

# COMPANY RESEARCH AND ANALYSIS REPORT

## Digital Information Technologies Corporation

3916

Tokyo Stock Exchange First Section

13-Oct.-2021

FISCO Ltd. Analyst

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FISCO Ltd.

<https://www.fisco.co.jp>

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## Summary

**An independent information services company whose strengths include a strong customer base and a high ratio of sales to end users. In FY6/22, the forecasts are for sales and profits to increase for the 12th consecutive period for new record highs. Is targeting net sales of ¥50bn and operating income of ¥5bn in FY6/30**

### 1. Company profile

Digital Information Technologies Corporation <3916> (hereafter, also “the Company”) is an independent information services company that conducts the Software Development Business and the System Sales Business. In the mainstay Software Development Business, the sub-segments are the Business Solutions Unit (business system development and operational support), the Embedded Solutions Unit (embedded product development and embedded product verification), and the Original Product Unit (in-house-developed cyber security products and products to improve work efficiency). With technological capabilities and intellectual property as its business foundation, it has positioned the Business Solutions Unit, the Embedded Solutions Unit and the System Sales Business as the earnings foundation for stable growth, and the Original Product Unit and new businesses as the growth fields.

The Company has set “five basic business strategies” and is progressing renovation (strengthening the business foundation by reforming the existing businesses), innovation (creating new value on the axis of its own products), transitioning from competition to collaboration (business expansion through collaborations), transitioning from development to services (business expansion from the viewpoint of services), and procuring and developing human resources (recruitment and training). Also, the Company’s strengths include that it possesses a strong customer base (the Group as a whole has approximately 2,800 customer companies) in a wide range of industries, centered on major companies and a high ratio of sales to end users (approximately 80%), and it has close, direct contact with its customers. Thanks to these strengths, the Business Solutions Unit can more easily obtain orders, ranging from outsourced development through to operational support, and it also maintains the repeat ratio and the replacement ratio at high levels. In addition, it is accumulating technologies and expertise, such as from developing customers’ new products, and this is leading to the expansion of the lineup of the Company’s own products and services that it has positioned as the growth drivers.

### 2. Outline of results for FY6/21

In the FY6/21 consolidated results, net sales increased 7.0% year on year (YoY) to ¥14,444mn, operating income rose 27.3% to ¥1,722mn, ordinary income grew 27.4% to ¥1,730mn, and net income attributable to owners of parent increased 22.3% to ¥1,196mn. Sales and profits increased for the 11th consecutive period and set new record highs, and moreover, profits increased significantly and exceeded the upwardly revised forecasts announced on May 14, 2021. The Software Development Business, which is the core business, grew as a whole and drove the strong results, while in profits, the increase in gross profit alongside the rise in sales and the decline in SG&A expenses due to the novel coronavirus pandemic (hereafter, COVID-19) both contributed.

## Summary

### 3. Outlook for FY6/22

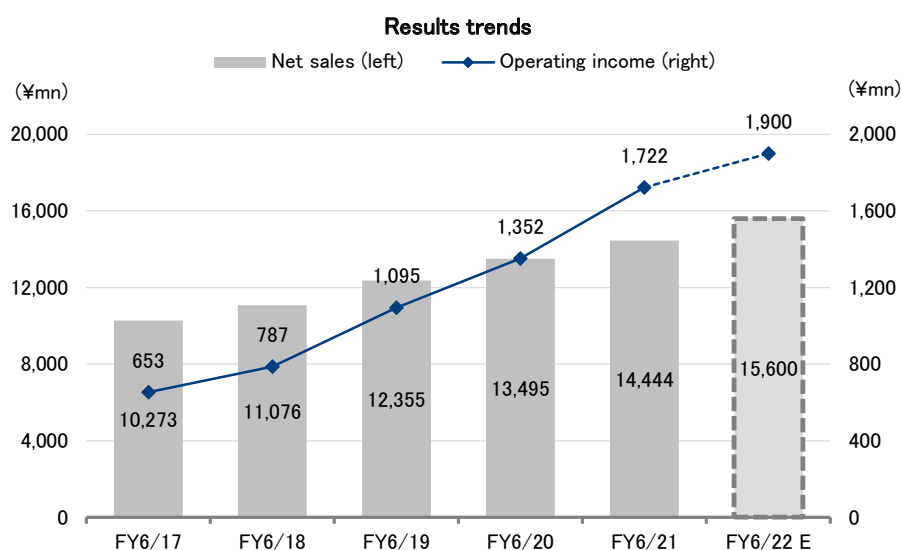
For the FY6/22 consolidated results, the Company is forecasting that net sales will increase 8.0% YoY to ¥15,600mn, operating income will rise 10.3% to ¥1,900mn, ordinary income will grow 9.8% to ¥1,900mn, and net income attributable to owners of parent will increase 10.2% to ¥1,318mn. By progressing its businesses on the twin axes of “stabilize the business foundation” and “strengthen the growth factors,” it is aiming for sales and profits to increase for the 12th consecutive period and to once again set new record highs. It intends for the steady growth of the Software Development Business, which is the core business, to absorb costs, including the investment in human resources.

### 4. Growth strategy

In the previous mid-term management plan (FY6/17 to FY6/21), the Company achieved the management target of “Triple 10 within 5 years” (net sales of ¥10bn, operating income of ¥1bn, and an operating income margin of 10%) one year ahead of schedule. As a result, in the newly formulated long-term vision “2030 Vision,” it is aiming to achieve net sales of ¥50bn and operating income of ¥5bn in FY6/30, and in the new mid-term management plan (FY6/22 to FY6/24), which will be the first stage of this vision, it has set the management targets for FY6/24 of net sales of ¥18.5bn, operating income of ¥2.5bn, and an operating income margin of 13.5%. In addition to organic growth, its policy is also to actively utilize M&A, and as the market environment is favorable, we can expect further growth from the Company steadily progressing its strategies toward achieving the long-term vision.

### Key Points

- An independent information services company whose Business Solutions Unit and Embedded Solutions Unit are growing stably
- In FY6/21, sales and profits increased for the 11th consecutive period, and moreover, profits increased significantly and exceeded the forecasts
- In FY6/22, is aiming for sales and profits to increase for the 12th consecutive period for new record highs by progressing the businesses on the twin axes of “stabilize the business foundation” and “strengthen the growth factors”
- In FY6/30, is targeting net sales of ¥50bn and operating income of ¥5bn



Source: Prepared by FISCO from the Company's financial results

## Company profile

### An independent systems integrator

#### 1. Company profile

The Company is an independent systems integrator. Its management philosophy is to “Protect the lives of our employees and to contribute to society,” and it is aiming for its businesses to grow stably through initiatives to pursue added value and to respond to changes.

The location of the Head Office is in Hatchobori, Chuo Ward, Tokyo, and the business offices are the Kawasaki Office (Kawasaki Ward, Kawasaki City, Kanagawa Prefecture), the Osaka Office (Nishi Ward, Osaka City, Osaka Prefecture), the Ehime Office (Matsuyama City, Ehime Prefecture), and the East Japan Center (Miyagino Ward, Sendai City, Miyagi Prefecture). Also, the Group is comprised of the Company and its two consolidated subsidiaries (DIT Marketing Services Co., Ltd. and DIT America, LLC.).

#### Domestic and overseas development bases and the no. of employees



Source: The Company's results briefing materials

At the end of FY6/21, total assets were ¥6,388mn, net assets were ¥4,526mn, capital was ¥453mn, the equity ratio was 70.9%, and the number of issued shares was 15,501,820 shares (including 253,489 treasury shares).

#### 2. History

The Company was founded through the establishment in July 1982 of Toyo Computer System Inc. In January 2002, Toyo IT Holdings Corporation was established as the holding company, and three companies—Toyo Computer System, Japan Automation Co., Ltd., and Toyo Techno Co., Ltd.—were made its wholly owned subsidiaries. Then in December of the same year, Toyo Useware Services Co., Ltd. was also made a wholly owned subsidiary. Subsequently in January 2006, Toyo IT Holdings conducted an absorption merger of its four subsidiaries and the surviving company's trade name was changed to Digital Information Technologies Corporation.

In May 2006, Toyo Infonet Co., Ltd., (currently DIT Marketing Services) was made a wholly owned subsidiary and then in October of the same year, the Head Office was relocated to Hatchobori, Chuo Ward, Tokyo. In January 2011, DIT America was established as the consolidated subsidiary to conduct the overseas business.

### Company profile

Regarding listings, the Company's shares were listed on the Tokyo Stock Exchange (TSE) JASDAQ market in June 2015. Its listing was changed to the TSE Second Section in May 2016, and then its listing was upgrade to the TSE First Section in March 2017.

In FY2021, the Company was once again selected as a constituent issue of the JPX-Nikkei Mid and Small Cap Index that is jointly calculated by the TSE and Nikkei Inc. Also, in relation to the new market categories that the TSE will move to on April 4, 2022, it received the results of the primary determination from the TSE that it meets the standards to maintain its listing on the new market categories, and it has been confirmed that it meets the standards to maintain its listing on the prime market. Subsequently, the Board of Directors resolved on this matter and the procedure is being progressed in accordance with the prescribed application schedule.

### History

Date	Event
July 1982	Toyo Computer System Inc. was established in Kanazawa Ward, Yokohama City
January 2002	The holding company, Toyo IT Holdings Corporation, was established in Kawasaki Ward, Kawasaki City, and Toyo Computer System, Japan Automation Co., Ltd., and Toyo Techno Co., Ltd. were made wholly owned subsidiaries
December 2002	Toyo Useware Services Co., Ltd. was made a wholly owned subsidiary
January 2006	Toyo IT Holdings conducted an absorption merger of the four subsidiaries and the surviving company's name was changed to Digital Information Technologies Corporation
May 2006	Toyo Infonet Co., Ltd. was made a wholly owned subsidiary
October 2006	The Head Office was relocated to Hatchobori, Chuo Ward, Tokyo
April 2007	Obtained approval from JIPDEC to use the Privacy Mark
October 2008	Launched the Business Intelligence Solutions business (currently the xoBlos Business Unit)
September 2009	Began a collaboration with CyberTrust <4498> in the field of e-mail encryption
October 2009	Began sales of xoBlos, an Excel work innovation platform
January 2011	Established the subsidiary DIT America, LLC. in Kansas, United States
April 2013	Opened the Ehime Company in Matsuyama City, Ehime Prefecture
July 2014	Began sales of WebARGUS, a Web tampering solution providing instantaneous detection and restoration
June 2015	Shares were listed on the TSE JASDAQ market
May 2016	Listing was changed to the TSE Second Section
March 2017	Listing was upgraded to the TSE First Section
June 2019	Entered into a capital collaboration with DAIKO DENSHI TSUSHIN, LTD. <8023> and strengthened the business collaboration
July 2019	The trade name of Toyo Infonet was changed to DIT Marketing Services Co., Ltd.

Source: Prepared by FISCO from the Company's securities report

## Business summary

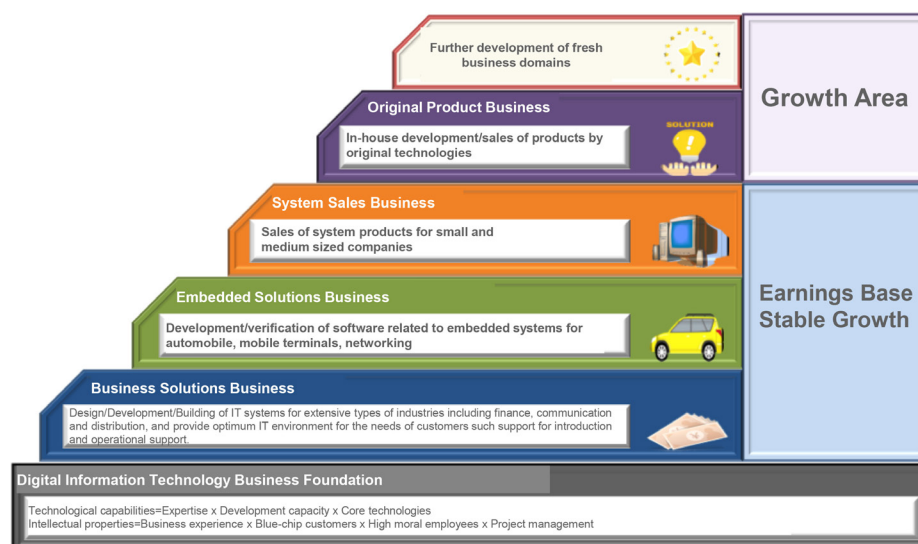
**Conducts the Software Development Business and the System Sales Business. Strengths include its strong customer base and high ratio of sales to end users**

### 1. Business summary

Digital Information Technologies Corporation is an independent information services company that conducts the Software Development Business (sub-segments, the Business Solutions Unit, the Embedded Solutions Unit, and the Original Product Unit) and the System Sales Business. With technological capabilities and intellectual property as its business foundation, it has positioned the Business Solutions Unit, the Embedded Solutions Unit and the System Sales Business as the earnings foundation for stable growth, and the Original Product Unit and new businesses as the growth fields.

## Business summary

## Business areas: Positioning of each business



Source: The Company's results briefing materials

Looking at how net sales trended by segment in FY6/21, they steadily grew in the Software Development Business, which contributes 95.8% of total net sales (59.6% from the Business Solutions Unit and 31.3% from the Embedded Solutions Unit). Although the Original Product Unit's sales are still small scale, they are also steadily growing, and in FY6/21, its percentage of total net sales increased by 0.4 of a percentage point (pp) YoY to 4.9%. Conversely, in the System Sales Business, net sales were unchanged YoY and its percentage of total sales is trending downward, falling by 1.3pp to 4.2% in FY6/21.

## Trend in net sales by business segment

							(¥mn)
Classification		FY6/19		FY6/20		FY6/21	
		Results	Composition	Results	Composition	Results	Composition
Software Development Business		11,677	94.5%	12,756	94.5%	13,838	95.8%
Business Solutions Unit	Business foundation	7,311	59.2%	7,838	58.1%	8,604	59.6%
Business system development		4,629	37.5%	4,550	33.7%	4,891	33.9%
Operational support		2,682	21.7%	3,287	24.4%	3,712	25.7%
Embedded Solutions Unit	Business foundation	3,865	31.3%	4,308	31.9%	4,522	31.3%
Embedded product development		2,971	24.0%	3,344	24.8%	3,518	24.4%
Embedded product verification		894	7.2%	963	7.1%	1,003	6.9%
Original Product Unit	Growth fields	500	4.0%	609	4.5%	712	4.9%
System Sales Business	Business foundation	678	5.5%	739	5.5%	605	4.2%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

## (1) Software Development Business

In the Software Development Business, the sub-segments are the Business Solutions Unit (business system development and operational support), the Embedded Solutions Unit (embedded product development and embedded product verification), and the Original Product Unit (in-house-developed cyber security products and products to improve work efficiency).

## Business summary

### a) Business Solutions Unit

The Business Solutions Unit conducts business system development and operational support. Business system development covers a wide range of fields, including finance, medical care, communication, transportation, manufacturing, and public services. It also conducts outsourced systems development, such as of web systems, backbone systems, and back-office work from front-office work. Conversely, operational support is a business to support the operations of customers' work systems, and it provides support for support desk operations and infrastructure (servers, networks, etc.), construction, maintenance, and management work. Business system development is a continuous business alongside the business areas of the major customers in various fields, so it is a stable source of earnings.

Sales of both business system development and operational support are steadily increasing. They are particularly growing for operational support, which is a stable source of earnings, and its percentage of net sales is trending upward.

### b) Embedded Solutions Unit

The Embedded Solutions Unit conducts embedded product development and embedded product verification. Embedded product development entails the outsourced development of software covering systems as a whole, such as device firmware, mobile device controls, and applications, centered on in-vehicle devices, mobile devices, and home information devices. In particular, the Company has positioned in-vehicle devices as the main field that is expected to grow in the future. For telecommunication devices as well, in IoT-related mobile app development, it conducts outsourced development of software, such as for wireless bases stations and virtual networks for communication devices. Conversely, embedded product verification involves providing proposals to improve functions and products through the outsourcing of work to verify products' quality and performance, and other verification work with a primary focus on the fields of in-vehicle devices, medical devices, telecommunication devices, and mobile devices. It conducts various verification work, from laboratory tests and field tests through to comprehensive system tests, which are the final quality verification. Field tests conducted overseas are outsourced to DIT America, as needed.

Sales of both embedded product development and embedded product verification are steadily growing, and there have been no major changes to the sales composition.

### c) Original Product Unit

In the Original Product Unit, among the cyber security products, the main products include WebARGUS, which is an online security solution that instantaneously detects tampering of websites and instantaneously restores them, and APMG®, which is a solution providing countermeasures for phishing emails, while the products to improve work efficiency include xoBlos, which is an Excel work innovation platform. Also, in October 2020, the Company launched DD-CONNECT, which is an electronic contract outsourcing service. Regarding the composition of sales in FY6/21, it seems that WebARGUS provided approximately 30%, xoBlos around 60%, and others approximately 10%.

The WebARGUS web security solution is a new security solution system that can detect tampering, such as of websites, at the same time as they occur, and instantly restore them to their original, correct states. Through collaborations including with companies specializing in cyber security (Finland's F-Secure and SSH Communications Security), the Company is expanding its lineup of total security services, centered on WebARGUS, for large companies.



### Business summary

The xoBlos Excel work innovation platform can dramatically streamline operations by automating cumbersome Excel-based work, while at the same time, it also comes equipped with functions so that budget result management solutions and various RPA and ERP products can coordinate with each other seamlessly. As of July 2021, it had been introduced by a total of 515 companies. For sales, the Company is strengthening the sales system that has been integrated with the subsidiary DIT Marketing Services, while for product appeal, it is progressing the xoBlos Plus One concept that increases the value of data.

For DD-CONNECT, the electronic contract outsourcing service, the Company and DAIKO DENSHI TSUSHIN <8023> are collaborating to provide an outsourcing service in which they conduct the series of tasks for the introduction, management, and maintenance of CONTRACTHUB @absonne, the electronic contract cloud of NS Solutions Corporation.

### (2) System Sales Business

In the System Sales Business, DIT Marketing Services sells Rakuichi, which is the mission-critical work support and management support system manufactured by CASIO COMPUTER CO., LTD. <6952>, mainly to small and medium-sized companies.

### 2. Features and strengths

The Company has set “five basic business strategies” and is progressing renovation (strengthening the business foundation by reforming the existing businesses), innovation (creating new value on the axis of the Company’s own products), transitioning from competition to collaboration (business expansion through collaborations), transitioning from development to services (business expansion from the viewpoint of services), and procuring and developing human resources (recruitment and training).

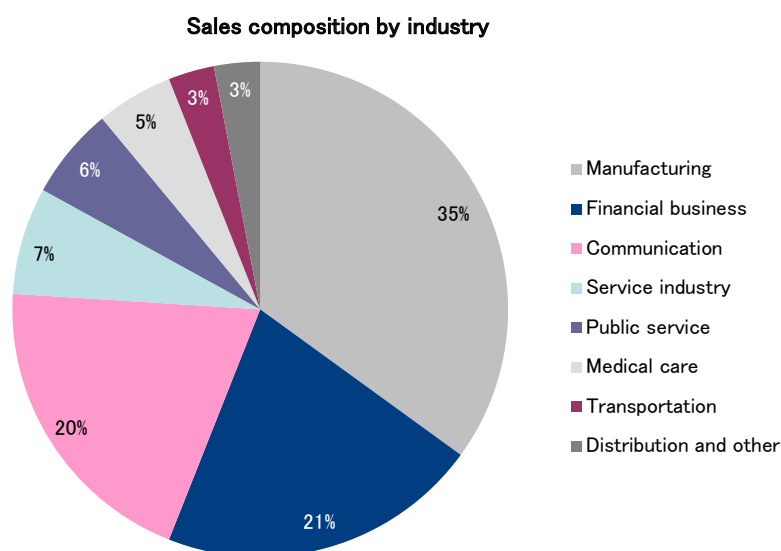


Source: The Company's results briefing materials

# Business summary

The Company's strengths include that it possesses a strong customer base in a wide range of industries (major automotive and automotive parts manufacturers, major communication carriers, etc.) centered on major companies, and a high ratio of sales to end users, and it has close, direct contact with its customers. Thanks to these strengths, the Business Solutions Unit can more easily obtain orders, ranging from outsourced development through to operational support, and it also maintains the repeat ratio and the replacement ratio at high levels. In addition, it is accumulating technologies and expertise, such as from its direct involvement in developing customers' new products, which is leading to the expansion of the Company's own lineup of products and services that it has positioned as the growth drivers.

The Group as a whole has approximately 2,800 customer companies (as of FY6/21). The Software Development Business focuses on listed companies and their affiliates, while the System Sales Business focuses on small and medium-sized companies. Also, in the Software Development Business, the sales composition by industry shows that approximately three quarters are provided by manufacturing industries, centered on in-vehicle devices and semiconductors, and the finance and communication industries. In addition, the ratio of sales to end users, which indicates orders directly from end users, is at the high level of approximately 80%.



Source: Prepared by FISCO from the Company's results briefing materials

## 3. Risk factors and earnings characteristics

The general risk factors in the software development and information services industries include that corporate investment in IT and DX may be kept down due to economic fluctuations and other reasons, the intensification of market competition, occurrences of unprofitable projects and quality defects, delays in responding to technological innovation, issues with securing and developing human resources, changes to relations with partner companies and sales partners, and legal regulations.

Of these risks, even if corporate investment in IT and DX is temporarily kept down or suspended, it is forecast to trend at a high level in the medium to long term. So for the Company, there are few concerns about a deterioration of its business environment.

#### Business summary

For the occurrences of unprofitable projects and quality defects, for projects above a certain scale, the Company convenes a project risk committee to conduct a project review for each important phase of the development process, and it works to discover risks at an early stage to keep down unprofitable projects and to continuously improve quality. Also, the Project Management Promotion Department supervises executability verification, progress management, quality control, and risk management as a whole in project development, and it works to improve profitability and customer satisfaction.

To respond to technological innovation, the Company is taking on the challenge of building systems that always use new technologies. Also, it recruits and trains engineers who are able to respond to rapid environmental changes and is progressing the establishment of a development environment. To secure and develop human resources, it recruits and develops excellent, local human resources by utilizing its regional bases (in Matsuyama City, Ehime Prefecture and in Sendai City, Miyagi Prefecture). At the same time, it is working to respond to price competition through advanced near-shore development. It also strives to retain employees through initiatives to improve employee satisfaction, while it aims to stably procure excellent subcontracted personnel through strengthening coordination with its partner companies.

The earnings-related seasonal factors are the tendency for high percentages of both net sales and operating income to occur in the 3Q (January to March), as it includes the year-end period, and for operating income to decrease in the 4Q (April to June), mainly due to the acceptance of new employees and year-end allowances.

## Results trends

**In FY6/21, sales and profits increased for the 11th consecutive period, and moreover, profits increased significantly and were higher than forecast**

### 1. Outline of results for FY6/21

In the FY6/21 consolidated results, net sales increased 7.0% YoY to ¥14,444mn, operating income rose 27.3% to ¥1,722mn, ordinary income grew 27.4% to ¥1,730mn, and net income attributable to owners of parent increased 22.3% to ¥1,196mn. Sales and profits increased for the 11th consecutive period and set new record highs, and moreover, profits increased significantly and exceeded the upwardly revised forecasts announced on May 14, 2021.

The impact of COVID-19 on sales was negligible, and they steadily grew in the Software Development Business, which is the core business, and this covered for the decline in the System Sales Business due to a ricochet to the special demand that occurred in the previous period in response to the reduced tax rate. In profits, alongside the higher sales, gross profit grew and the gross profit margin improved, while factors such as the reduction in operating expenses due to COVID-19 also contributed, so profits increased significantly. Gross profit increased 7.6% YoY and the gross profit margin was 24.7% (up 0.1pp). SG&A expenses decreased 6.0% and the SG&A expense ratio was 12.8% (down 1.8pp). Also, the operating income margin rose 1.9pp to 11.9%.

## Results trends

## Summary of the FY6/21 consolidated results

(¥mn)

	FY6/20		Revised forecasts	FY6/21			
	Results	Composition		Results	Composition	YoY	vs. forecasts
Net sales	13,495	100.0%	14,300	14,444	100.0%	7.0%	1.0%
Software Development Business	12,756	94.5%	13,670	13,838	95.8%	8.5%	1.2%
Business Solutions Unit	7,838	58.1%	-	8,604	59.6%	9.8%	-
Business system development	4,550	33.7%	-	4,891	33.9%	7.5%	-
Operational support	3,287	24.4%	-	3,712	25.7%	12.9%	-
Embedded Solutions Unit	4,308	31.9%	-	4,522	31.3%	5.0%	-
Embedded product development	3,344	24.8%	-	3,518	24.4%	5.2%	-
Embedded product verification	963	7.1%	-	1,003	6.9%	4.2%	-
Original Product Unit	609	4.5%	-	712	4.9%	16.9%	-
System Sales Business	739	5.5%	630	605	4.2%	-18.1%	-3.9%
Gross profit	3,323	24.6%	-	3,574	24.7%	7.6%	-
SG&A expenses	1,971	14.6%	-	1,852	12.8%	-6.0%	-
Operating income	1,352	10.0%	1,680	1,722	11.9%	27.3%	2.5%
Software Development Business	1,271	10.0%	-	1,669	12.1%	31.3%	-
System Sales Business	84	11.4%	-	52	8.7%	-37.4%	-
Ordinary income	1,357	10.1%	1,680	1,730	12.0%	27.4%	3.0%
Net income attributable to owners of parent	978	7.3%	1,142	1,196	8.3%	22.3%	4.8%
Net income per share (¥)	64.18	-	74.92	78.47	-	14.29	3.55
Net assets per share (¥)	240.04	-	-	296.87	-	56.83	-

Source: Prepared by FISCO from the Company's financial results and results briefing materials

## 2. Trends by segment

## (1) Software Development Business

In the Software Development Business, net sales increased 8.5% YoY to ¥13,838mn and operating income rose 31.3% to ¥1,669mn. Results were strong in every sub-segment, especially in operational support in the Business Solutions Unit and in the Original Product Unit.

## a) Business Solutions Unit

In the Business Solutions Unit, net sales increased 9.8% YoY to ¥8,604mn. Of which, business system development's sales increased 7.5% to ¥4,891mn and operational support's sales rose 12.9% to ¥3,712mn. Demand grew, mainly from existing customers, while profitability also improved. For business system development, since recently the Company has been reviewing the business portfolio (shifting some personnel from finance-related fields, which are trending downward, to growth fields), and alongside this, sales are declining from the mainstay finance-related fields. However, acquisitions of orders increased, centered on fields related to ERP, medical care and public services, which have high profit margins. For operational support, the impact of COVID-19 has been small and the scale of transactions with new customers acquired in the last one or two years has increased. As a result, both sales and profits have grown significantly and its percentage of total net sales has also risen.

## Results trends

**b) Embedded Solutions Unit**

In the Embedded Solutions Unit, net sales increased 5.0% YoY to ¥4,522mn. Of this amount, embedded product development's sales increased 5.2% to ¥3,518mn and embedded product verification's sales rose 4.2% to ¥1,003mn. For the mainstay automotive-related field, measures were taken in anticipation of the impact of COVID-19, and as a result, sales trended basically steadily as a whole. In embedded product development, sales related to in-vehicle devices remained at the same level as in the previous period, and sales related to semiconductors and IoT (mobile, communications, and home appliances) grew significantly, while progress was also made in developing the industry-related market. As a result, both sales and profits were higher than in the previous period. In embedded product verification, the decline in sales related to in-vehicle devices was covered by an increase in sales related to 5G (mobile terminals and base stations), and as a result, both sales and profits were higher than in the previous period.

**c) Original Product Unit**

In the Original Product Unit, net sales increased 16.8% YoY to ¥712mn. Although face-to-face sales were restricted due to COVID-19, sales were still higher than in the previous period due to active business development. Sales of the WebARGUS web security solution are fully underway to large-scale customers, while sales of the xoBlos Excel work innovation platform also grew. In addition, for DD-CONNECT, which is an electronic contract outsourcing service launched in October 2020, projects that are highly likely to be ordered have increased, mainly for housing construction work.

**(2) System Sales Business**

In the System Sales Business, net sales decreased 18.1% YoY to ¥605mn and operating income declined 37.4% to ¥52mn. Sales and profits declined due to a ricochet decline from the special demand in the previous period caused by the reduction in the tax rate.

## Practices debt-free management and with an equity ratio of 70.9%, is maintaining a high level of financial soundness

**3. Financial condition**

At the end of FY6/21, total assets were up ¥1,024mn compared to the end of the previous period to ¥6,388mn. Current assets increased ¥1,074mn to ¥5,664mn, mainly because cash and deposits rose ¥933mn. Total liabilities increased ¥157mn to ¥1,861mn. Current liabilities rose ¥115mn and non-current liabilities grew ¥42mn. Total net assets increased ¥866mn to ¥4,526mn. As a result, the equity ratio rose 2.7pp to 70.9%. The Company practices debt-free management and is steadily accumulating retained earnings, so it can be said to be continuing to maintain a high level of financial soundness.

## Results trends

## Consolidated balance sheet

	FY6/18	FY6/19	FY6/20	FY6/21	Change
(¥mn)					
Current assets	3,397	3,933	4,590	5,664	1,074
Cash and deposits	1,627	1,840	2,399	3,333	933
Notes and accounts receivable - trade	1,562	1,892	1,905	2,084	179
Work in process	123	117	208	131	-76
Non-current assets	685	721	774	724	-49
Property, plant and equipment	115	132	120	110	-10
Intangible assets	18	10	23	15	-7
Investments and other assets	552	578	630	598	-31
Total assets	4,083	4,655	5,364	6,388	1,024
Current liabilities	1,304	1,601	1,634	1,750	115
Notes and accounts payable - trade	328	393	417	487	69
Short-term borrowings	-	-	-	-	-
Other	975	1,208	1,217	1,263	45
Non-current liabilities	156	105	68	111	42
Long-term debt	-	-	-	-	-
Total liabilities	1,461	1,707	1,703	1,861	157
Total net assets	2,621	2,947	3,660	4,526	866
Shareholders' equity ratio	64.2%	63.3%	68.2%	70.9%	2.7pp

Source: Prepared by FISCO from the Company's financial results

## Consolidated cash flow statement

	FY6/18	FY6/19	FY6/20	FY6/21
(¥mn)				
Cash flows from operating activities	747	693	927	1,260
Cash flows from investing activities	-94	-70	-80	5
Cash flows from financing activities	-373	-415	-287	-334
Cash and cash equivalents at the end of period	1,627	1,834	2,393	3,326

Source: Prepared by FISCO from the Company's financial results

## Outlook

**In FY6/22, is aiming for sales and profits to increase for the 12th consecutive period and to set new record highs by promoting businesses on the twin axes of “stabilize the business foundation” and “strengthen the growth factors”**

### 1. Outlook for FY6/22

For the FY6/22 consolidated results, the Company is forecasting that net sales will increase 8.0% YoY to ¥15,600mn, operating income will rise 10.3% to ¥1,900mn, ordinary income will grow 9.8% to ¥1,900mn, and net income attributable to owners of parent will increase 10.2% to ¥1,318mn. By progressing its businesses on the twin axes of “stabilize the business foundation” and “strengthen the growth factors,” it is aiming for sales and profits to increase for the 12th consecutive period and to once again set new record highs. It intends for the steady growth of the Software Development Business, which is the core business, to absorb costs, including its investment in human resources.

## Outlook

## Consolidated outlook for FY6/22

	FY6/21		FY6/22		YoY
	Results	% of sales	Forecast	% of sales	
Net sales	14,444	100.0%	15,600	100.0%	8.0%
Software Development Business	13,838	95.8%	14,975	96.0%	8.2%
Business Solutions Unit	8,604	59.6%	9,133	58.5%	6.1%
Embedded Solutions Unit	4,522	31.3%	5,022	32.2%	11.0%
Original Product Unit	712	4.9%	820	5.3%	15.2%
System Sales Business	605	4.2%	625	4.0%	3.2%
Operating income	1,722	11.9%	1,900	12.2%	10.3%
Ordinary income	1,730	12.0%	1,900	12.2%	9.8%
Net income attributable to owners of parent	1,196	8.3%	1,318	8.4%	10.2%
Net income per share (¥)	78.47	-	86.44	-	-

Source: Prepared by FISCO from the Company's financial results and results briefing materials

## 2. Priority measures by segment

## (1) Software Development Business

For the Software Development Business, the forecasts are for net sales to increase 8.2% YoY to ¥14,975mn, and of this amount, for sales in the Business Solutions Unit to rise 6.1% to ¥9,133mn, in the Embedded Solutions Unit to grow 11.0% to ¥5,022mn, and in the Original Product Unit to increase 15.2% to ¥820mn. In order to “stabilize the business foundation,” the Company is utilizing its ability to respond to change to pursue a path of further expanding and stabilizing the business foundation.

## a) Business Solutions Unit

For business system development, the Company is aiming to expand scale and improve profits by building a system that can capture demand regardless of the industry and to further deepen relations with existing customers, in addition to acquiring new customers. As operational support is an area that is not easily affected by COVID-19, it is aiming to expand scale and improve profits by responding accurately to demand. Specifically, its priority measures are to increase orders from areas related to finance, medical care, communications, and ERP; to increase orders of technology proposals that promote DX, including cloud and AI; to increase contracts made directly with end users and to promote the service proposal-type business; to improve the ratio of outsourced projects and conduct thorough project management; and to utilize regional bases as advanced near-shore development centers.

## b) Embedded Solutions Unit

In the Embedded Solutions Unit, for embedded product development, the Company is targeting growth by increasing its share of transactions with existing, excellent customers, at the same time as aiming for IoT-related growth. For embedded product verification, it is aiming for growth by widening its business areas, including those related to in-vehicle devices, medical equipment, and 5G. Specifically, its priority measures include to maintain and expand share in the automotive-related field and to expand in the industrial equipment field; to conduct development that goes beyond the framework of the IoT industry; in fields related to in-vehicle devices to acquire projects for the mass production-related development field; and to improve quality and expand work through the standardization of embedded product verification.

## Outlook

### c) Original Product Unit

In the Original Product Unit, inquiries are increasing against the backdrop of the rising demand for cyber security and to improve work efficiency. For the WebARGUS web security solution, the Company is actively approaching large-scale end users, mainly financial institutions. It is also expanding its provision of the DIT Security total security service; providing cyber security services on the Company's own cloud environment; strengthening engagement with customers through online advertising, webinars, and DM; and promoting introductions of the IoT version of WebARGUS that is based on the idea of system resilience (self-detection and self-repair).

For the xoSlo Excel work innovation platform, the Company is strengthening sales to large-scale end users, enhancing user support, increasing sales opportunities by promoting the Plus One concept (coordination with other systems, such as RPA and ERP), providing form processing services in a cloud environment, and progressing the creation of RPA management portal products that are based on xoSlo.

For new products, the Company has fully launched the DD-CONNECT electronic contract outsourcing service, while following the launch of ShieldCMS, it is developing its market and working to acquire orders for it at an early stage. It is also progressing the provision of new services and DX-related services in response to the new normal during the COVID-19 pandemic and for SDGs.

### (2) System Sales Business

In the Systems Sales Business, the forecast is for a rebound to the special demand seen in FY6/20 and for net sales to increase 3.2% to ¥625mn. The Company is aiming to increase earnings through supporting the DX of small and medium-sized companies by forming long-term and stable transactions, strengthening the provision of services that meet customer needs, acquiring new customers through proposals including for specialist work packages, and approaching large-scale customers.

## Growth strategy

**Achieved the targets in the mid-term management plan one year ahead of schedule. In the long-term vision, is targeting net sales of ¥50bn and operating income of ¥5bn in FY6/30**

Due to the impact of COVID-19, a movement has been seen of some companies keeping down and postponing investment in IT. But in the so called "2025 Cliff" problem (from the "DX Report – Overcoming IT Systems' 2025 Cliff and the Fully Fledged Development of DX" published by the Ministry of Economy, Trade and Industry in September 2018), in which due to problems including IT systems aging and becoming obsolete, bloated, more complex, and black boxed, companies' competitiveness is falling, and it pointed to the possibility of an occurrence of an economic loss of a maximum of ¥12tn a year (3 times the amount in FY6/21) from FY2025 onwards. Therefore, new business models are required in every industry, and it is forecast that the flow of DX reforms will accelerate. So it can be said that in the medium to long term, the market environments of the software development and information services industries are likely to be excellent.



## 1. Summary of the previous mid-term management plan

In the previous mid-term management plan (FY6/17 to FY6/21), the Company progressed its businesses on the twin axes of the growth strategies of expanding and stabilizing the business foundation (expand stable transactions in a wide range of business areas) and strengthening the growth factors (provide new value, centered on the Company's own products, and promote collaborations toward strengthening its own products). As a result, it achieved its management targets of "Triple 10 within 5 years" (net sales of ¥10bn, operating income of ¥1bn, and an operating income margin of 10%) one year ahead of schedule.

For the targets in the previous mid-term management plan, although the Systems Sales Business contracted, the business foundation's core of the Business Solutions Unit and the Embedded Solutions Unit steadily grew and contributed greatly to the stable growth. Also, in order to continue to increase sales and profits through strategic initiatives, the Company shifted resources to highly profitable businesses and areas and strategically expanded highly profitable businesses and areas that are close to the end users (in-vehicle devices, IoT, infrastructure construction, ERP, etc.). In addition, it conducted appropriate risk management that led to the prevention of the occurrence of losses in major projects, while it also strengthened coordination between companies in the Group to increase the scale of projects ordered. The Ehime Company, which is a near-shore base, has converted to a profit-making structure.

## 2. 2030 Vision

In the newly formulated "2030 Vision" long-term vision, "toward being a DIT brand that is trusted and chosen," the Company has set "Challenge 500" management targets for FY6/30 of net sales of ¥50bn (¥30bn or above from organic growth + new businesses and M&A), operating income of ¥5bn (¥4bn or above from organic growth + new businesses and M&A), and a dividend payout ratio of 35% or above.

Also, as steps toward realizing these targets, the Company will progress business structural reforms from FY6/22 to FY6/24 (progressing the construction of companies and frameworks toward the next growth stage), realize a growth trajectory from FY6/25 to FY6/27 (establishing business styles and realizing a growth trajectory for business as a whole), and establish a DIT brand from FY6/28 to FY6/30 (establishing a DIT brand that is trusted and chosen by all stakeholders). In conjunction with this, it will strengthen "promoting business on the twin axes (the business foundation and growth factors)" that have supported its growth so far, further expand the business foundation that is bolstered by stable transactions in a wide range of business areas, and advance the provision of new value and services in response to societal changes, including digital transformation.

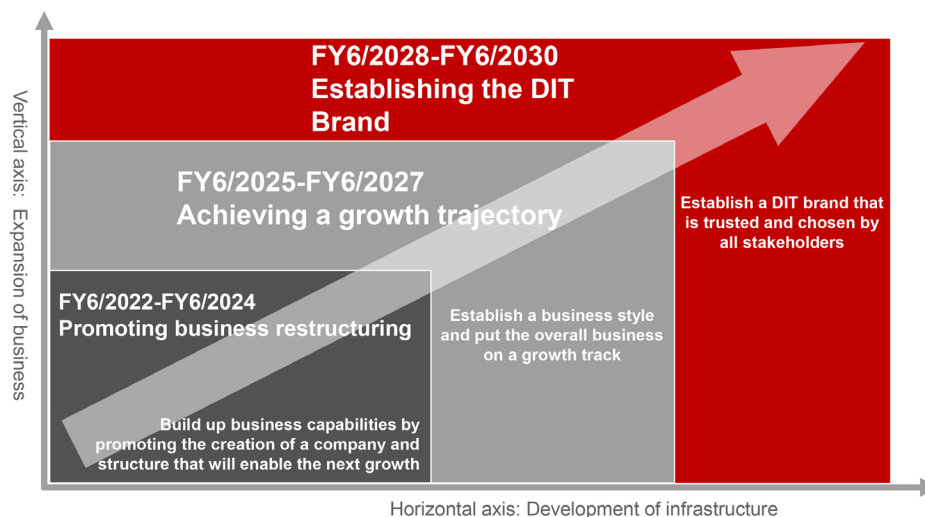
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Growth strategy

Steps toward realizing the 2030 Vision

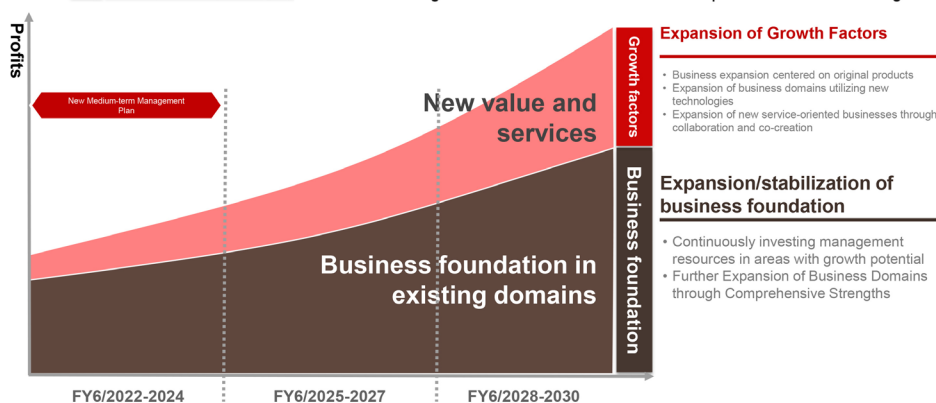


Source: Reprinted from the Company's new mid-term management plan

Mid-term growth model

1	Business foundation
2	Growth factors

- Further expanding the base by leveraging stable exchanges in a wide range of business domains as a strength
- Providing New Value and Services in Response to Social Change



Source: Reprinted from the Company's new mid-term management plan

### 3. New mid-term management plan

The new mid-term management plan describes the initiatives for the first stage of FY6/22 to FY6/24. The numerical targets for FY6/24 include net sales of ¥18.5bn, operating income of ¥2.5bn, and an operating income margin of 13.5%.

## Growth strategy

## Management targets for the mid-term management plan

	FY6/21 Results	FY6/22 Forecast	FY6/23 Target	FY6/24 Target
Net sales	14.4	15.6	16.8	18.5
Operating income	1.72	1.90	2.15	2.50
Operating income margin	11.9%	12.2%	12.8%	13.5%
ROE	29.2%	Maintained at 20% or above		
Dividend payout ratio	30% or above	35% or above		

Source: Prepared by FISCO from the Company's mid-term management plan

From the three basic strategies of “strengthen the business foundation,” “strengthen workplace skills in the core businesses” and “strengthen product appeal in the product business” the aim is to build companies that are able to grow in the long term by constructing a foundation for long-term growth.

To “strengthen the business foundation,” the Group is 1) building mechanisms, such as organizations and systems, to be strong companies (renewing the personnel system and increasing the sophistication of project management); 2) creating environments in which employees can do work that is worthwhile (improving in-company systems, progressing workstyle reforms, and progressing measures to improve employee satisfaction), and 3) creating assets by increasing the recruitment of employees and developing them to be Company assets (actively recruiting new graduates and mid-career hires, expanding and integrating the education and training systems, and enhancing the system to reward acquisitions of qualifications). Through these efforts, the Company is aiming to further improve profitability supported by workplace skills and product appeal, while also creating a sound virtuous circle in order to grow strongly as a company.

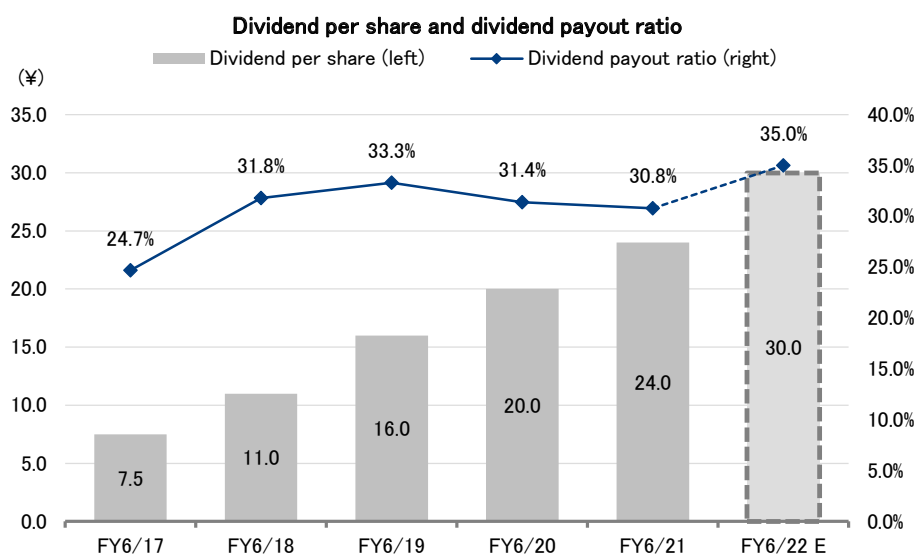
To “strengthen workplace skills in the core businesses,” the Company is progressing initiatives including 1) standardizing various methods, establishing and utilizing intellectual property, and optimizing deployments of human resources; 2) strengthening its ability to react so it can respond quickly to changes in the markets and to technologies; 3) continuously optimizing the business portfolio; 4) improving the value of customer businesses by discovering customer needs and proposing services to them; and 5) expanding regional bases and strengthening employees’ ability to contribute immediately in the field and strengthening near-shore functions. Also, based on these basic policies, the Business Solutions Unit and the Embedded Solutions Unit have their own respective policies. Specifically, the Business Solutions Unit’s policies include improving productivity through standardizing development, establishing and utilizing intellectual property, and expanding the scale of outsourced projects; deepening relations with existing customers and acquiring end users and new customers close to them; changing to a business model based on outsourcing and services; and obtaining orders for one-stop services for all processes. Also, the policies being progressed by the Embedded Solutions Unit include increasing its share of transactions with existing excellent customers, including automotive manufacturers and semiconductor manufacturers; acquiring projects in the development field related to mass-produced in-vehicle devices; and completing the standardized method for embedded product verification, which will lead to improved quality and business expansion. Its policies also include creating IoT solutions, which are its area of expertise, and acquiring new customers.

### Growth strategy

To “strengthen product appeal in the product business,” the Group is progressing policies including 1) increasing sales, mainly from large customer companies, by strengthening the appeal of existing products; 2) creating products and becoming profitable in fields in which the Group is strong; 3) enhancing the lineup of products that are compatible with the new normal society, such as voice recognition using AI and AIOCR; and 4) continuously developing products that meet the needs of the times. For the WebARGUS web security solution, it is looking for business opportunities for the IoT version of WebARGUS. Furthermore, for the xoBlos Excel work innovation platform, it is targeting its introduction by more than 700 customer companies in total (515 companies as of July 2021), while also progressing the fully fledged development of DD-CONNECT, an electronic contract outsourcing service.

## Shareholder return policy

The Company’s basic policy for returns to shareholders is to continuously pay a stable dividend while also considering maintaining a good balance with securing internal reserves. Up to FY6/21, it targeted a dividend payout ratio at a level of 30% or above, but based on the management targets in the new mid-term management plan, from FY6/22 it will raise this to 35% or above. As a result, for FY6/22 it is forecasting a dividend of ¥30.0 per share (end of Q2 ¥15.0, period-end ¥15.0), an increase of ¥6.0 YoY.



Note: Conducted 2-for-1 shares splits in October 2016 and April 2018, and figures have been retroactively adjusted  
Source: Prepared by FISCO from the Company’s financial results

## ■ Initiatives for ESG management and for SDGs

As its initiatives for ESG (Environment, Society, Governance) management and for SDGs (Sustainable Development Goals), the Company is working to contribute to realizing a sustainable society, including through conducting appropriate corporate management and introducing its own products to customers. Specifically, as its contribution through corporate management, it is aiming to contribute to the realization of a sustainable society through enhancing the welfare of employees, promoting diversity by appointing women to executive positions, and conducting appropriate business management that prioritizes governance and related aspects. In addition, as contributions from the introduction of its own products, such as WebARGUS, xoBlos, and DD-CONNECT, the Company aims to establish a pleasant and stable internet society and improve productivity.

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