

Summary of Business Results for the Three Months Ended September 30, 2020 [Japan GAAP] (Consolidated)

November 9, 2020

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Expected date of filing of quarterly report: November 13, 2020
 Expected starting date of dividend payment: -
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: None

(Rounded down to million yen)

1. Consolidated business results for the three months ended September 30, 2020 (July 1, 2020 through September 30, 2020)

(1) Consolidated results of operations (% represents the change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
For the three months ended September 30, 2020	3,430	4.8	407	15.1	407	14.6	279	13.4
September 30, 2019	3,273	13.8	353	56.9	355	57.7	246	62.3

(Note) Comprehensive income

Three months ended September 30, 2020: 277 million yen (6.6%)

Three months ended September 30, 2019: 260 million yen (68.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
For the three months ended September 30, 2020	18.33	-
September 30, 2019	16.17	-

(Note) Diluted net income per share is not presented because there are no dilutive shares.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2020	5,225	3,768	72.1
June 30, 2020	5,364	3,660	68.2

(Reference) Shareholders' equity

As of September 30, 2020: 3,768 million yen

As of June 30, 2020: 3,660 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
For the fiscal year ended June 30, 2020	-	9.00	-	11.00	20.00
ending June 30, 2021	-	-	-	-	-
ending June 30, 2021 (forecast)	-	10.00	-	10.00	20.00

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending June 30, 2021 (July 1, 2020 through June 30, 2021)

(% represents the change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	Yen
For the fiscal year ending June 30, 2021	13,580	0.6	1,358	0.4	1,358	0.0	942	-3.7
								61.81

(Note) Revisions to business forecast for the current quarter: None

The impact of the new coronavirus (COVID-19) infectious on the Company's performance is limited, and the Company will inform changes to the business forecast as necessary.

※Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None
- (2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: None
- (3) Changes in accounting policies, accounting estimates and restatement
- | | |
|---|--------|
| ①Changes in accounting policies associated with revision of accounting standards: | : None |
| ②Changes in accounting policies other than ① | : None |
| ③Changes in accounting estimates | : None |
| ④Restatement | : None |
- (4) Shares outstanding (common stock)
- ①Number of shares outstanding at the end of period (treasury stock included)
- | | |
|--------------------------|-------------------|
| As of September 30, 2020 | 15,501,820 shares |
| As of June 30, 2020 | 15,501,820 shares |
- ②Treasury stock at the end of period
- | | |
|--------------------------|----------------|
| As of September 30, 2020 | 253,459 shares |
| As of June 30, 2020 | 253,459 shares |
- ③Average number of stock during period (quarterly cumulative period)
- | | |
|---------------------------------------|-------------------|
| Three months ended September 30, 2020 | 15,248,361 shares |
| Three months ended September 30, 2019 | 15,248,386 shares |

(Note) The number of treasury stock to be deducted from the calculation of the number of treasury stock at the end of the period and the number of treasury stock during the period includes the Company's shares held by Asset Management Services Trust Bank, Ltd. (Trust E-Account) as trust assets under the Employees' Benefit Trust (J-ESOP) Plan. Asset Management Services Trust Bank, Ltd. merged with JTC Holdings, Ltd. and Japan Trustee Services Bank, Ltd. on July 27, 2020, and changed its trade name to Custody Bank of Japan, Ltd.

***Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms.**

***Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the company deems to be reasonable at the time this report was prepared. The Company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors.

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1. Qualitative Information Regarding Consolidated Quarterly Business Results

(1) Explanation of Business Results

During the subject first quarter cumulative period (July 1, 2020 to September 30, 2020), the business environment improved from the situation in the previous quarter as domestic economic activity resumed with the lifting of the State of Emergency declaration issued following the spread of COVID-19. However, the spread of infection continued mainly in Europe and the United States, and the economic outlook remained uncertain due to concerns about the re-spread of infection in Japan.

On the other hand, in the information service industry to which we belong, IT investment by domestic companies continued to expand, although there were differences among industries, due to factors such as responses to environmental changes associated with COVID-19 such as increased demand for telework and the promotion of Digital Transformation (DX) following the announcement of the establishment of the Japan Digital Agency.

For our group as well, the full-fledged progress in new fields such as Artificial Intelligence (AI), Internet of Things (IoT), and Robotic Process Automation (RPA, the automation and efficiency enhancement of tasks using software robots) have led to increased opportunities to enter new businesses and the expansion of business scope.

Also, as a result of a series of data breaches, computer virus infection and other cybersecurity incidents, there has been a further increasing trend toward strengthening security countermeasures for information systems overall, as well as further increased interest in working-style reforms due to rising demand for telework, 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 (Strengthen and stabilize business foundation 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 FY6/21, the final year of the current medium-term management plan, DIT will continue to promote our business in line with the two business policies: “stabilize the business foundation” and “strengthen growth factors.” With respect to Triple 10(*), which is a medium-term management target by 6/21, we achieved the target of operating profit margin of 10% one year ahead of schedule in FY6/20. However, we will continue to focus on profit margin.

*Triple 10

- Net sales of 10.0 billion yen in FY6/17 (already achieved)
- Operating income of 1.0 billion yen in FY6/19 (already achieved)
- Operating profit margin of 10% in FY6/21 (already achieved in FY6/20)

Among these efforts, the software development business has shown further growth in "Renovation" after the software development business has compensated the decline in the system sales business due to the drop in special demand such as the response to the reduced tax rate following the consumption tax hike in the previous year.

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.

The operating profit margin improved 1.1 percentage points to 11.9%, reflecting efforts to cut costs under the COVID-19 crisis.

As a result, net sales in the subject first quarter cumulative period amounted to 3,430,836 thousand yen (up 4.8% year on year), with operating income of 407,233 thousand yen (up 15.1%), ordinary income of 407,405 thousand yen (up 14.6%), and net income attributable to owners of parent of 279,531 thousand yen (up 13.4%).

(*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 protect 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. (Excel® is a registered trademark in the U.S. And other countries by the U.S. Microsoft Corporation)

Results by segment are as follows.

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

① Software Development Business

In the business solutions unit (business system development and operation support), orders continued to be favorable, mainly from existing customers. In business system development, in addition to the strong performance of the mainstay financial system, the acquisition of projects centered on ERP-related, pharmaceutical and public systems progressed, showing steady sales growth and steady improvement in profits. In operational support, the impact of COVID-19 was relatively small, and we made steady progress in expanding transactions, mainly with existing customers, and both sales and profits grew significantly.

In the embedded solutions business field (embedded system development and embedded system verification), we steadily implemented measures on the assumption that the strategically shifted automobile-related sales will decrease due to the impact of COVID-19, and it was almost the same as the previous year. In embedded systems development, sales of automotive systems decreased slightly, but sales of semiconductor and communication systems grew, and sales were at the same level as last year, while profits increased slightly. In embedded system verification, the decline in sales of automotive and medical systems was covered by mobile systems, but both sales and profits did not reach the previous year levels.

In the in-house product business, we were able to achieve higher results than the previous year, although there are still restrictions on business negotiations due to the impact of COVID-19. In the cyber security business, both sales and profits grew steadily, as evidenced by the full-scale operation of WebARGUS by large-scale customers. The Company also strengthened its product capabilities by expanding the total security service lineup with WebARGUS as its core, including collaboration with an external cyber security specialist (F-Secure Corporation and SSH Communications Security in Finland). In the business efficiency improvement business, we strengthened the sales system of xoBlos, which was integrated with our subsidiary DIT Marketing Service Co., Ltd., and showed steady growth in both sales and profits. In addition, DIT focused on the xoBlos Plus One concept, which takes specific data from systems such as robotic process automation (RPA) and enterprise resource planning (ERP), and adds data from different perspectives via xoBlos to enhance data value. These efforts increased the product capability.

As a new initiative, we announced in mid-September that we will provide an outsourcing type of electronic contract service from October in order to respond to the new normal society under the COVID-19 crisis. This is an outsourced service, DD-CONNECT, in which the Company and DAIKO DENSHI TSUSHIN, LTD. will provide DD-CONNECT on behalf of its customers, from the introduction to operation and maintenance of NS Solutions Corporation's electronic contract cloud "CONTRACTHUB @ absonne".

As a result, net sales in the Software Development segment amounted to 3,283,321 thousand yen (up 7.9% year on year), with segment income (operating income) of 399,712 thousand yen (up 31.6%).

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. Both sales and segment profit decreased significantly year-on-year due to the impact of the special demand in the previous year to respond to the reduced tax rate following the consumption tax hike, although we have made efforts to promote sales through the use of IT introduction subsidies

As a result, net sales in the System Sales segment amounted to 150,631 thousand yen (down 35.7% year on year), with segment income (operating income) of 7,506 thousand yen (down 85.0%).

(2) Explanation of Financial Position

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

① Current Assets

Current assets amounted to 4,465,789 thousand yen at the end of the first quarter, a decrease of 124,280 thousand yen compared to the end of the previous fiscal year. This was due mainly to decreases of 166,029 thousand yen in cash and deposits; and 25,822 thousand yen in notes and accounts receivable-trade; against increases of 32,176 thousand yen in merchandise, and 42,129 thousand yen in "other."

② Noncurrent Assets

Noncurrent assets amounted to 759,339 thousand yen at the end of the first quarter, a decrease of 14,685 thousand yen compared to the end of the previous fiscal year. This was due mainly to decreases of 4,072 thousand yen in property, plant and equipment, 2,006 thousand yen in intangible fixed assets, and 8,606 million yen in investments and other assets.

③ Current Liabilities

Current liabilities amounted to 1,383,269 thousand yen at the end of the first quarter, a decrease of 251,631 thousand yen compared to the end of the previous fiscal year. This was due mainly to increase of 150,371 thousand yen in provision for bonuses; against decreases of 168,343 thousand yen in income taxes payable; and 267,535 thousand yen in “other.”

④ Noncurrent Liabilities

Noncurrent liabilities amounted to 72,874 thousand yen at the end of the first quarter, an increase of 3,957 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 6,967 thousand yen in provision for share based remuneration; against a decrease of 3,149 thousand yen in “other.”

⑤ Net Assets

Net assets amounted to 3,768,984 thousand yen at the end of the first quarter, an increase of 108,708 thousand yen compared to the end of the previous fiscal year. This was due mainly to an increase of 110,559 thousand yen in retained earnings.

(3) Explanation of Results Forecasts and Other Future Predictions

No revisions have been made to the full-year consolidated business forecast announced on August 11, 2020.

The impact of COVID-19 infection on the financial results will be limited, and we will disclose changes in the financial forecast as necessary.

2. Consolidated Quarterly Financial Statements and Main Notes

(1) Consolidated Quarterly Balance Sheets

(Thousand yen)

	FY6/20 (June 30, 2020)	1Q FY6/21 (September 30, 2020)
ASSETS		
Current assets		
Cash and deposits	2,399,757	2,233,728
Notes and accounts receivable-trade	1,905,443	1,879,621
Merchandise	14,129	46,305
Work in process	208,600	201,826
Other	62,278	104,407
Allowance for doubtful accounts	-139	-99
Total current assets	4,590,069	4,465,789
Noncurrent assets		
Property, plant and equipment	120,701	116,628
Intangible assets	23,194	21,187
Investments and other assets		
Other	663,077	654,445
Allowance for doubtful accounts	-32,947	-32,922
Total investments and other assets	630,130	621,523
Total noncurrent assets	774,025	759,339
Total assets	5,364,095	5,225,129
LIABILITIES		
Current liabilities		
Accounts payable-trade	417,573	454,267
Income taxes payable	329,088	160,745
Provision for bonuses	-	150,371
Provision for loss on order received	2,833	15
Other	885,406	617,870
Total current liabilities	1,634,901	1,383,269
Noncurrent liabilities		
Net defined benefit liability	6,462	6,602
Provision for share based remuneration	37,160	44,127
Other	25,294	22,144
Total noncurrent liabilities	68,916	72,874
Total liabilities	1,703,818	1,456,144
Net assets		
Shareholders' equity		
Capital	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	3,075,676	3,186,235
Treasury stock	-347,125	-347,125
Total shareholders' equity	3,640,920	3,751,479
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,350	16,154
Foreign currency translation adjustments	2,005	1,350
Total accumulated other comprehensive income	19,356	17,505
Total net assets	3,660,276	3,768,984
Total liabilities and net assets	5,364,095	5,225,129

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

(Thousand yen)

	1Q FY6/20 (July 1, 2019 to September 30, 2019)	1Q FY6/21 (July 1, 2020 to September 30, 2020)
Net sales	3,273,845	3,430,836
Cost of sales	2,448,190	2,615,414
Gross profit	825,654	815,422
Selling, general and administrative expenses	471,987	408,188
Operating Income	353,667	407,233
Non-operating income		
Interest income	115	91
Dividends income	50	78
Commission fee	968	920
Subsidy income	200	-
Insurance premiums refunded cancellation	942	676
Gain on forfeiture of unclaimed dividends	364	694
Other	54	24
Total non-operating revenues	2,695	2,486
Non-operating expenses		
Interest expenses	157	117
Loss on insurance cancellation	-	1,343
Exchange loss	699	853
Total non-operating expenses	856	2,315
Ordinary income	355,507	407,405
Income before income taxes and others	355,507	407,405
Income taxes - current	120,137	136,759
Income taxes-deferred	-11,164	-8,886
Total income tax	108,973	127,873
Net income per share Diluted net income per share	246,534	279,531
Net income attributable to owners of parent	246,534	279,531

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

(Thousand yen)

	1Q FY6/20 (July 1, 2019 to September 30, 2019)	1Q FY6/21 (July 1, 2020 to September 30, 2020)
Net income	246,534	279,531
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,896	-1,195
Foreign currency translation adjustments	61	-655
Total other comprehensive income	13,957	-1,851
Comprehensive income	260,491	277,680
(Breakdown)		
Comprehensive income attributable to owners of parent	260,491	277,680

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Additional information)

(Accounting Estimates for the Impact of Expansion of COVID-19)

There have been no material changes in the assumptions and accounting estimates, including the containment of the effects of COVID-19, described in the securities report for the previous fiscal year.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Segment Information

I 1Q FY6/20 (July 1, 2019 to September 30, 2019)

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

(Thousand 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	3,041,673	232,171	3,273,845	-	3,273,845
Intrasegment net sales and transfers	60	2,118	2,178	-2,178	-
Total	3,041,733	234,290	3,276,024	-2,178	3,273,845
Segment income	303,755	49,906	353,662	5	353,667

(Notes) 1. Adjustment to segment income of 5 thousand yen is mainly intersegment eliminations.

2. Segment income is adjusted with operating income in the consolidated quarterly statements of income.

II 1Q FY6/21 (July 1, 2020 to September 30, 2020)

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

(Thousand 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	3,283,308	147,528	3,430,836	-	3,430,836
Intrasegment net sales and transfers	13	3,102	3,116	-3,116	-
Total	3,283,321	150,631	3,433,952	-3,116	3,430,836
Segment income	399,712	7,506	407,218	15	407,233

(Notes) 1. Adjustment to segment income of 15 thousand yen is mainly intersegment eliminations.

2. Segment income is adjusted with operating income in the consolidated quarterly statements of income.