

Summary of Business Results for the Third Quarter Ended March 31, 2021 [Japan GAAP] (Consolidated)

May 14, 2021

Company **Digital Information Technologies Corporation** Listed on the TSE
 Stock Code 3916 URL: <https://www.ditgroup.jp/>
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 Expected date of filing of quarterly report: May 14, 2021
 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 nine months ended March 31, 2021 (July 1, 2020 through March 31, 2021)

(1) Consolidated results of operations

(% 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 nine months ended								
March 31, 2020	10,837	6.1	1,492	25.9	1,496	25.8	1,035	25.6
March 31, 2019	10,209	11.6	1,185	24.2	1,189	23.7	824	24.6

(Note) Comprehensive income

Nine months ended March 31, 2021: 1,029 million yen (24.1 %)

Nine months ended March 31, 2020: 829 million yen (25.7 %)

	Net income per share	Diluted net income per share
For the nine months ended	Yen	Yen
March 31, 2020	67.93	-
March 31, 2019	54.07	-

(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	%
March 31, 2021	6,143	4,367	71.1
June 30, 2020	5,364	3,660	68.2

(Reference) Shareholders' equity

As of March 31, 2021: 4,367 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
ending June 30, 2021	-	9.00	-	11.00	20.00
ending June 30, 2021 (forecast)	-	10.00	-	14.00	24.00

(Note) Revisions to dividend forecast for the current quarter: Yes

3. Forecast of consolidated business results for the fiscal year ending June 30, 2021

(July 1, 2020 through June 30, 2021)

(% change from the previous corresponding period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
For the fiscal year ending June 30, 2021	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	14,300	5.9	1,600	24.2	1,680	23.7	1,142	16.7	74.92

(Note) Revisions to business forecast for the current quarter: Yes

*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

① Changes in accounting policies associated with revision of accounting standards: : None

② Changes in accounting policies other than ① : None

③ Changes in accounting estimates : None

④ Restatement : None

(4) Shares outstanding (common stock)

① Number of shares outstanding at the end of period (treasury stock included)

As of March 31, 2021 15,501,820 shares

As of June 30, 2020 15,501,820 shares

② Treasury stock at the end of period

As of March 31, 2021 253,459 shares

As of June 30, 2020 253,459 shares

③ Average number of stock during period (quarterly cumulative period)

Nine months ended March 31, 2021 15,248,361 shares

Nine months ended March 31, 2020 15,248,380 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 quarterly auditing 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 third quarter cumulative period (July 1, 2020 to March 31, 2021), the business environment remained severe 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 spread of the third wave of COVID-19 led to the declaration of a State of Emergency once again and the spread of damage in many industries. Overseas, while there were signs of recovery in economic activity in developed countries, where vaccinations started earlier, the overall outlook remained uncertain, with many countries still experiencing a spread of infections, such as new variant of COVID-19.

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 working environment has been changing such as many companies introducing remote work and other factors, more efficient way of working is required.

Even in this environment, IT investment by domestic companies continued to grow, although it varied depending on the industry. The growth was driven by system renewal, cloud service adoption, and the progress of DX (Digital Transformation), which had been promoted even before the COVID-19 crisis.

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 cyber security measures and improving the work efficiency further increased, and this provided a tailwind for our group, which has effective solutions for these issues.

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

- Renovation (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 FY6/21, we achieved the target of operating profit margin of 10% one year ahead of schedule in FY6/20. We will continue to promote management that emphasizes the operating income 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 showed strong 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.

In addition, in the third quarter of the current fiscal year, operating income margin increased by 2.2 percentage points to 13.8%, due to the combination of higher profit margins resulting from qualitative improvements in business operations and the reduction of cost of sales (mainly commuting expenses) and SG&A expenses (mainly transportation, entertainment and meeting expenses) due to COVID-19.

As a result, net sales in the subject third quarter cumulative period amounted to 10,837,152 thousand yen (up 6.1% year-on-year), with operating income of 1,492,738 thousand yen (up 25.9%), ordinary income of 1,496,687 thousand yen (up 25.8%),

and net income attributable to owners of parent of 1,035,824 thousand yen (up 25.6%).

(*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, the following sales by segment and segment income (operating income) are figures before offsetting internal transactions between segments.

① Software Development Business

In the business solutions unit (business system development and operation support), thanks to the success of the business portfolio review that we have been promoting, and orders from existing customers have continued to grow steadily even under the COVID-19 crisis. In business system development, although sales of the mainstay financial services were on a downward trend due to the shifting of some personnel as part of the portfolio review, we were able to acquire more projects than expected, mainly in the ERP-related, pharmaceutical, and public sectors, resulting in steady sales growth and a steady improvement in profits. In operational support, we expanded 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 the impact of COVID-19 was relatively small, and we were able to steadily respond to the needs of system infrastructure construction. 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 a result of the steady implementation of countermeasures in anticipation of the impact of COVID-19 on the automobile industry, which we have strategically shifted our focus to. 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 remained the same level as the previous fiscal year. In embedded system verification, sales of 5G related products (mobile devices and base stations) covered the decline in in-vehicle related sales, resulting in higher sales and profits from the previous fiscal year.

In both the Business Solutions and Embedded Solutions businesses, a large portion of work was done via remote work. However, we were able to limit the impact of the environmental changes that were originally feared to have no impact on our 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, we continued to work on promoting the xoBlos Plus One concept, which adds data from another perspective via xoBlos to specific information held by various systems such as RPA and ERP, thereby increasing the value of the data and strengthening our product capabilities.

As a new initiative to respond to the “new normal” society caused by COVID-19, we have been providing outsourced electronic contract services since October, and inquiries for this service are growing steadily mainly from the housing construction industry. The service is called DD-CONNECT, in which the Company and DAIKO DENSHI TSUSHIN, LTD. conduct from the introduction to operation and maintenance of the electronic contract cloud called “CONTRACTHUB @ absonne” by NS Solutions Corporation on behalf of its customers.

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 business amounted to 10,365,306 thousand yen (up 7.9% year-on-year), with operating income of 1,449,632 thousand yen (up 33.9%).

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 reaction to 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 business amounted to 491,810 thousand yen (down 18.9% year-on-year), with segment income (operating income) of 51,037 thousand yen (down 50.6%).

(2) Explanation of Financial Position

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

① Current Assets

Current assets amounted to 5,359,368 thousand yen at the end of the third quarter, an increase of 769,298 thousand yen compared to the end of the previous fiscal year. This was mainly due to increases of 382,241 thousand yen in cash and deposits and 423,411 thousand yen in notes and accounts receivable-trade, and a decrease of 77,880 thousand yen in work in process.

② Noncurrent Assets

Current assets amounted to 783,633 thousand yen at the end of the third quarter, an increase of 9,607 thousand yen compared to the end of the previous fiscal year. This was due mainly to an increase of 27,644 thousand yen in investments and other assets, and decreases of 12,287 thousand yen in property, plant and equipment and 5,749 thousand yen in intangible assets.

③ Current Liabilities

Current liabilities amounted to 1,694,430 thousand yen at the end of the third quarter, an increase of 59,528 thousand yen compared to the end of the previous fiscal year. This was mainly due to increases of 100,836 thousand yen in accounts payable-trade, 8,076 thousand yen in income taxes payable, and 242,889 thousand yen in provision for bonuses, and decreases of 289,440 thousand yen in others.

④ Noncurrent Liabilities

Noncurrent liabilities amounted to 81,143 thousand yen at the end of the third quarter, an increase of 12,227 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 20,902 thousand yen in provision for share based remuneration, and a decrease of 9,311 thousand yen in “other.”

⑤ Net Assets

Net assets amounted to 4,367,427 thousand yen at the end of the third quarter, an increase of 707,150 thousand yen compared to the end of the previous fiscal year. This was due mainly to an increase of 713,239 thousand yen in retained earnings.

(3) Explanation of Results Forecasts and Other Future Predictions

We have revised the consolidated full-year business forecasts on May 14, 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)	3Q FY6/21 (March 31, 2021)
ASSETS		
Current assets		
Cash and deposits	2,399,757	2,781,999
Notes and accounts receivable-trade	1,905,443	2,328,855
Merchandise	14,129	36,362
Work in process	208,600	130,719
Other, net	62,278	81,653
Allowance for doubtful accounts	-139	-221
Total current assets	4,590,069	5,359,368
Noncurrent assets		
Property, plant and equipment	120,701	108,414
Intangible assets	23,194	17,444
Investments and other assets		
Other, net	663,077	690,566
Allowance for doubtful accounts	-32,947	-32,791
Total investments and other assets	630,130	657,774
Total noncurrent assets	774,025	783,633
Total assets	5,364,095	6,143,001
LIABILITIES		
Current liabilities		
Accounts payable-trade	417,573	518,410
Income taxes payable	329,088	337,164
Provision for bonuses	-	242,889
Provision for loss on order received	2,833	-
Other, net	885,406	595,966
Total current liabilities	1,634,901	1,694,430
Noncurrent liabilities		
Retirement benefit liability	6,462	7,098
Provision for share based remuneration	37,160	58,062
Other, net	25,294	15,982
Total noncurrent liabilities	68,916	81,143
Total liabilities	1,703,818	1,775,574
Net assets		
Shareholders' equity		
Capital	453,156	453,156
Capital surplus	459,214	459,214
Retained earnings	3,075,676	3,788,915
Treasury stock	-347,125	-347,125
Total shareholders' equity	3,640,920	4,354,160
Accumulated other comprehensive income		
Valuation difference on available- for-sale securities	17,350	9,370
Foreign currency translation adjustments	2,005	3,896
Total accumulated other comprehensive income	19,356	13,267
Total net assets	3,660,276	4,367,427
Total liabilities and net assets	5,364,095	6,143,001

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

(Thousand yen)

	3Q FY6/20 (July 1, 2019 to March 31, 2020)	3Q FY6/21 (July 1, 2020 to March 31, 2021)
Net sales	10,209,541	10,837,152
Cost of sales	7,625,692	8,062,413
Gross profit	2,583,848	2,774,739
Selling, general and administrative expenses	1,398,013	1,282,000
Operating Income	1,185,835	1,492,738
Non-operating income		
Interest income	285	262
Dividends income	115	159
Commission fee	2,751	2,643
Subsidy income	730	3,213
Surrender value of insurance policies	1,593	1,099
Insurance income	479	-
Other, net	736	1,565
Total non-operating revenues	6,692	8,944
Non-operating expenses		
Interest expenses	442	321
Loss on insurance cancellation	-	1,343
Exchange loss	2,507	2,485
Other, net	-	845
Total non-operating expenses	2,949	4,996
Ordinary Income	1,189,578	1,496,687
Income before income taxes and others	1,189,578	1,496,687
Income taxes - current	419,752	513,627
Income taxes-deferred	-54,590	-52,764
Total income tax	365,162	460,862
Net income	824,416	1,035,824
Net income attributable to owners of parent	824,416	1,035,824

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

(Thousand yen)

	3Q FY6/20 (July 1, 2019 to March 31, 2020)	3Q FY6/21 (July 1, 2020 to March 31, 2021)
Net income	824,416	1,035,824
Other comprehensive income		
Valuation difference on available- for-sale securities	5,250	-7,979
Foreign currency translation adjustments	188	1,890
Total other comprehensive income	5,439	-6,089
Comprehensive income	829,856	1,029,734
(Breakdown)		
Comprehensive income attributable to owners of parent	829,856	1,029,734

(3) Notes on 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 3Q FY6/20 (July 1, 2019 to March 31, 2020)

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

(Thousand yen)

	Reporting Segments			Adjustment amount (Notes) 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	9,609,146	600,395	10,209,541	-	10,209,541
Intrasegment net sales and transfers	181	6,082	6,263	-6,263	-
Total	9,609,327	606,477	10,215,805	-6,263	10,209,541
Segment income	1,082,733	103,237	1,185,970	-135	1,185,835

(Notes) 1. Adjustment to segment income of -135 thousand yen is mainly intersegment eliminations.

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

II 3Q FY6/21 (July 1, 2020 to March 31, 2021)

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

(Thousand yen)

	Reporting Segments			Adjustment amount (Notes) 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	10,357,262	479,890	10,837,152	-	10,837,152
Intrasegment net sales and transfers	8,043	11,920	19,964	-19,964	-
Total	10,365,306	491,810	10,857,116	-19,964	10,837,152
Segment income	1,449,632	51,037	1,500,670	-7,931	1,492,738

(Notes) 1. Adjustment to segment income of -7,931 thousand yen is mainly intersegment eliminations.

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