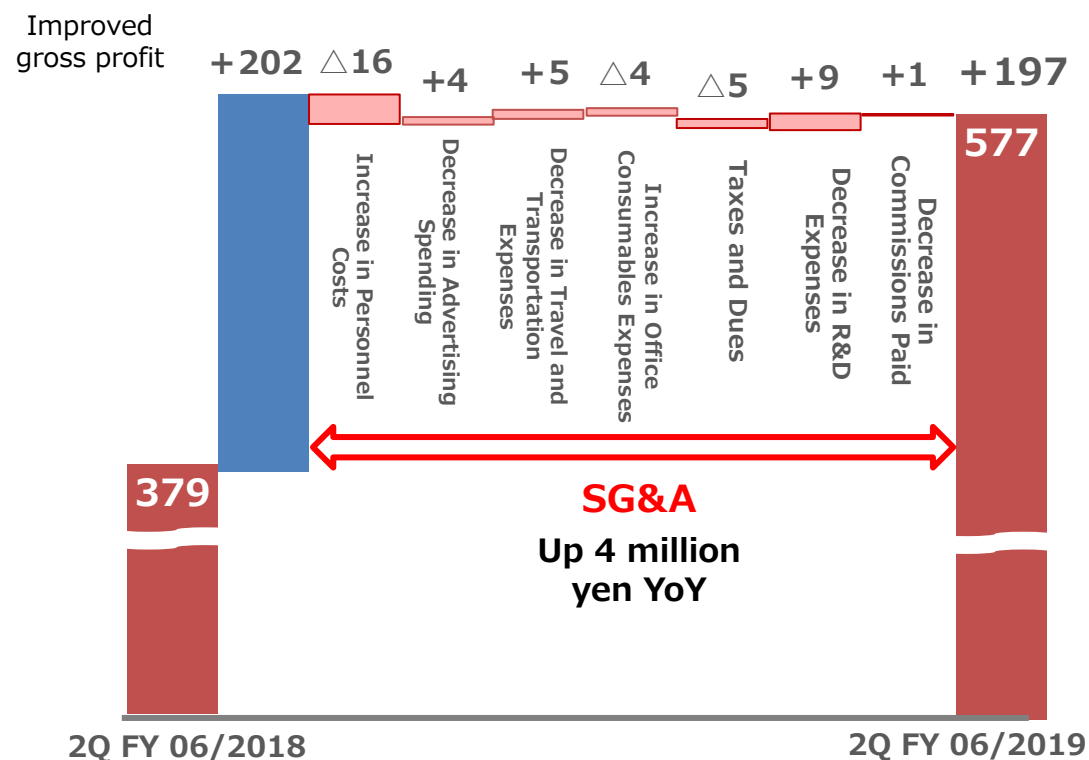
Net Sales

(Unit: MM JPY)



Operating Income

(Unit: MM JPY)

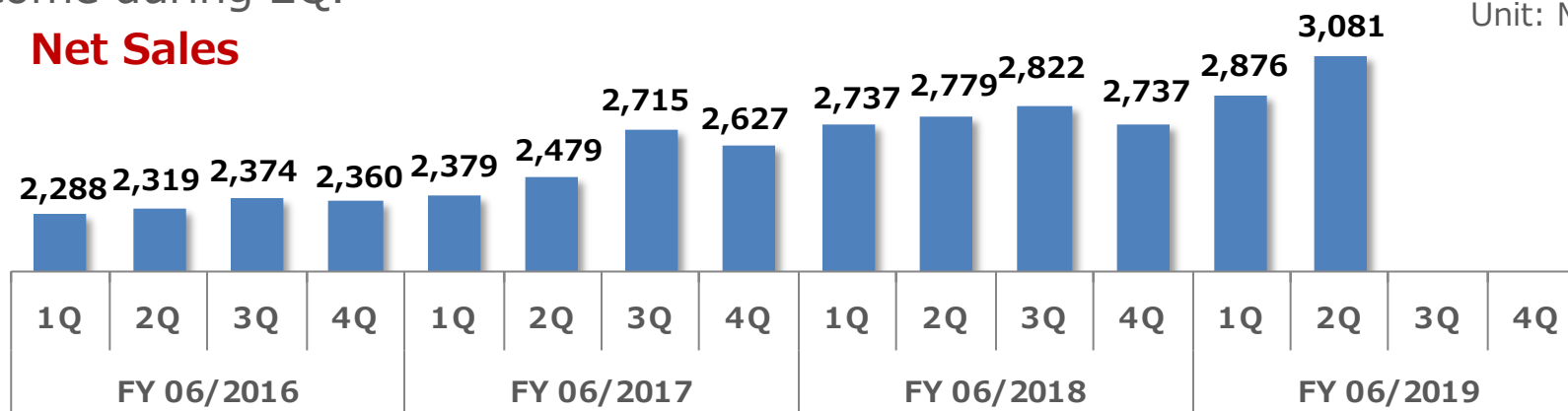


Quarterly Net Sales and Operating Income Trends

- Net Sales and operating income continue to grow YoY on a steady upward trend.
- We delivered our best performance for the metrics of net sales and operating income during 2Q.

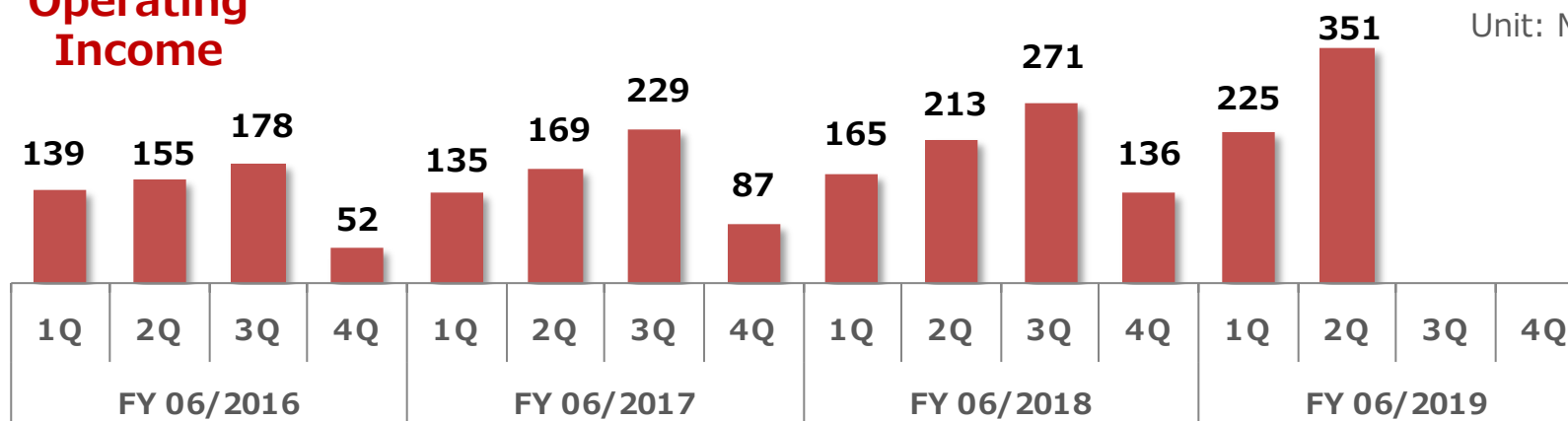
Net Sales

Unit: MM JPY



Operating Income

Unit: MM JPY



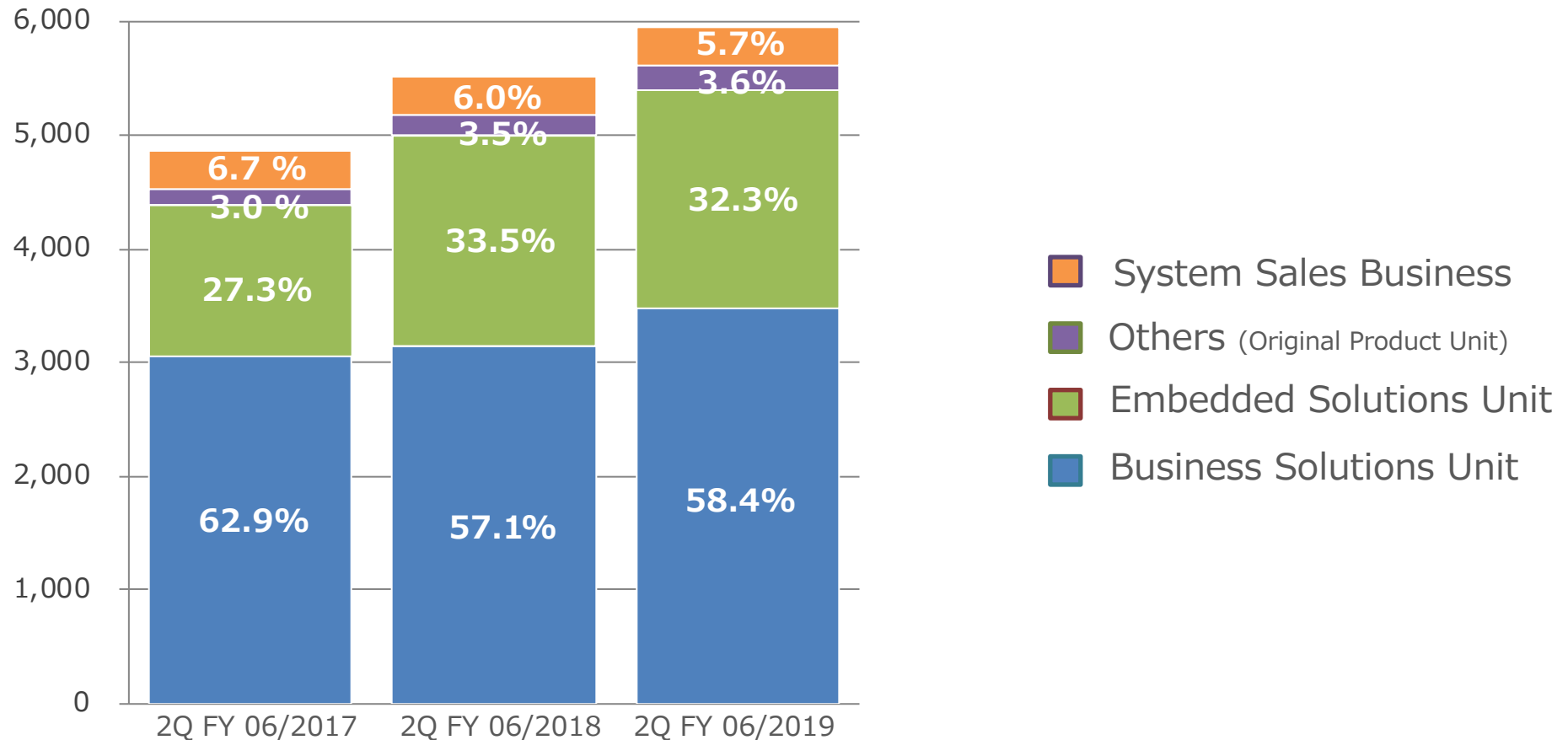
*Historically, 4Q has been affected by seasonality factors involving the hiring of new employees and the disbursement of year-end bonuses and benefits.

Segment		% of Sales (2Q FY 06/2019)	Business Area
Software Development Business	Business Solutions Unit	58.4%	Business Systems Development
			Operation Support
	Embedded Solutions Unit	32.3%	Embedded Product Development
			Embedded Product Verification
	Original Product Unit	3.6%	Original Product Development and Sales
System Sales Business		5.7%	System Sales Business

Net Sales composition by segment (%) - Trends

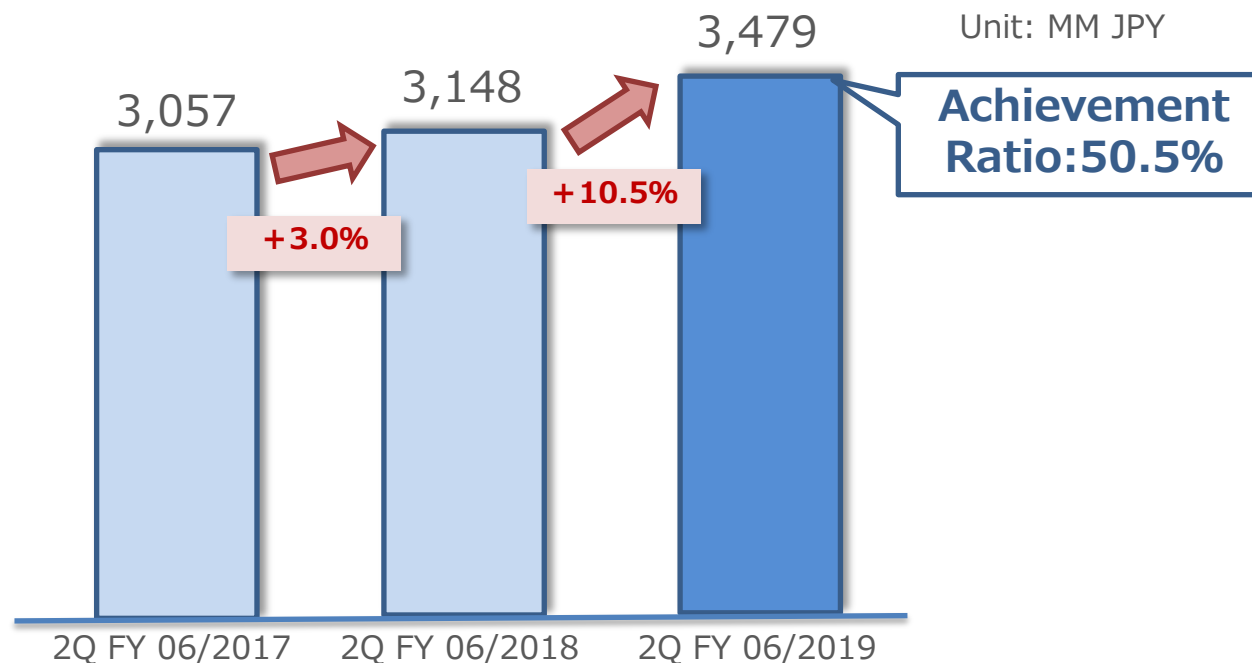
- The Business Solutions Unit showed growth during 2Q.
- The Original Product Unit (a growth segment) continued to grow its relative share amidst strong overall net sales.

(Unit: MM JPY)



Net Sales: 3.479 billion yen / YoY Growth: +10.5%

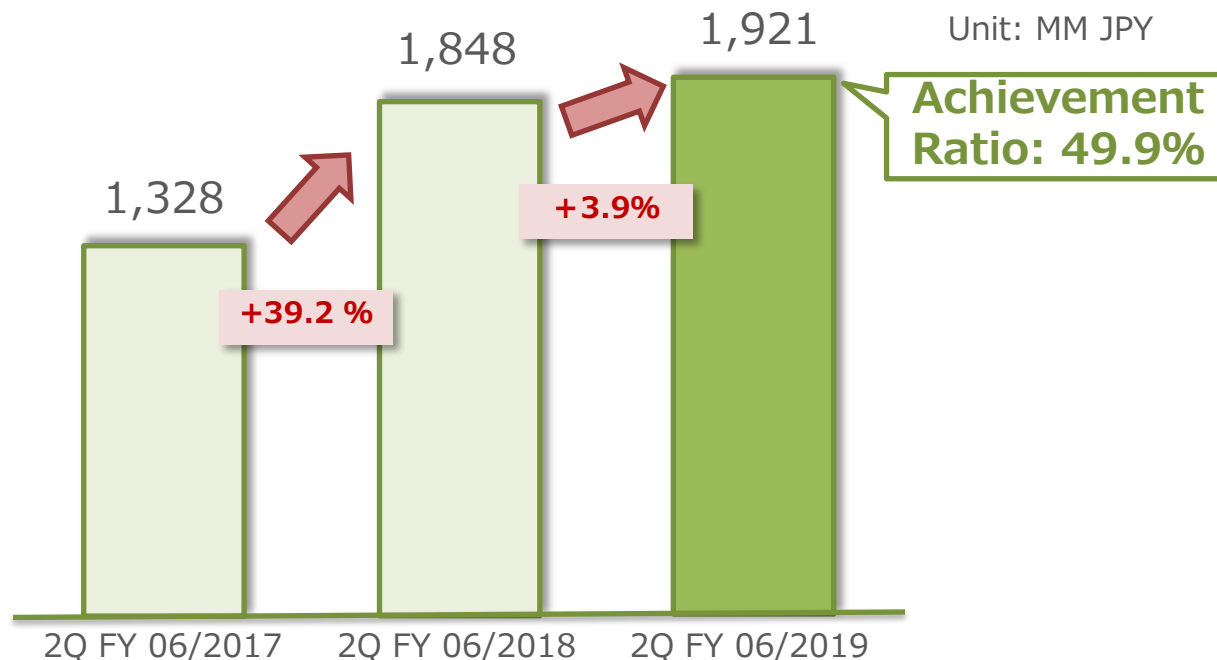
- Net sales associated with the development of enterprise systems for the financial industry grew at a healthy clip.
- The Operation Support business delivered robust results.
- We saw growth in system development geared toward areas related to distribution / logistics.



Net Sales: 1.921 billion yen / YoY Growth: +3.9%

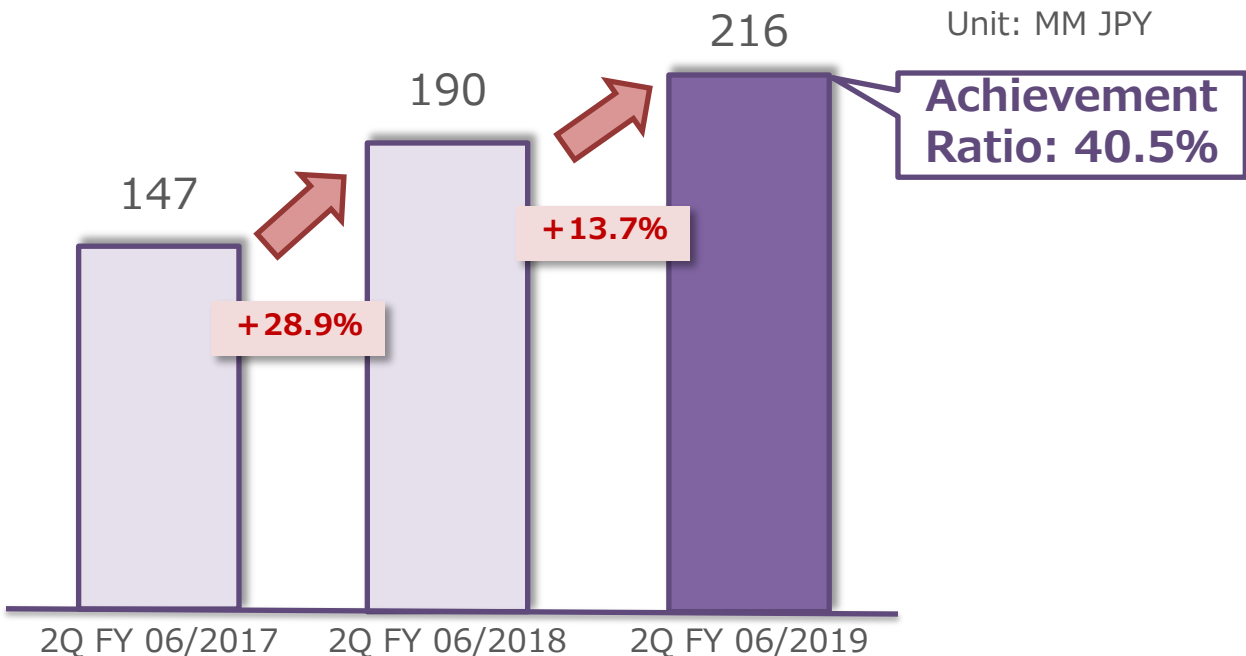
- Registered growth in net sales associated with increased demand for in-vehicle development solutions.

Within this category, we registered an increase in orders related to connected car technology.



Net Sales: 216 million yen / YoY Growth: +13.7%

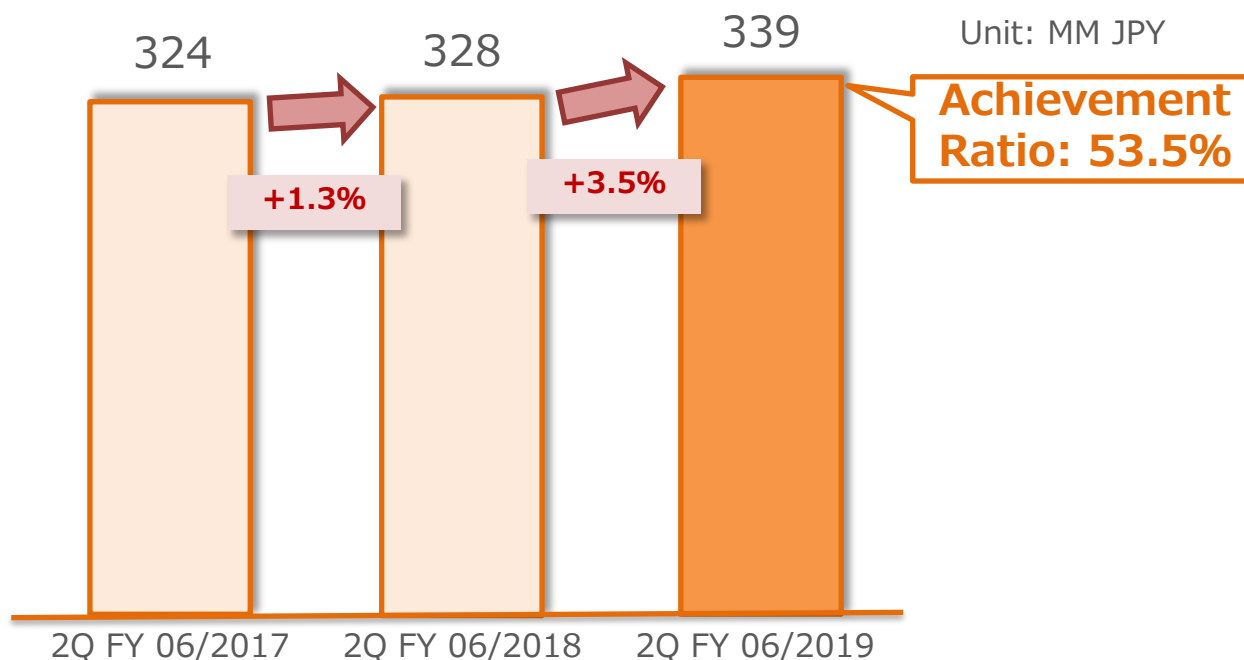
- (WebARGUS) Corporate awareness of the need to stop website tampering, combined with the release of added functionality, has led to the gradual adoption of WebARGUS by prominent corporations.
- (xoBlos) Product functionalities attuned to market needs and more widespread recognition as a helpful tool in the implementation of workstyle reforms has lead to increased demand.



Net Sales: 339 million yen / YoY Growth: +3.5%

- Demand from companies looking for solutions to deal with the transition to a new Imperial Calendar Era, as well as with the introduction of a variable VAT rate led to an increase in system transition / upgrade sales.
- The introduction by the METI of a subsidy encouraging the adoption of information technology infrastructure for SMEs also led to an increase in sales.

* The System Sales Business revolves mainly around the sale of the Raku Ichi hardware and software suite developed by the CASIO COMPUTER Corporation, and designed to provide enterprise and management support for SMEs.



Balance Sheet / Cash Flow Statement

- The company improved its capital-to-asset ratio to 67.8%, and continues to show a healthy balance sheet.
- Expenses associated with an increase in trade receivables lead to a contraction in operating CF, while the acquisition of investment securities led to a reduction in investment CF. Finally, financing CF was up due to a decrease in stock buybacks.

Balance Sheet

(Unit: MM JPY)	FY 06/2018	2Q FY06/2019	Change
Total Assets	4,083	4,306	+222
Current Assets	3,397	3,584	+187
Non-current Assets	685	721	+ 35
Liabilities	1,461	1,385	△76
Net Assets	2,621	2,921	+299
Capital-to-Asset Ratio	64.2%	67.8%	+3.6pt

Cash Flow

(Unit: MM JPY)	2Q FY 06/2018	2Q FY06/2019	Change
Operating CF	235	116	△118
Investment CF	△43	△50	△7
Financing CF	△285	△96	+189
Quarter-end balance of cash and cash equivalents	1,254	1,596	+342
Free CF	192	65	△126

*Free CF = Operating CF + Investment CF

■ Earnings

Increase in net sales and in income. Best earnings performance in the company's history, not just for 2Q alone, but also in terms of aggregate results for 1H.

■ Business Solutions Unit

Overall robust performance. Robust performance in the Business Systems Development business (financial sector) and the Operation Support business. Growth in systems development geared toward the distribution / logistics industry.

■ Embedded Solutions Unit

Healthy demand growth in the in-vehicle development field. Shift towards clients offering more favorable conditions which, in turn, led to higher profitability.

■ Original Product Unit

Robust growth for WebARGUS and xoBlos.

■ Dividend Policy

Full-year dividend for FY 06/2019 is forecast at 14 yen per share. Consolidated dividend payout ratio forecast at 32.3%, breaking the 30% barrier for the second FY in a row.

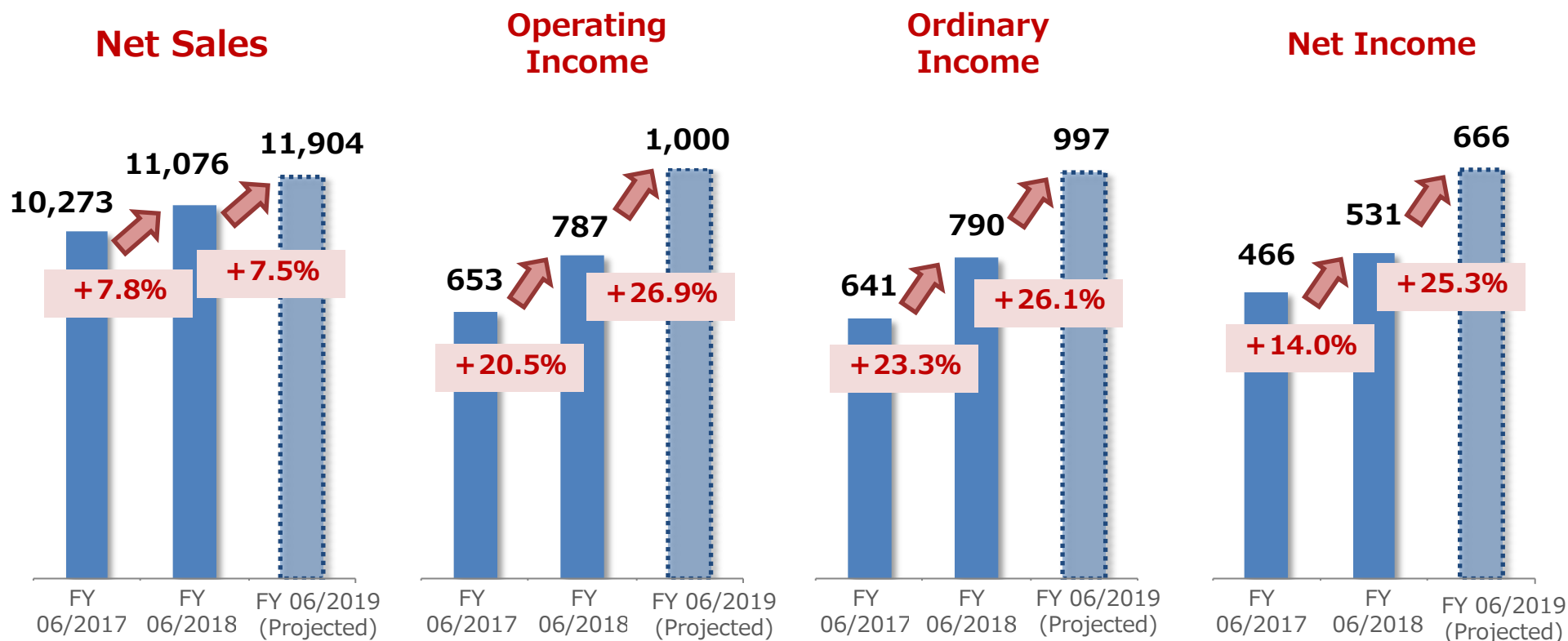
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Strategic Pillars	Results during 1H	Strategy for 2H
Establish a strong business foundation	<ul style="list-style-type: none"> ■ Delivered strong results during 1H, thanks to continued investment in IT infrastructure by financial companies, and the investment in infrastructure by players in the automotive field, etc. 	<ul style="list-style-type: none"> ■ Expand the scale of our client base in finance (one of our core areas of expertise) and in other areas like in-vehicle development.
	<ul style="list-style-type: none"> ■ Fostered infrastructure development for companies introducing original products developed at DIT and provided technical support after the fact. 	<ul style="list-style-type: none"> ■ Make inroads into new business by integrating our accumulated system integration and operational knowhow with original products developed at DIT.
Dedicate resources to promising growth sectors	<ul style="list-style-type: none"> ■ The relative share for in-vehicle telecommunication devices-related projects continued to grow. Within this category, we registered an increase in orders related to connected car technology. 	<ul style="list-style-type: none"> ■ Focus on peripheral areas related to the automotive industry (high growth potential), such as autonomous driving, in-vehicle telecommunication devices and road safety.
	<ul style="list-style-type: none"> ■ Saw an increase in orders related to the development of a cloud foundation, as well as IoT-related development projects involving electric and gas appliances, as well as in-vehicle devices, etc. 	<ul style="list-style-type: none"> ■ Apply our accumulated knowhow and technological expertise to the latest technologies (cloud tech, IoT, Fintech, etc)
Provide new value by expanding our original product development lineup	<ul style="list-style-type: none"> ■ Strengthened our approach toward large clients through the enterprise version of WebARGUS. Partnered up with distributors and sales agents to approach mid-sized clients. This led to an increase in the number of companies adopting our SaaS model, allowing us to build up recurring revenue. 	<ul style="list-style-type: none"> ■ Encourage large-scale clients to use our products / Expand our recurring revenue structure by working in cooperation with distributors / sales agents (*SaaS - Software as a service)
	<ul style="list-style-type: none"> ■ Released a security vulnerability scanner service in partnership with F-Secure (Finland). Co-hosted seminars, etc. 	<ul style="list-style-type: none"> ■ Re-brand our security products, with a special focus on WebARGUS, as DIT Security. Partner up with domestic and overseas security vendors to provide comprehensive security solutions to our clients.
	<ul style="list-style-type: none"> ■ Continued R&D towards the expansion of the range of applications for the IoT version of WebARGUS. 	<ul style="list-style-type: none"> ■ Commercialize an IoT version of WebARGUS.
	<ul style="list-style-type: none"> ■ Partnered up with vendors in the field of RPA and pro-actively participated in seminars and conventions. Registered increased interest from clients using RPA, as well as clients not using RPA. 	<ul style="list-style-type: none"> ■ Achieve integration with domestic/overseas RPA solutions in order to increase the value of our products. ■ Sales promotion through the collaboration with distributors and sales agents.

FY 06/2019 Consolidated Earnings Forecast

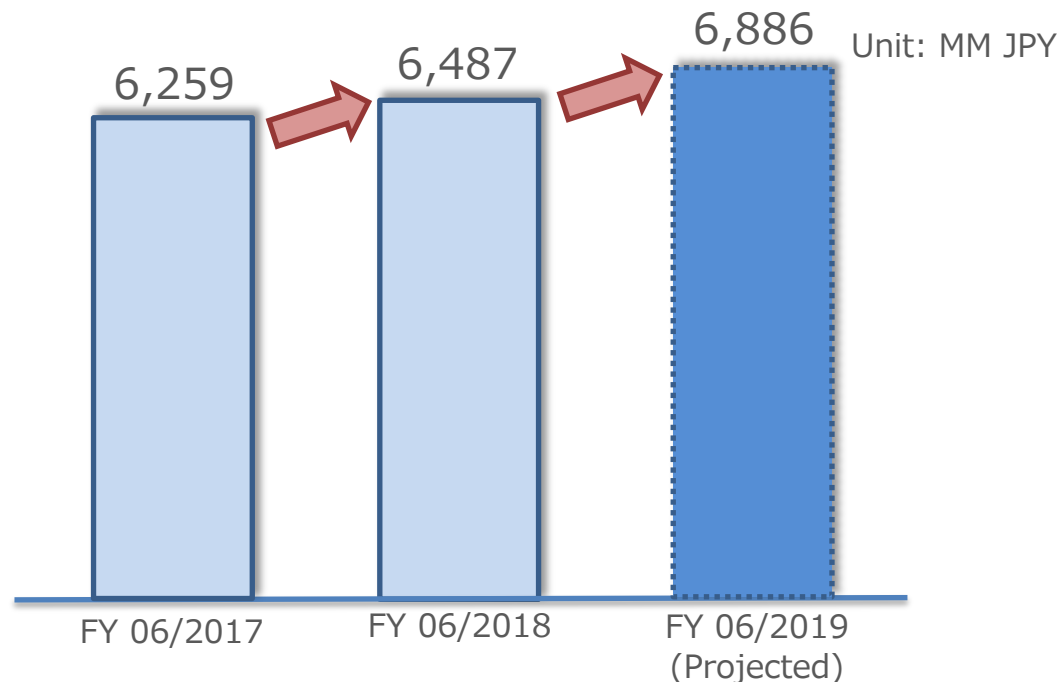
- We expect to meet our forecast made at the start of the current fiscal year, delivering the best net sales and operating income performance in the company's history, and grow both metrics for the ninth fiscal year in a row.

Unit: MM JPY



Net Sales: 6.886 billion yen / YoY Growth: +6.2%

- We expect a robust performance in terms of the development of enterprise systems for the financial industry.
- We expect the Operation Support business to deliver robust results.
- We expect growth in development projects related to medical and pharmaceutical solutions, as well as solutions related to social infrastructure.



Business Solutions Unit

Growth Strategies

Strategic Pillars

Future Initiatives - 1

Expansion of a solid business foundation

- Move deeper into the field of development of finance-related systems – one of our core specialties.
Increase the relative share of contracting projects in order to expand our presence in the field.
- Promote new cloud-based technologies by participating in more projects leveraging the creation of cloud and IoT infrastructure.
- Increase the relative share of end-users as well as information system subsidiaries of prominent corporations. We want to further accentuate the trend of direct contract acquisitions, and market our services as a one-stop shop to our clients.

Providing a total service experience

- Provide a total service experience by expanding integration projects involving original product solutions like xoBlos (which is also used as a disaster-prevention system) and provide development / infrastructure solutions around our original product lineup.

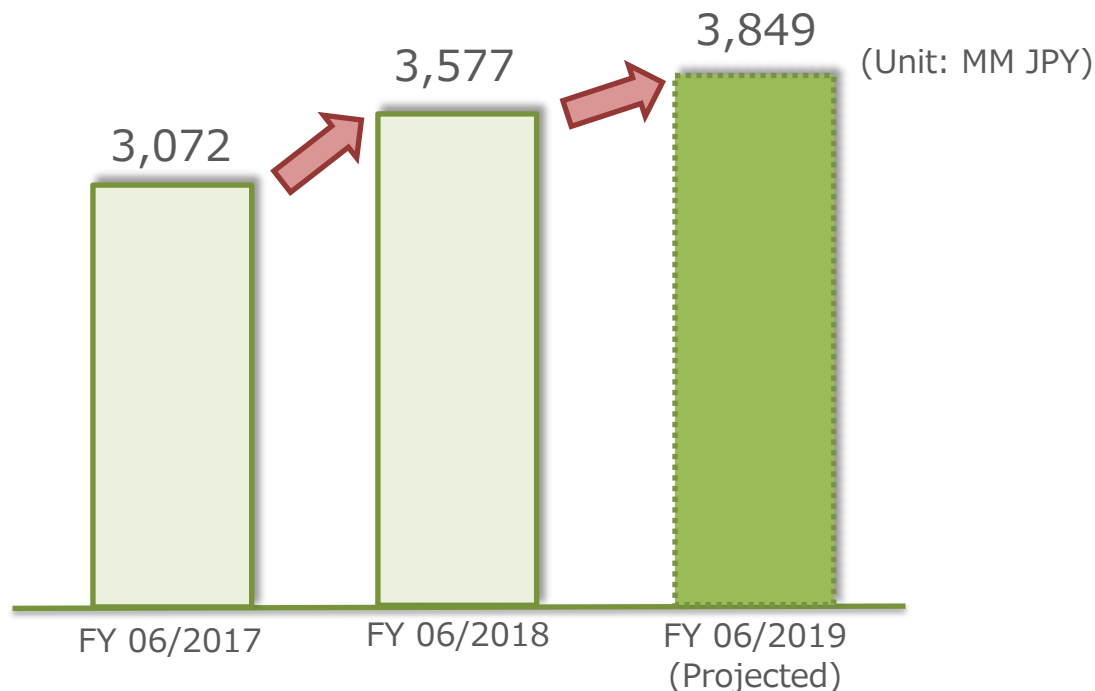
Leverage regional headquarters to expand our business

- Joint projects between our Kanto HQ and our Regional base of operations have expanded at a healthy clip. We want to further leverage this “high-performant near-shore development”* strategy.

*This “high-performant near-shore development” strategy is a development structure allowing for the cost-performant development of solutions by a group of highly-skilled developers at DIT’s regional base of operations.

Net Sales: 3.849 billion yen / YoY Growth: +7.6%

- We expect both the Embedded Product Development and Verification businesses to grow at a healthy clip, due to in-vehicle-related demand.
- We are seeing business demand around IoT, so we expect work projects in this area to increase going forward.
- We expect the embedded product development related to semiconductors to grow at a healthy clip.



Embedded Solutions Unit

Growth Strategies

Strategic Pillars

Future Initiatives

Allocating resources to in-vehicle-related development

- Orders from in-vehicle telecommunication device manufacturers have expanded at a healthy clip, leading to considerable growth in in-vehicle development. Going forward, we want to focus on automotive-related sectors with the potential for rapid growth (autonomous driving, in-vehicle telecommunication devices, security)

Expand the scope of our business as it pertains to semiconductors

- The number of security-related development projects from semiconductor manufacturers has increased. We want to further expand our business in terms of in-vehicle semiconductor solutions.

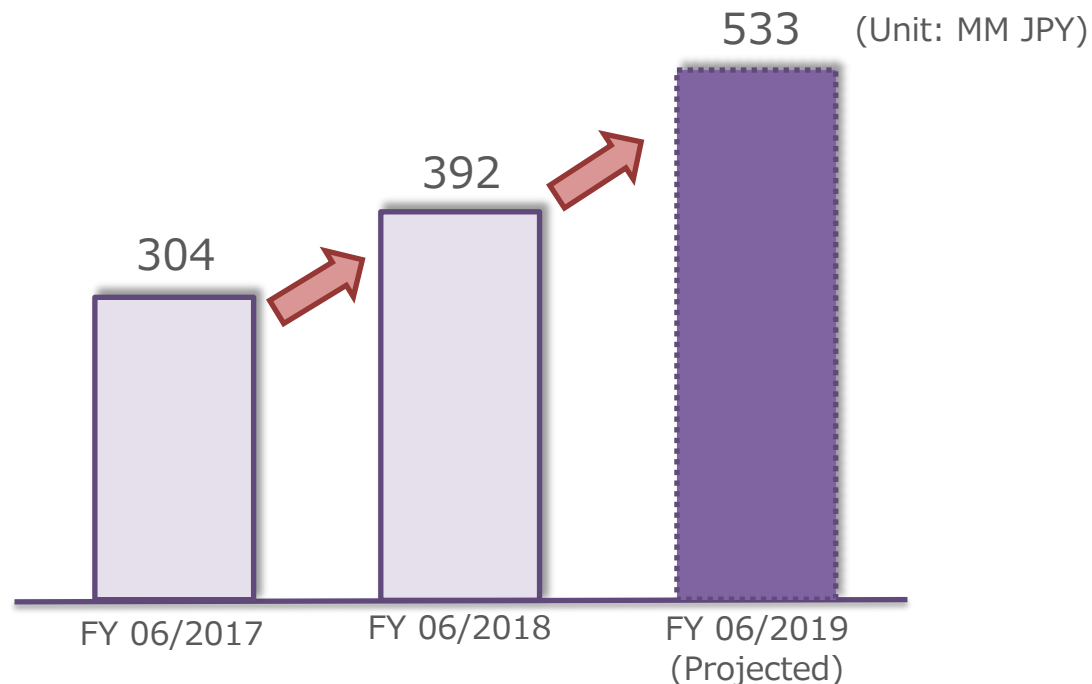
Enter new fields

- We hope to leverage our experience in the development of mobile and information appliances to create a new array of solutions focusing around IoT*. (e.g., the development of IoT telecommunications modules, etc.)

* IoT (Internet of Things) is a concept involving equipping a wide variety of things with network technology, allowing for the sending and receiving of data. This extends just beyond computers, and allows for the emergence of automatic identification and control processes, as well as remote measurement monitoring technology.

Net Sales: 533 million yen / YoY Growth: +36%

- We expect to see growth, thanks to an increase in demand for cyber-security solutions.
- We expect riding the trend toward workstyle reforms and reduced work hours will translate into earnings growth



Original Product Unit : WebARGUS



Growth Strategies

Strategic Pillars	Future Initiatives
Strengthening sales capability	• Brand-awareness for WebARGUS is on the rise, accompanied by the number of companies using the product. Going forward, we will take a pro-active approach toward increasing prospective clients, with special focus on large-scale users.
	• Offer a total security experience (Cooperate with high-quality security software products)
Improve product appeal	• Already provided extended functionality to the enterprise version of WebARGUS, reflecting client needs, and attract large-scale users.
	• Improve product appeal and sales effectiveness by diversifying our portfolio of security products, starting with WebARGUS Fortify*1
Expand Applicable Area	• Test WebARGUS on the ARM architecture*2 and foster negotiations with companies. Expand the use areas for the IoT version of WebARGUS with a focus on system resiliency.*3

*1 : WebARGUS Fortify is a next generation Web Application Firewall (WAF) replacing appliance-side WAF technology. It offers protection for website services without requiring technical knowledge on the part of the user, or the significant expenditure of funds.

*2 : ARM architecture refers to the proprietary processor design by UK company ARM Holdings. It is widely used in semiconductor chips geared toward low power consumption applications used in smart phones and in-vehicle devices, etc.

*3 : "Resiliency" in "System resiliency" refers to the concept of recoverability. WebARGUS instantaneous detects website tampering and restores the system to a safe, unaltered state.



Instantaneous tamper detection and restoration software

Legacy Prevention
Mechanisms

Prevention

New attack vectors
bypassing prevention
measures are on the rise



WebARGUS®

Detection

Restoration

Tamper Restoration in

Under 0.1s

As the last cyber-security line of defense, WebARGUS instantaneously detects website tampering and performs a full restore in under 0.1 seconds.

Point

- Original Product developed using DIT's own proprietary technology.
- Last line of defense when it comes to cyber-security.
- New "detection" and "tamper restoration" features introduced in accordance to revised METI Cyber-security Guidelines.

Original Product Unit: xOBlos



Growth Strategies

Strategic Pillars

Future Initiatives

Strengthening sales capability

- The aggregate number of companies using xOBlos stands at over 350. As more prominent companies continue adopting our services, we want to double down on a sales promotion strategy targeting large-scale users.

Improve product appeal

- Negotiations continue to progress regarding the offering of budget performance management solutions – a product for which there is considerable demand. Going forward, we are preparing the launch of a series of new solutions.
- We plan to expand sales by offering functionality allowing for the seamless integration with RPA products. This will allow us to capture demand from companies hoping to improve productivity and implement workstyle reforms.

Expand Applicable Area

- We have achieved a certain level of recognition as an open innovation platform, allowing for integration with third-party products / services. We want to use this opportunity to drive forward new service solutions allowing for linkage with AI and other various types of services.
- Add data from a different vantage point to RPA, ERP and other systems, and drive forward the xOBlos Plus One Framework, which increases the value of data.

Excel Innovation Point

Save time/costs by automating Excel® tasks

- Create automated task algorithms without programming experience.
- Gives control over Microsoft Excel® operations, thanks to a permission control system for each process and according to the role of each employee within the organization.

Used by
350+
companies

xoBlos Plus One Framework



Oversees enterprise operations & performs Data Management
xoBlos Controller

+ Organic Integration

Performs data processing tasks
xoBlos Client

**RPA, Accounting software
package integration**

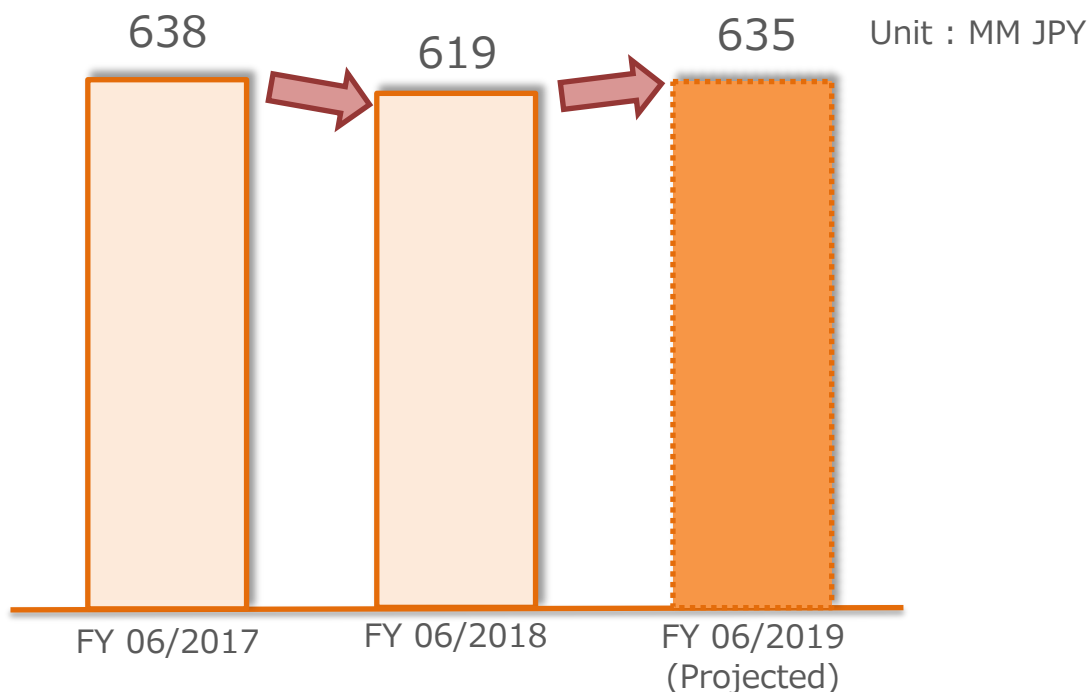
*Excel is a registered trademark of the Microsoft Corporation headquartered the United States. Excel is a registered trademark in the United States and in other regions.

Net Sales: 635 million yen / YoY Growth: +2.5%

■ New / Replacement sales for Raku Ichi

■ Network devices / Other system infrastructure products

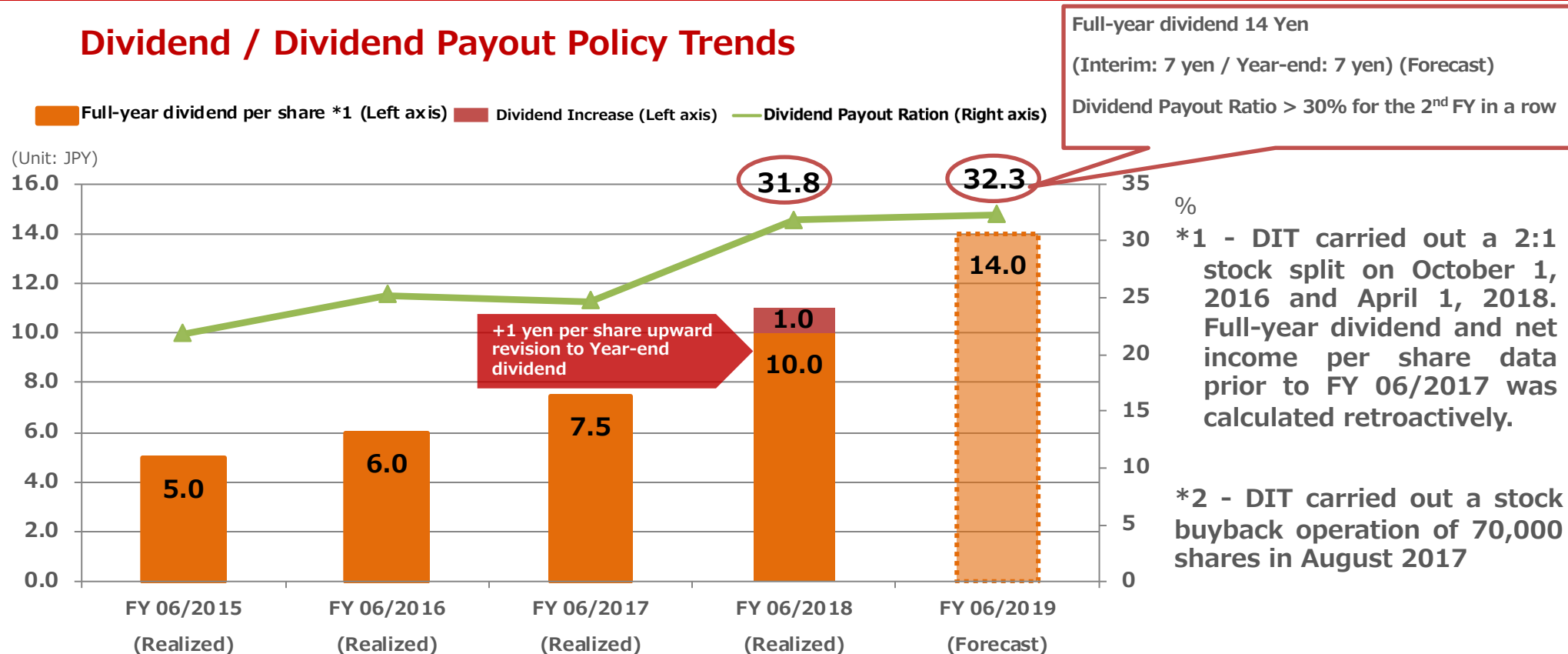
We forecast growth YoY through a sales promotion initiative



System Sales Business

Growth Strategies	
Strategic Pillars	Future Initiatives
Expand net sales from existing clients	<ul style="list-style-type: none">• Clients updating from the stand alone version of Raku Ichi to the server version led to a recovery in replacement sales. Going forward, we want to expand the scope of our upgrade / upselling sales strategy.• Strengthen sales through product diversification in the form of the xoBlos Raku Ichi Integration Package (Sales Management + Integration with xoBlos) and others.• Capture system update demand from companies looking for system solutions to deal with the transition to the new Imperial Calendar Era, as well as the introduction of a variable VAT rate.
Expand net sales through the acquisition of new clients	<ul style="list-style-type: none">• We have registered an increase in new clients, due to the sale of system products to SMEs. Going forward, we want to strengthen our sales efforts for xoBlos and target medium-to-large-sized companies.
© We intend to leverage Toyo Infonet, a sales subsidiary of DIT, to further energize the sale of original products developed at DIT.	

Dividend / Dividend Payout Policy Trends

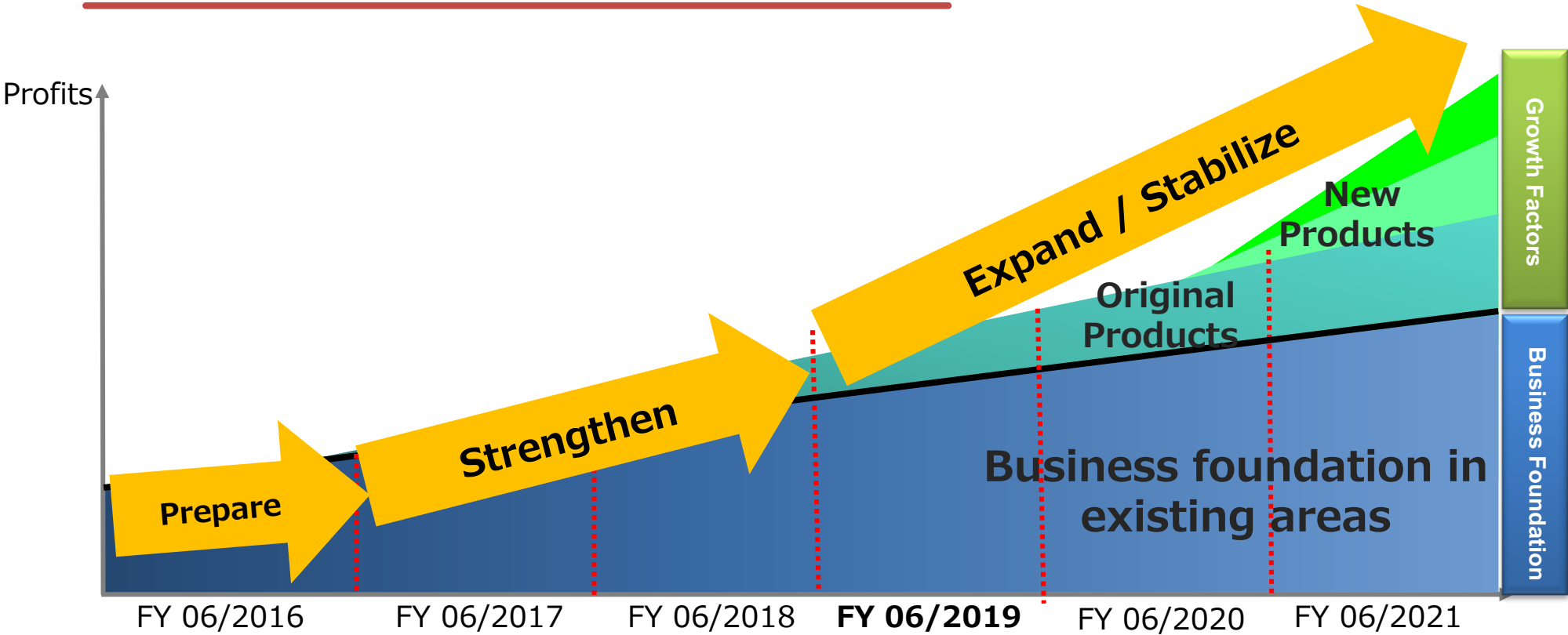


	FY 06/2015 (Realized)	FY 06/2016 (Realized)	FY 06/2017 (Realized)	FY 06/2018 (Realized)	FY 06/2019 (Forecast)
Full-year dividend per share *1 (JPY)	5.0	6.0	7.5	11.0	14.0
Net Income per share *1 (JPY)	22.93	23.80	30.34	34.57	43.37
Dividend Payout Ratio (%)	21.8	25.2	24.7	31.8	32.3
Stock Buyback Amount*2 (MM JPY)	—	—	—	136.6	
Dividends + Share Buybacks (%)	21.8	25.2	24.7	57.5	

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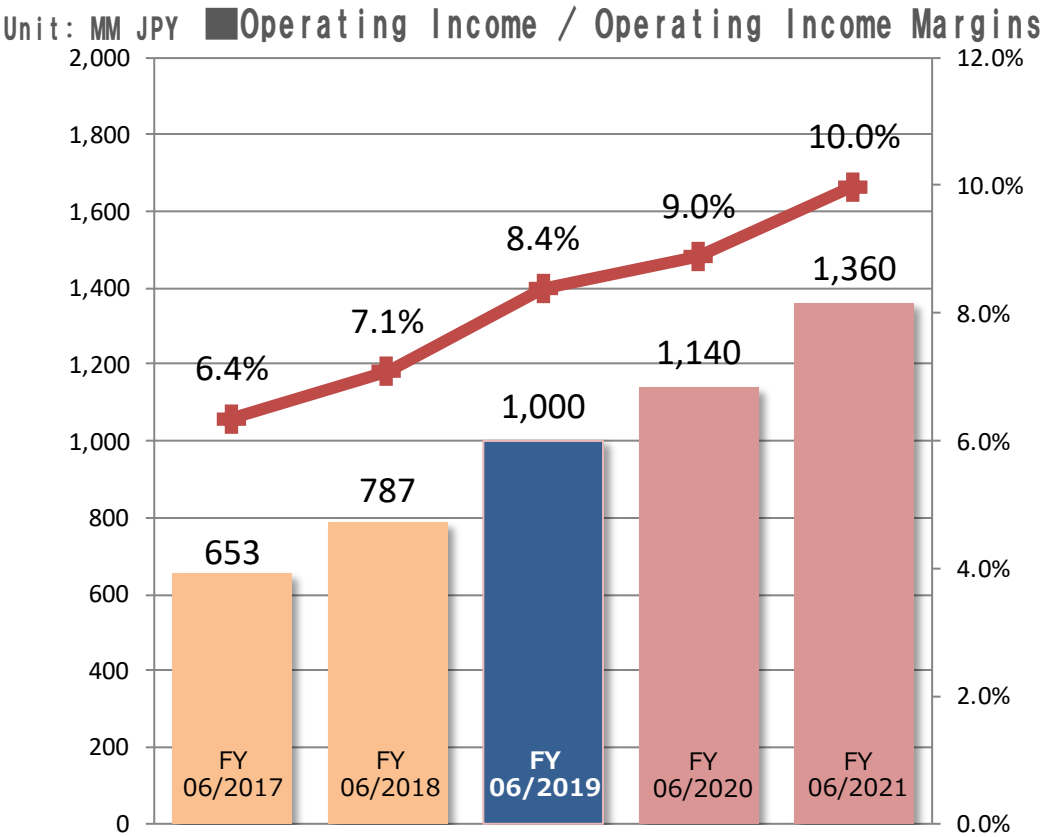
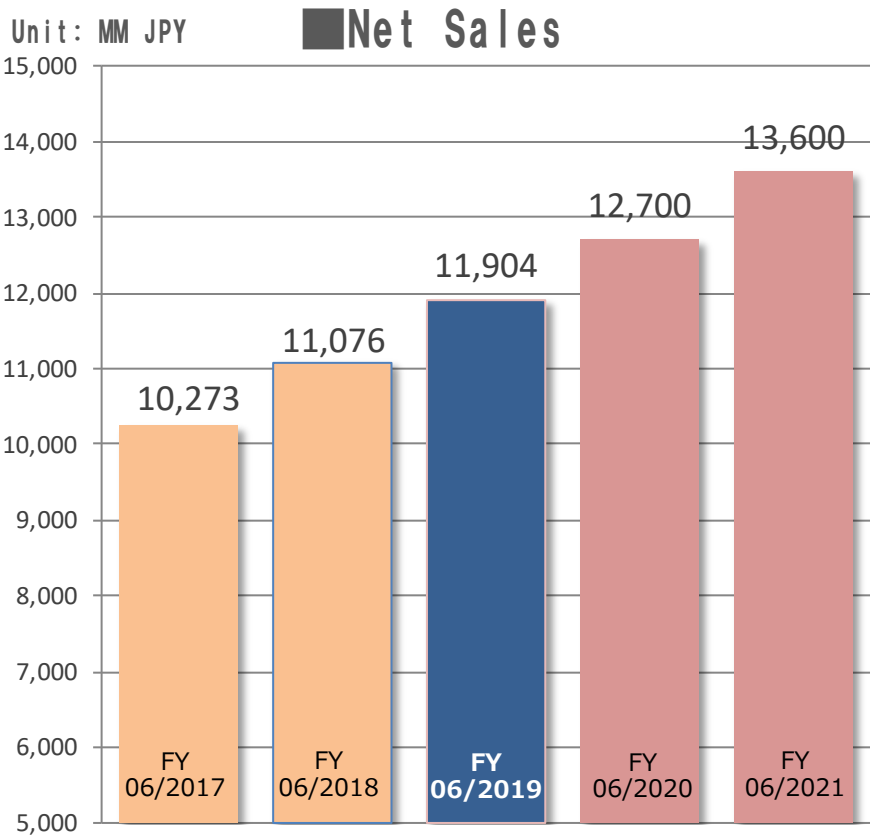
Two-Pronged Business Strategy	Business Foundation	Generate stable earnings in a wide variety of business areas.
	Growth Factors	Providing new value w/ original products at the core

Profit Structure Towards Growth (Diagram)

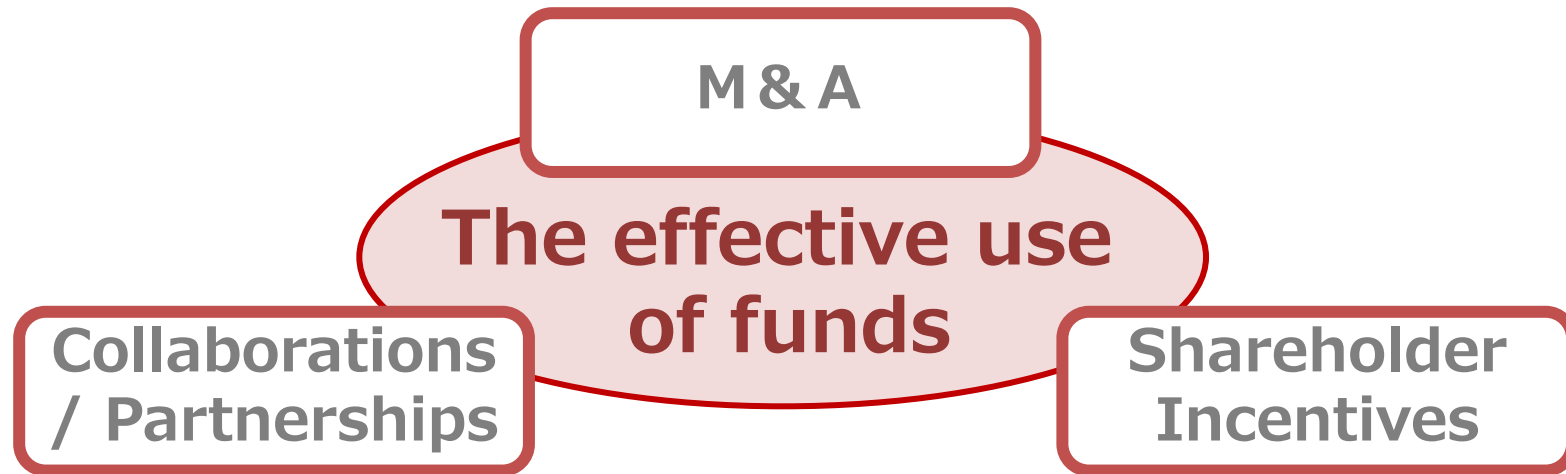


MTP - Consolidated Net Sales / Operating Income Summary

MTP Target Reach our “Triple 10” target in 4 years	Net Sales	10 billion yen (FY 06/2017) . . . Reached!
	Operating Income	1 billion yen (FY 06/2019)
	Operating Income Margins	10% (FY 06/2021)



We plan to use our accumulated capital in order to further increase DIT's corporate value



- M&A: Consider the acquisition – at reasonable valuations – of companies within the scope of the Business Solutions and Embedded Solutions businesses, amidst labor shortages in our existing businesses.
- Collaborations / Partnerships: projects with companies in product and business areas allowing us to unlock synergies.
- Shareholder Incentives : Reach a balance between steadily increasing the dividend payout ratio and large-scale growth investments (such as IoT-related security products).



Digital Information Technologies Corporation

Please direct your inquiries to the following number and e-mail address

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