

Summary of Business Results for the Six Months Ended December 31, 2020 [Japan GAAP] (Consolidated)

February 10, 2021

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Expected starting date of dividend payment: March 10, 2021

Preparation of quarterly supplementary financial document: Yes

Quarterly results briefing: Yes (for institutional investors and analysts)

(Rounded down to million yen)

1. Consolidated business results for the six months ended December 31, 2020 (July 1, 2020 through December 31, 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 six months ended								
December 31, 2020	7,065	7.6	912	24.5	912	23.9	628	23.3
December 31, 2019	6,567	10.2	732	27.0	736	27.4	509	29.1

(Note) Comprehensive income

Six months ended December 31, 2020: 614 million yen (9.1%)

Six months ended December 31, 2019: 563 million yen (43.9%)

	Net income per share	Diluted net income per share
For the six months ended	Yen	Yen
December 31, 2020	41.20	-
December 31, 2019	33.42	-

(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
As of	Million yen	Million yen	%
December 31, 2020	5,792	4,106	70.9
June 30, 2020	5,364	3,660	68.2

(Reference) Shareholders' equity

As of December 31, 2020: 4,106 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
For the fiscal year ended June 30, 2020	Yen	Yen	Yen	Yen	Yen
ended June 30, 2020	-	9.00	-	11.00	20.00
ending June 30, 2021	-	10.00	-	-	-
ending June 30, 2021 (forecast)	-	-	-	12.00	22.00

(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	14,300	5.9	1,600	18.3	1,600	17.9	1,088	11.2	71.35

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

※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 December 31, 2020 | 15,501,820 shares |
| As of June 30, 2020 | 15,501,820 shares |
| ②Treasury stock at the end of period | |
| As of December 31, 2020 | 253,459 shares |
| As of June 30, 2020 | 253,459 shares |
| ③Average number of stock during period (quarterly cumulative period) | |
| Six months ended December 31, 2020 | 15,248,361 shares |
| Six months ended December 31, 2019 | 15,248,385 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 first half of the current fiscal year (July 1, 2020 to December 31, 2020), the business environment remained uncertain due to COVID-19 both in Japan and overseas. In Japan, although there was a temporary improvement in economy through the government's economic stimulus measures, the rapid increase in the number of infected people led to a widespread impact in many industries. Overseas, stock prices have risen, particularly in high-tech stocks, but the situation remained severe as the infection spread worldwide.

In the information service industry, to which our company belongs, it has become difficult to avoid the impact of the infection, although the degree of impact varies depending on the business portfolio including customer composition and other aspects. In addition, as teleworking trend and other environmental changes have progressed, more efficient way of working is essential

However, even in this environment, IT investment by domestic companies continued to grow due to system renewal, cloud computing, and the progress of DX (Digital Transformation), which had been promoted even before the COVID-19 crisis, although it varied depending on the industry

For our group as well, the progress in 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.

Under the COVID-19 crisis, the need for strengthening measures for cyber security and improving the efficiency of working styles further increased, and this provided a tailwind for our group, which has effective solutions for these issues.

Under such conditions, under the following five business strategies as its medium-term management plan, we have 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 promote our business with focusing on 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.

During the six months ended December 31, 2020, operating income margin rose 1.8 percentage points to 12.9%, as improvement in profits were larger than the YoY level thanks to growth in gross profit and a reduction in selling, general and administrative expenses.

As a result, net sales in the subject second quarter cumulative period amounted to 7,065,964 thousand yen (up 7.6% year on year), with operating income of 912,278 thousand yen (up 24.5%), ordinary income of 912,271 thousand yen (up 23.9%), and net income attributable to owners of parent of 628,291 thousand yen (up 23.3%).

(*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 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), the review of the business portfolio, that we have been promoting, has been successful, and orders from existing customers have continued to grow steadily even under the COVID-19 crisis. 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 addition, especially in the Kansai region, we were able to start transactions with multiple leading companies, laying the groundwork for expanding our business scale. In operational support, the impact of COVID-19 was relatively small due to the large number of essential operations, and we were able to steadily respond to the needs of system infrastructure construction, etc., and expand the scale of our operations not only for existing major customers but also for new customers that we have developed over the past one or two years. As a result, both sales and profits grew significantly.

In the embedded solutions business field (embedded system development and embedded system verification), sales and profits increased year on year as a result of the steady implementation of countermeasures for the COVID-19 impact on the automotive sector, which had been strategically shifted to this field. In embedded systems development, sales and profits both increased due to growth in semiconductor and communication systems, as well as the expansion of IoT services for home appliances, although sales of in-vehicle systems grew only slightly. In embedded system verification, sales and profits remained at the same level as the previous year, although the decline in automotive systems was covered by mobile-related orders.

In both the Business Solutions and Embedded Solutions businesses, a large portion of work was done via telework. However, we were able to keep the impact of such environmental changes, which we were initially concerned about, within the range that does not affect the business.

In the in-house product business, we were able to achieve higher results than the previous year, although there were 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. We 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 started offering 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 special note, our executive officer has been appointed as a certified evangelist by the Japan RPA Association.

As a result, net sales in the Software Development segment amounted to 6,747,511 thousand yen (up 9.6% year on year), with segment income (operating income) of 879,864 thousand yen (up 33.5%).

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 325,950 thousand yen (down 22.3% year on year), with segment income (operating income) of 32,384 thousand yen (down 56.2%).

(2) Explanation of Financial Position

① 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.

① Current Assets

Net assets amounted to 5,053,986 thousand yen at the end of the second quarter, an increase of 463,916 thousand yen compared to the end of the previous fiscal year. This was mainly due to increases of 367,898 thousand yen in cash and deposits and 97,532 thousand yen in notes and accounts receivable-trade, and a decrease of 59,217 thousand yen in work in process.

② Noncurrent Assets

Noncurrent assets amounted to 738,653 thousand yen at the end of the second quarter, a decrease of 35,372 thousand yen compared to the end of the previous fiscal year. This was due mainly to decreases of 8,047 thousand yen in property, plant and equipment, 3,960 thousand yen in intangible fixed assets, and 23,364 million yen in investments and other assets.

③ Current Liabilities

Current liabilities amounted to 1,609,867 thousand yen at the end of the second quarter, a decrease of 25,033 thousand yen compared to the end of the previous fiscal year. This was due mainly to increases of 23,066 thousand yen in accounts payable-trade, and 93,563 thousand yen in provision for bonuses, against decreases of 6,003 thousand yen in income taxes payable, and 132,826 thousand yen in "other."

④ Noncurrent Liabilities

Noncurrent liabilities amounted to 76,684 thousand yen at the end of the second quarter, an increase of 7,767 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 13,935 thousand yen in provision for share based remuneration, and a decrease of 6,339 thousand yen in "other."

⑤ Net Assets

Net assets amounted to 4,106,087 thousand yen at the end of the second quarter, an increase of 445,810 thousand yen compared to the end of the previous fiscal year. This was due mainly to an increase of 459,319 thousand yen in retained earnings, and a decrease of 11,860 thousand yen in valuation difference on available-for-sale securities.

② Cash Flows

Cash and cash equivalents at the end of the second quarter increased 366,658 thousand yen from the end of the previous fiscal year to 2,760,127 thousand yen.

The factors contributing the changes in cash flows during the six months of the current fiscal year are as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to 531,094 thousand yen (310,803 thousand yen provided by the same quarter of the previous year). This was attributable to the recording of income before income taxes and others of 912,271 thousand yen, proceeds from an increase in provision for bonuses of 93,563 thousand yen, expenditures for an increase in notes and accounts receivable of 97,532 thousand yen, proceeds from a decrease in inventories of 44,958 thousand yen, expenditures for a decrease in accounts payable and accrued expenses of 102,178 thousand yen, and expenditures for income taxes paid of 287,157 thousand yen.

(Cash Flows from Investing Activities)

Net cash provided by investing activities amounted to 12,412 thousand yen (64,031 thousand yen used in the same period of the previous fiscal year), mainly due to payments for accumulation of insurance reserves of 2,344 thousand yen and proceeds from cancellation of insurance reserves of 15,711 thousand yen.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to 175,194 thousand yen (144,080 thousand yen used in the same period of the previous fiscal year), due to repayment of lease obligations of 6,022 thousand yen and cash dividends paid of 169,171 thousand yen.

(3) Explanation of Results Forecasts and Other Future Predictions

We have revised the consolidated full-year business forecasts on January 26, 2021. For details, please refer to the "Notice of Revisions to Business Forecasts and Dividend Forecasts" announced on the same day.

2. Consolidated Quarterly Financial Statements and Main Notes

(1) Consolidated Quarterly Balance Sheets

(Thousand yen)

	FY6/20 (June 30, 2020)	2Q FY6/21 (December 31, 2020)
ASSETS		
Current assets		
Cash and deposits	2,399,757	2,767,656
Notes and accounts receivable - trade	1,905,443	2,002,976
Merchandise	14,129	28,394
Work in process	208,600	149,382
Other, net	62,278	105,727
Allowance for doubtful accounts	-139	-150
Total current assets	4,590,069	5,053,986
Noncurrent assets		
Property, plant and equipment	120,701	112,653
Intangible assets	23,194	19,234
Investments and other assets		
Other, net	663,077	639,583
Allowance for doubtful accounts	-32,947	-32,817
Total investments and other assets	630,130	606,765
Total noncurrent assets	774,025	738,653
Total assets	5,364,095	5,792,639
LIABILITIES		
Current liabilities		
Accounts payable - trade	417,573	440,640
Income taxes payable	329,088	323,084
Provision for bonuses	-	93,563
Provision for loss on order received	2,833	-
Other, net	885,406	752,579
Total current liabilities	1,634,901	1,609,867
Noncurrent liabilities		
Net defined benefit liability	6,462	6,634
Provision for share based remuneration	37,160	51,095
Other, net	25,294	18,955
Total noncurrent liabilities	68,916	76,684
Total liabilities	1,703,818	1,686,552
NET ASSETS		
Shareholders' equity		
Capital	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	3,075,676	3,534,995
Treasury stock	-347,125	-347,125
Total shareholders' equity	3,640,920	4,100,239
Accumulated other comprehensive income		
Valuation difference on available- for-sale securities	17,350	5,489
Foreign currency translation adjustments	2,005	358
Total accumulated other comprehensive income	19,356	5,848
Total net assets	3,660,276	4,106,087
Total liabilities and net assets	5,364,095	5,792,639

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

(Thousand yen)

	2Q FY6/20 (July 1, 2019 to December 31, 2019)	2Q FY6/21 (July 1, 2020 to December 31, 2020)
Net sales	6,567,474	7,065,964
Cost of Sales	4,905,065	5,307,238
Gross profit	1,662,409	1,758,726
Selling, general and administrative expenses	929,599	846,447
Operating Income	732,809	912,278
Non-operating income		
Interest income	193	170
Dividend income	115	159
Commission fee	1,879	1,786
Subsidy income	200	312
Insurance premiums refunded cancellation	1,586	679
Gain on forfeiture of unclaimed dividends	364	694
Other, net	796	134
Total non-operating income	5,136	3,936
Non-operating expenses		
Interest expenses	304	224
Loss on insurance cancellation	-	1,343
Foreign exchange losses	1,586	1,529
Other, net	-	845
Total non-operating expenses	1,891	3,943
Ordinary Income	736,055	912,271
Net income before income taxes	736,055	912,271
Income taxes - current	235,210	289,084
Income taxes - deferred	-8,713	-5,104
Total income taxes	226,496	283,980
Net income	509,558	628,291
Profit attributable to owners of parent	509,558	628,291

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

(Thousand yen)

	2Q FY6/20 (July 1, 2019 to December 31, 2019)	2Q FY6/21 (July 1, 2020 to December 31, 2020)
Net income	509,558	628,291
Accumulated other comprehensive income		
Valuation difference on available- for-sale securities	53,472	-11,860
Foreign currency translation adjustments	333	-1,647
Total other comprehensive income	53,806	-13,508
Comprehensive income	563,364	614,783
(Breakdown)		
Comprehensive income attributable to owners of the parent	563,364	614,783

(3) Consolidated Statements of Cash Flows

(Thousand yen)

	2Q FY6/20 (July 1, 2019 to December 31, 2019)	2Q FY6/21 (July 1, 2020 to December 31, 2020)
Cash Flows from Operating Activities		
Net income before income taxes	736,055	912,271
Depreciation	14,201	14,982
Increase (decrease) in allowance for doubtful accounts	5	-119
Increase (decrease) in provision for loss on order received	76	-2,833
Increase (decrease) in provision for bonuses	89,155	93,563
Increase (decrease) in net defined benefit liability	60	171
Increase (decrease) in provision for share based remuneration	13,935	13,935
Interest and dividends income	-309	-330
Interest expenses	304	224
Decrease (increase) in notes and accounts receivable-trade	6,340	-97,532
Decrease (increase) in inventories	-80,736	44,958
Increase (decrease) in notes and accounts payable - trade	19,922	23,066
Increase (decrease) in accounts payable - other and accrued expenses	-152,221	-102,178
Increase (decrease) in long-term accounts payable - other	-63,089	-
Decrease (increase) in other assets	-30,829	-44,402
Increase (decrease) in other liabilities	-80,417	-38,337
Insurance income	-479	-
Other, net	-1,603	705
Subtotal	470,370	818,146
Interest and dividends income received	309	330
Interest expenses paid	-304	-224
Proceeds from insurance income	479	-
Income taxes paid	-160,051	-287,157
Cash Flows from Operating Activities	310,803	531,094
Cash Flows from Investing Activities		
Purchases of investment securities	-50,357	-435
Purchases of property, plant and equipment	-2,203	-628
Purchases of intangible assets	-14,343	-
Collection of loans receivable	50	129
Purchase of insurance funds	-2,766	-2,344
Proceeds from cancellation of insurance funds	3,451	15,711
Payments for lease and guarantee deposits	-	-20
Proceeds from collection of lease and guarantee deposits	2,138	-
Cash Flows from Investing Activities	-64,031	12,412
Net cash provided by (used in) financing activities		
Repayments of lease obligations	-5,989	-6,022
Purchase of treasury stock	-84	-
Cash dividends paid	-138,007	-169,171
Net cash provided by (used in) financing activities	-144,080	-175,194
Effect of exchange rate change on cash and cash equivalents	340	-1,654
Net increase (decrease) in cash and cash equivalents	103,031	366,658
Cash and cash equivalents at beginning of period	1,834,712	2,393,468
Cash and cash equivalents at end of period	1,937,744	2,760,127

(4) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding Going Concern Assumptions)

Not applicable.

(Notes Regarding Substantial Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

Segment Information

I 2Q FY6/20 (July 1, 2019 to December 31, 2019)

1. 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					
Sales to outside customers	6,153,038	414,435	6,567,474	-	6,567,474
Intrasegment sales and transfers	3,488	4,926	8,414	-8,414	-
Total	6,156,527	419,362	6,575,889	-8,414	6,567,474
Segment income	659,011	73,948	732,960	-150	732,809

Note: 1. Adjustment to segment income of -150 thousand yen is mainly intersegment eliminations.

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

II 2Q FY6/21 (July 1, 2020 to December 31, 2020)

1. 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					
Sales to outside customers	6,746,444	319,519	7,065,964	-	7,065,964
Intrasegment sales and transfers	1,067	6,430	7,497	-7,497	-
Total	6,747,511	325,950	7,073,461	-7,497	7,065,964
Segment income	879,864	32,384	912,248	30	912,278

Note: 1. Adjustment to segment income of 30 thousand yen is mainly intersegment eliminations.

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