

# FY 13/3 Results Presentation

May 14, 2013



**DTS Corporation**

<http://www.dts.co.jp/>

# Contents

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**I****FY 13/3 Results****II****New Medium-Term Management Plan****III****FY 14/3 Forecast**

## Caution

**Sales and income forecasts included in this document are based on assumptions made on the basis of information currently available, including business trends, economic circumstances, clients' trends, etc., and can be affected by various uncertainties. Actual sales and income may differ materially from the forecasts.**

# I. FY 13/3 Results

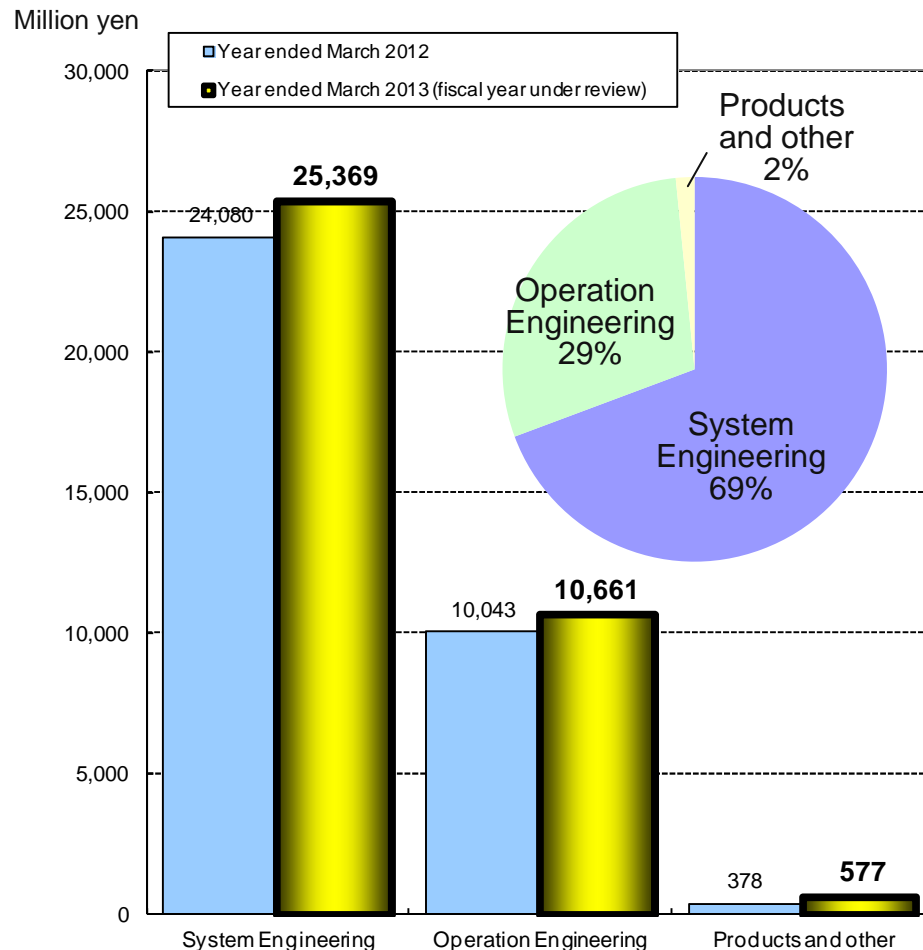
# FY 13/3 Results (Non-Consolidated)

(Units: Million yen, %)

	Amount	Ratio to sales (%)	Year on year		vs. initial forecasts	
<b>Net sales</b>	<b>36,607</b>	—	<b>106.1%</b>	<b>+2,105</b>	<b>99.2%</b>	<b>292</b>
Gross profit	6,105	16.7%	106.6%	+377	102.6%	+155
SG&A expenses	2,977	8.2%	98.6%	-43	93.0%	-222
<b>Operating income</b>	<b>3,127</b>	<b>8.5%</b>	<b>115.5%</b>	<b>+420</b>	<b>113.7%</b>	<b>+377</b>
Recurring income	3,281	9.0%	113.9%	+399	113.2%	+381
Net income	2,040	5.6%	127.9%	+444	123.7%	+390

# Sales by Service (Non-Consolidated, FY 13/3)

Both System and Operation sales were strong due to orders mainly for financial system development contracts and new operating contracts in the construction and real estate sectors.



## System Engineering (105.4% YoY)

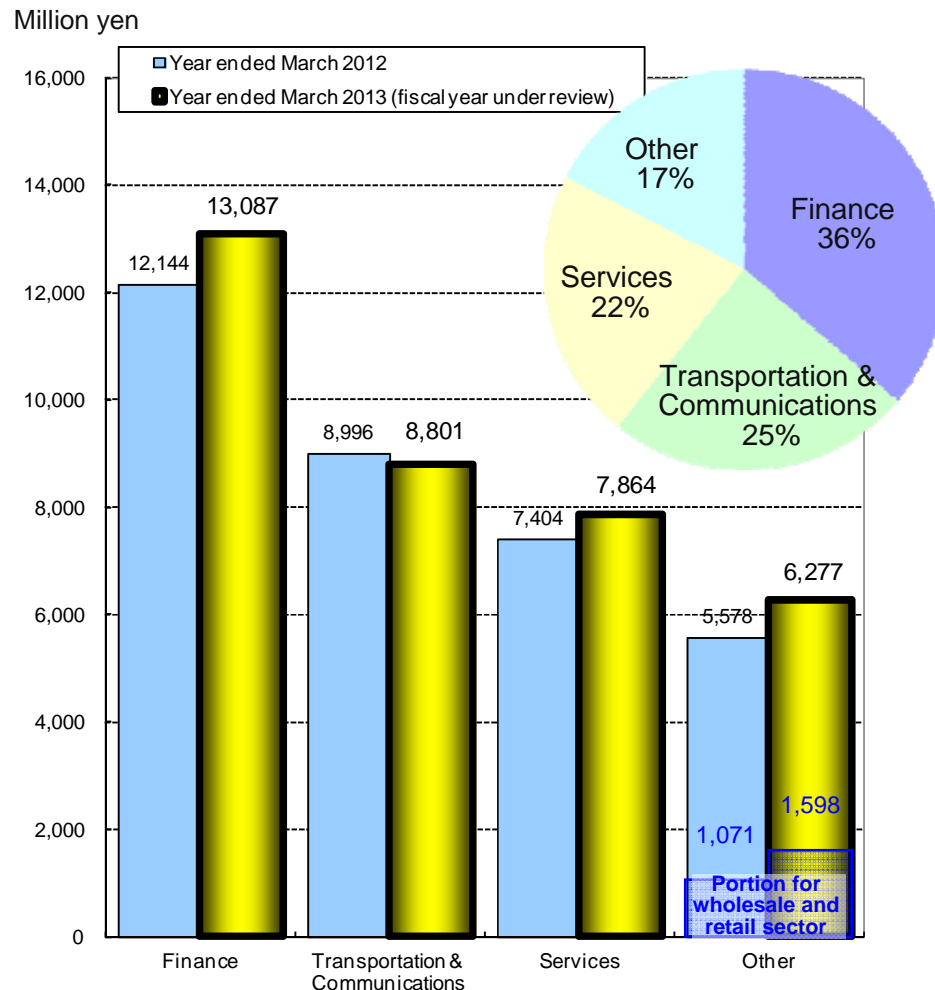
The finance sector saw strong sales in areas such as AMO projects and infrastructure construction for securities firms, and integration and core system renovation for trust banks. In the communications sector, sales increased, with expansion in mobile communications offsetting declines in areas such as frontline sales systems.

## Operation Engineering (106.1% YoY)

Operation sales rose, due to new contracts with construction and real estate companies and expansion in the number of contracts with existing customers in the service sector, which outweighed a decline in operating contracts in certain areas.

# Sales by End User (Non-Consolidated, FY 13/3)

In the finance sector, sales from system development contracts for securities firms and trust banks were strong. Sales in the service sector and other sectors (especially wholesale and retail) also increased.



### Finance (107.8% YoY)

Sales up, mainly due to AMO projects and infrastructure construction for securities firms, and integration and core system renovation for trust banks. Sales in the banking sector also began to increase, reflecting the stepping-up of payment system projects.

### Transportation & Communications (97.8% YoY)

Sales down slightly, due to a decline in contracts with specific customers in the communications sector, which outweighed higher sales from mobile communications and IDC operators.

### Services (106.2% YoY)

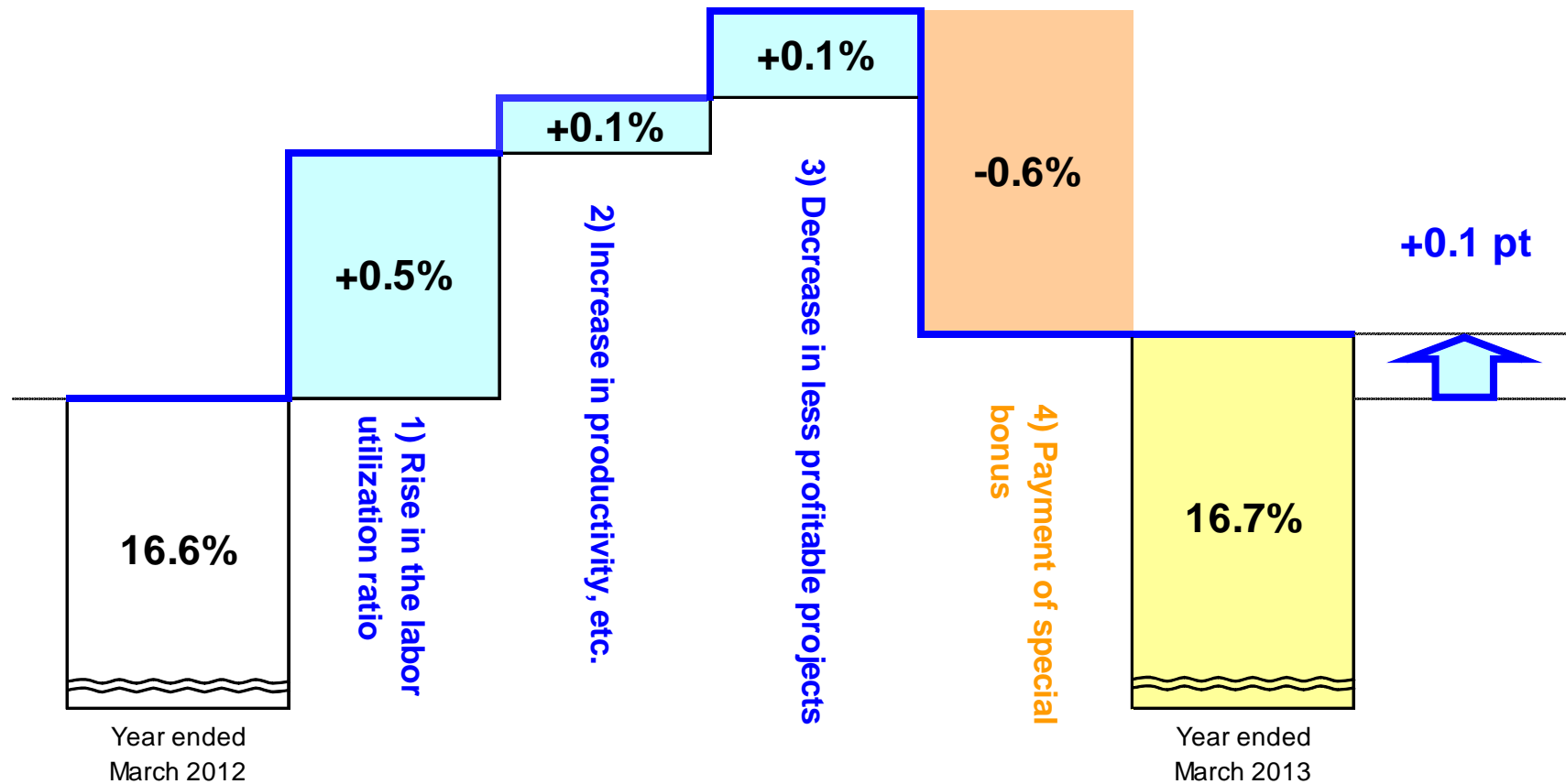
Sales up in a broad range of customer segments, including advertising.

### Other (112.5% YoY)

Sales increased to department stores, speciality stores and convenience stores in the wholesale and retail sector. Sales decreased to specific customers in the manufacturing sector. Sales rose to medical institutions in the public sector.

# Gross Profit (Non-Consolidated, FY 13/3)

Gross margin improved with a rise in the labor utilization ratio and an increase in productivity. Paid a special bonus to all employees.



# Operating Income and Recurring Income (Non-Consolidated, FY 13/3)



**SG&A expense fell, reflecting continued cost-cutting initiatives**

SG&A expenses: ¥2,977 million

(98.6% YoY; 8.1% of sales (-0.6 pts YoY))

Reduction of expenses as a result of rationalization of used building space, etc.	-¥22 million
Completion of amortization of goodwill	-¥21 million

Operating income: ¥3,127 million

(115.5% YoY; 8.5% of sales (+0.7 pts YoY))

Recurring income: ¥3,281 million

(113.9% YoY; 9.0% of sales (+0.6 pts YoY))



# FY 13/3 Results (Consolidated)

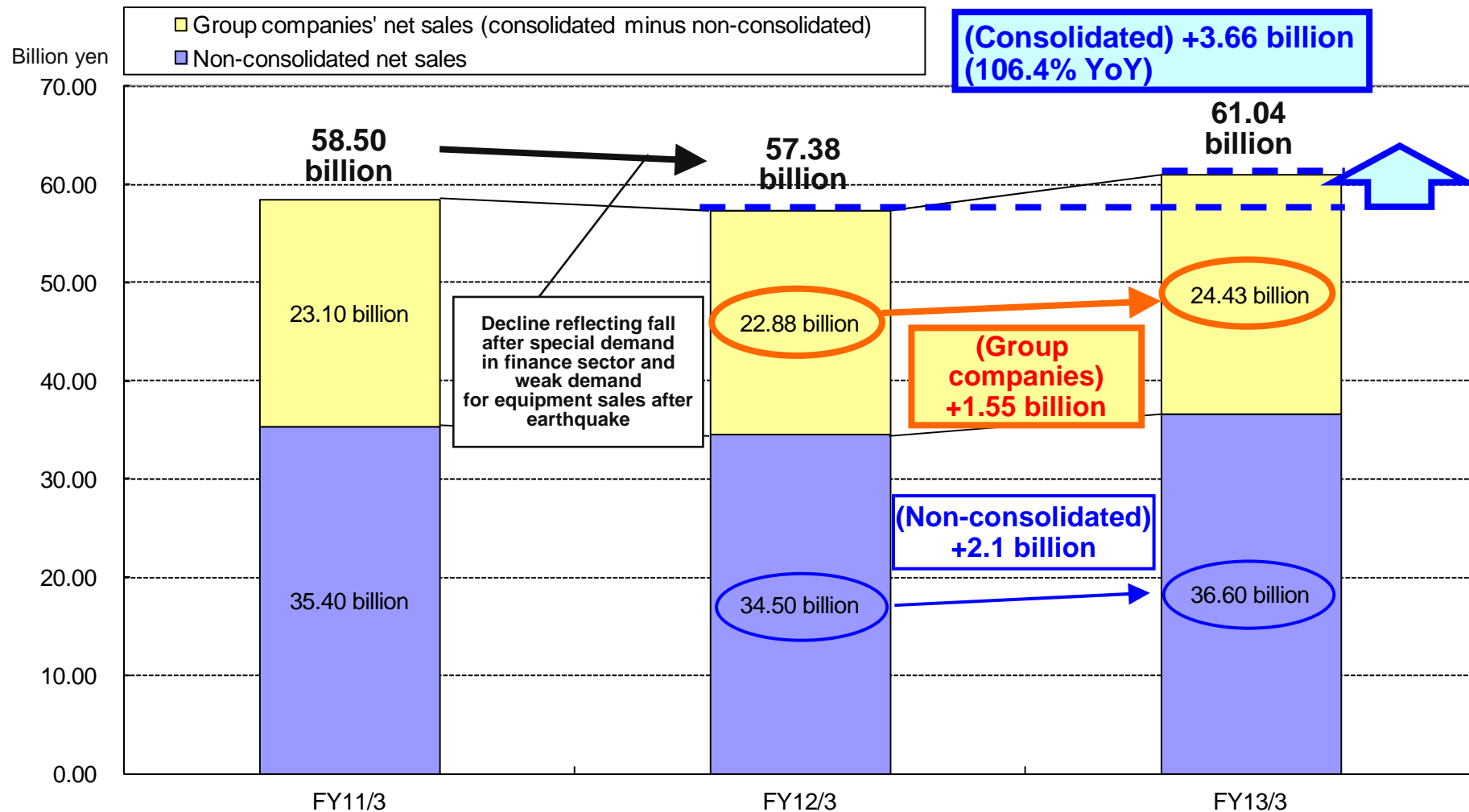
Achievement of gains in sales and profits due to increased cooperation between the Company and Group companies and progress on structural reform

(Units: Million yen, %)

	Amount	Ratio to sales (%)	Year on year		vs. initial forecasts	
<b>Net sales</b>	<b>61,039</b>	–	<b>106.4%</b>	<b>+3,654</b>	<b>100.1%</b>	<b>+39</b>
Gross profit	9,360	15.3%	108.7%	+ 749	100.7%	+60
SG&A expenses	5,357	8.7%	95.0%	- 280	92.4%	-442
<b>Operating income</b>	<b>4,003</b>	<b>6.6%</b>	<b>134.6%</b>	<b>+1,029</b>	<b>114.4%</b>	<b>+503</b>
Recurring income	4,095	6.7%	133.4%	+1,025	115.4%	+545
Net income	2,177	3.6%	140.0%	+ 621	121.0%	+377

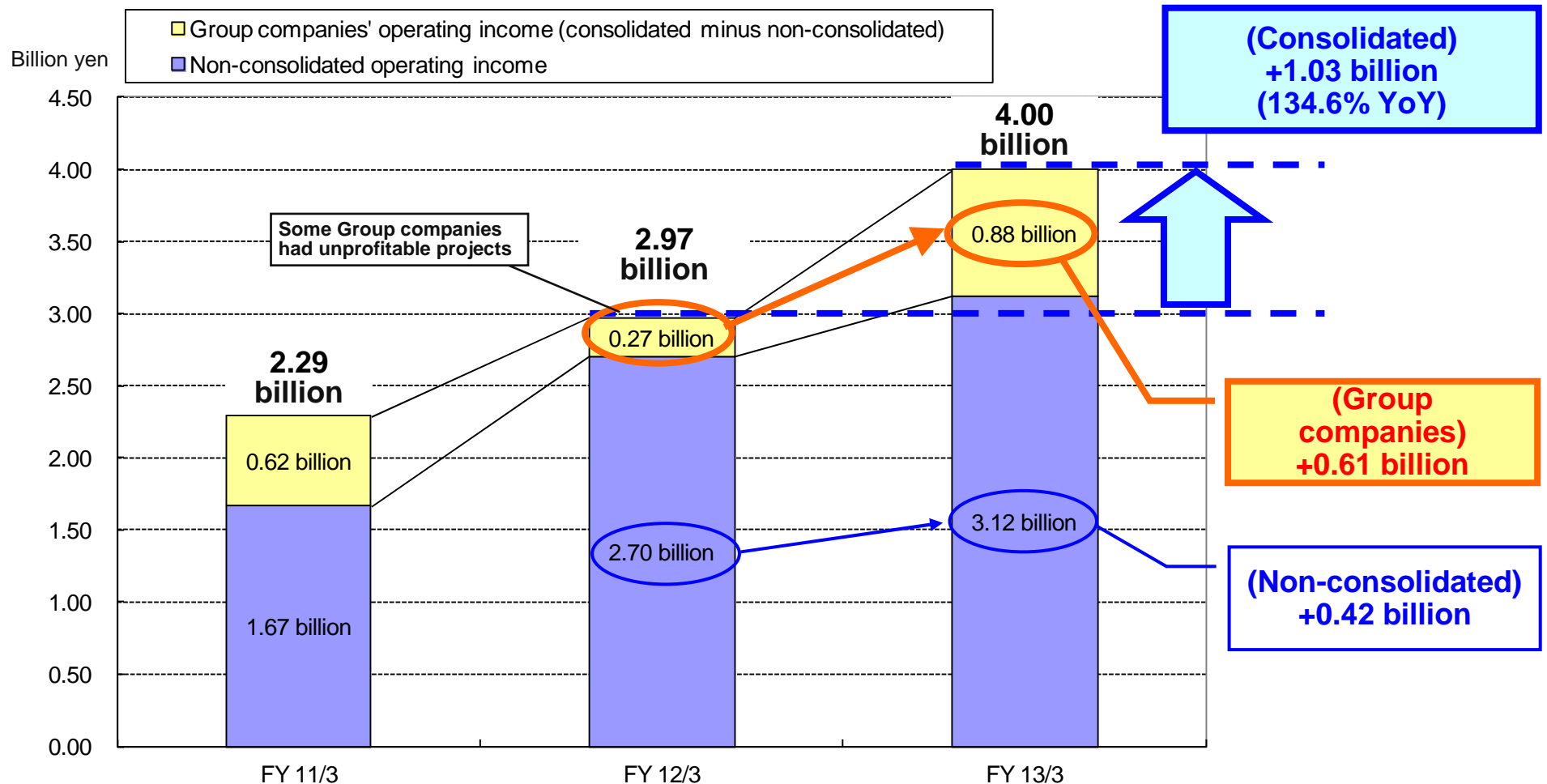
# Net Sales (Consolidated, FY 13/3)

Sales rose due to expansion in life insurance system development projects and equipment sales to online companies at Group companies, in addition to increased non-consolidated sales



# Operating Income (Consolidated, FY 13/3)

Every Group company achieved substantial profit growth by pursuing thoroughgoing profit management and cost-cutting measures



# Group Company Results (FY 13/3)

(Units: Million yen, %)

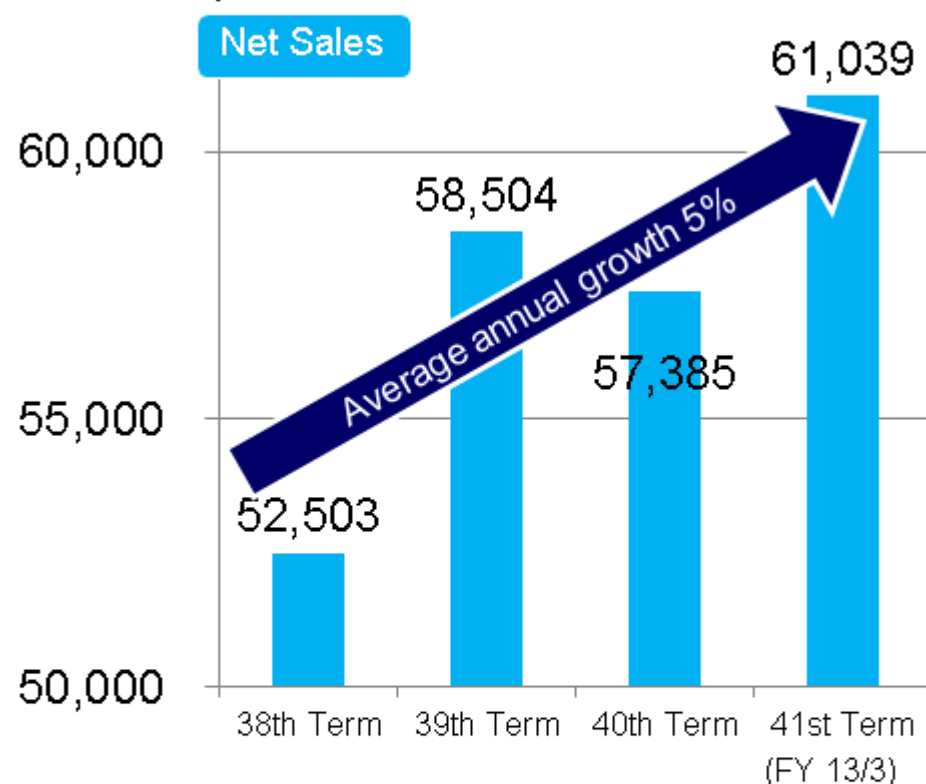
Company name	Net sales			Operating income			
	Amount	YoY (%)	vs plan	Amount	Operating margin	YoY (%)	vs plan
DATALINKS CORPORATION	7,727	96.9%	96.1%	228	3.0%	106.0%	102.4%
DIGITAL TECHNOLOGIES CORPORATION	6,950	123.9%	101.8%	55	0.8%	220.4%	55.4%
FAITEC CORPORATION	5,839	106.5%	104.2%	365	6.3%	354.1%	120.8%
JAPAN SYSTEMS ENGINEERING CORPORATION	4,001	99.3%	95.9%	276	6.9%	165.4%	100.8%
KYUSHU DTS CORPORATION	1,261	94.4%	93.5%	61	4.9%	134.1%	90.1%
SOUGOU SYSTEM SERVICE CORPORATION	1,200	118.4%	100.7%	101	8.4%	[+ 212]	110.3%
MIRUCA CORPORATION	353	91.7%	97.2%	-7	-	[-11]	[-13]

Notes: Figures for each company are on a non-consolidated basis, so the total does not equal consolidated figures.  
 Figures in brackets represent FY 13/3 amount minus FY 12/3 amount.

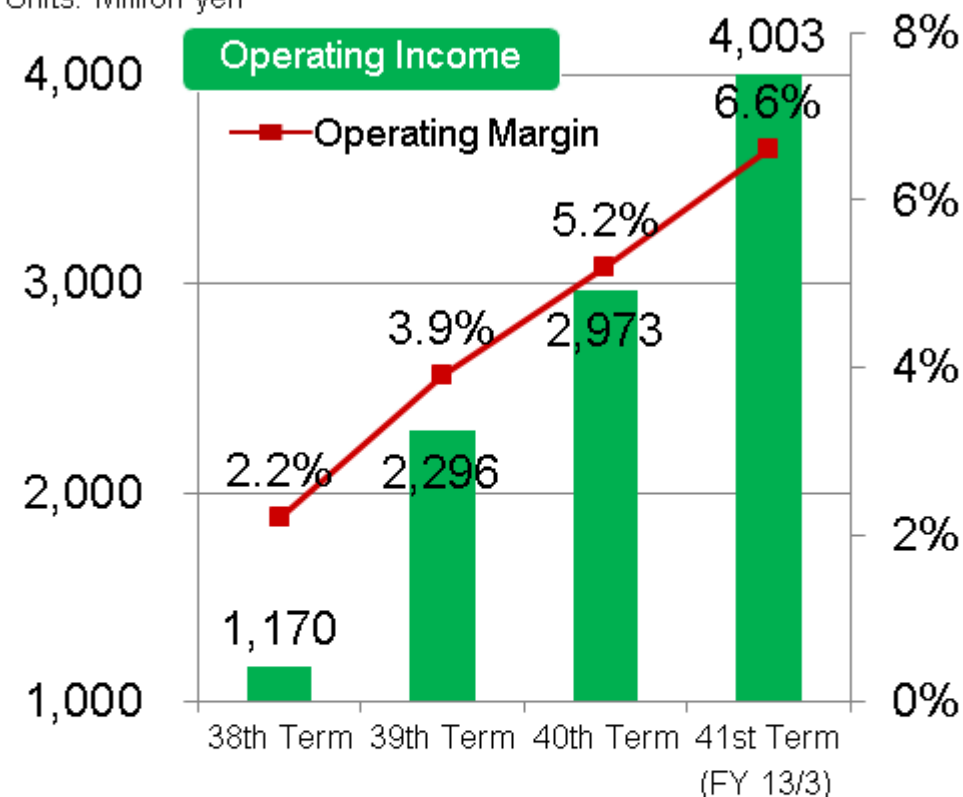
## II. New Medium-Term Management Plan

# 1. Review of Period Covered by Previous Medium-Term Management Plan

Units: Million yen



Units: Million yen



During the period covered by the previous medium-term management plan (39th Term to 41st Term), sales and profits expanded steadily, reflecting efforts to improve the earnings structure.



For future growth and expansion, further

**top-line growth**

**group-wide optimization**

are necessary

## 2. The Group Operating Environment



### Bottoming-out of domestic economy

GDP is expected to remain firm thanks to “public investment/monetary easing/medium-term fixed investment cycle.”



### Slowdown in growth of IT services market

The IT services market is expected to grow at an average annual rate of 2% in the short-term from 2013, and a slowdown in growth is forecast in the medium-to-long term.



### Contraction in market for conventional types of development

The market for conventional types of contracted development is shrinking, and there is a shift towards mobile communications, cloud computing, big data and social media technologies.

### 3. The Group's Strategic Direction

Aim to become indispensable to customers  
by creating value only DTS can create

Adapt to the changing business  
environment and aim to achieve  
long-term growth and expansion

## FY 22/3 (50<sup>th</sup> Term) Sales Target

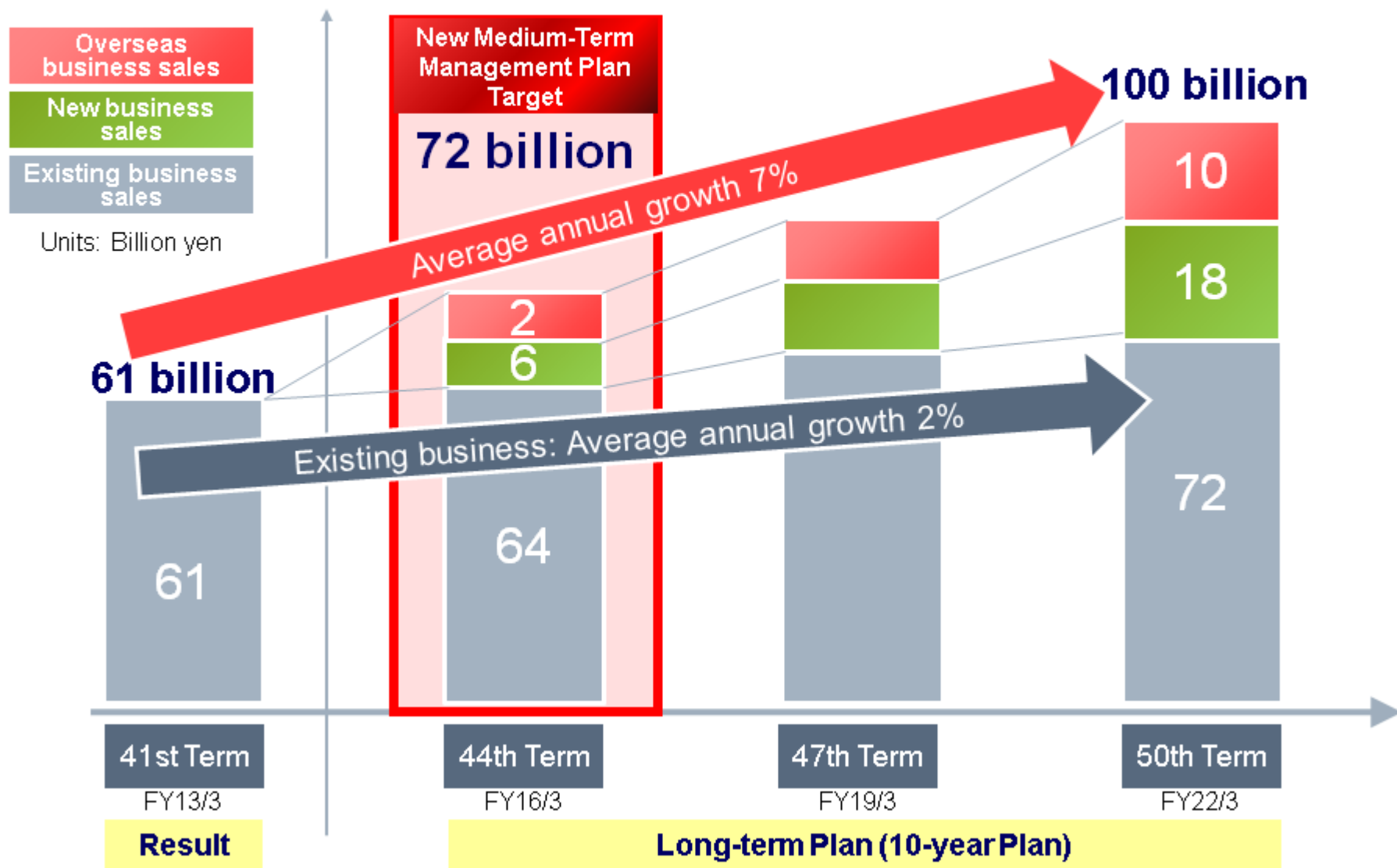
MADE BY DTS,  
creating new value





## 4. Positioning of New Medium-Term Management Plan

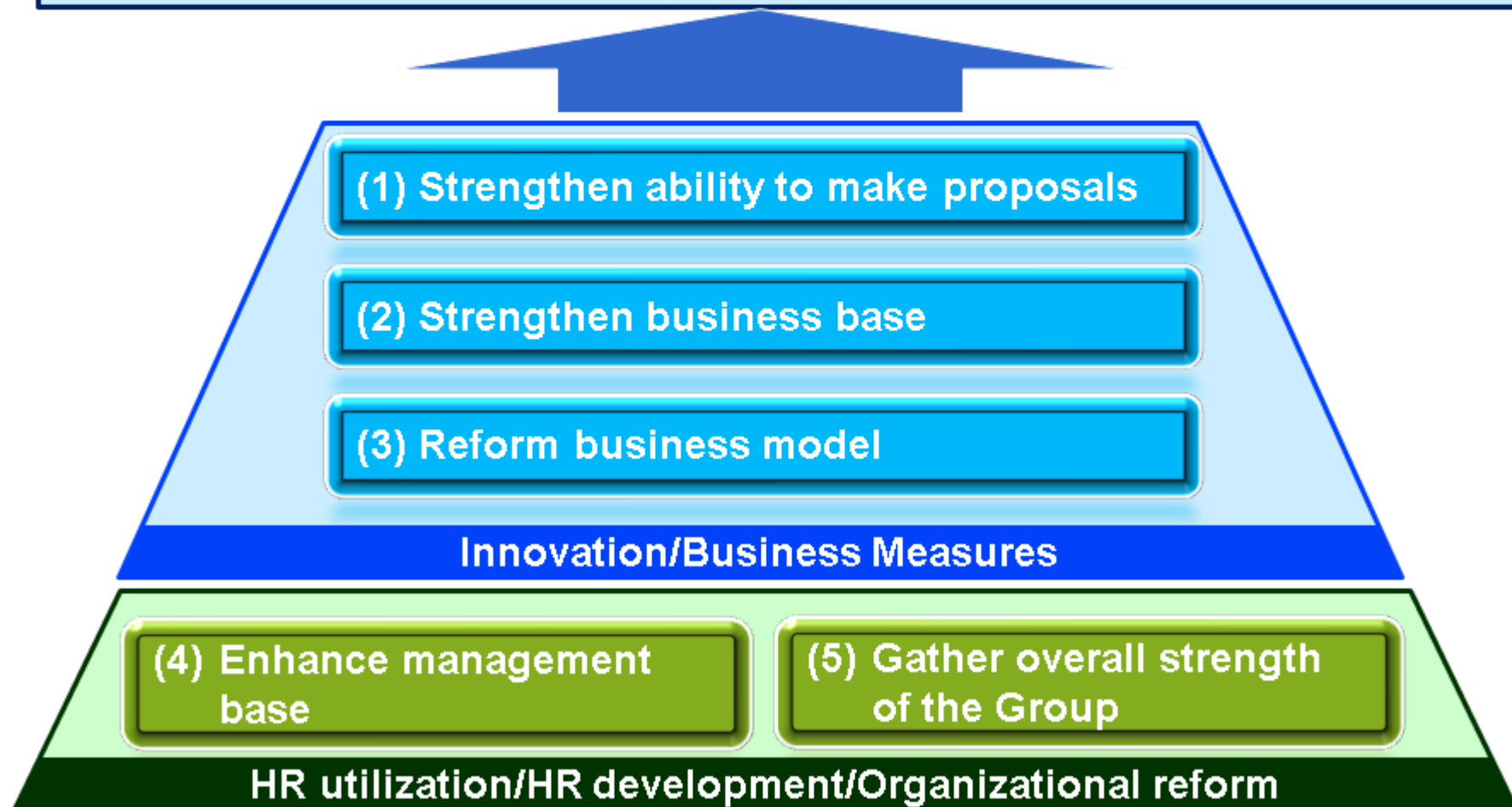
Three-year plan is first step of long-term plan to achieve sales of ¥100 billion in the 50th term



## 5. New Medium-Term Management Vision/Management Policy

**BEST VALUE PARTNER**, providing best value for customers

The DTS Group will work collaboratively with customers to confront the challenges facing them and to examine and implement solutions with the aim of becoming the **BEST VALUE PARTNER**, providing best value for customers.



## 5-(1) Strengthen ability to make proposals

Strengthen ability to make proposals only DTS can make, to enable provision of best value for customers.

Behavior shift toward proposal-type sales style

- **Develop sales role model human resources.**

- Deliver sales manager training.
- Develop role model human resources.

- **Improve customer satisfaction surveys (customer claim surveys).**

- Widen scope of surveys.
- Promote action through visualization.

- **Clarify responsibilities of sales staff.**

- Clarify (numerically) responsibility for winning contracts.
- Establish organizational culture of responsibility.

- **Promote cooperation among divisions.**

- Promote close cooperation between sales divisions and business divisions.
- Continue to hold group sales cooperation meetings.

Formation of DTS-style marketing process

## 5-(2) Strengthen business base

Further strengthen the business base by expanding core businesses and reforming development and operation processes to improve productivity.

Expand core business.

Develop the third pillar.

- Embedding (Double net sales.)
- PKG integration (Achieve 30% increase in net sales.)

Expand stock-type businesses.

- BPO/AMO (Achieve 30% increase in net sales)
- Service-proposal type business

Establish global business base.

- Expand overseas bases/customers (China, U.S., Southeast Asia).
- Expand overseas contracts.

Reform development and operation processes.

Improve productivity of development/operations

- Promote automation and use of templates.

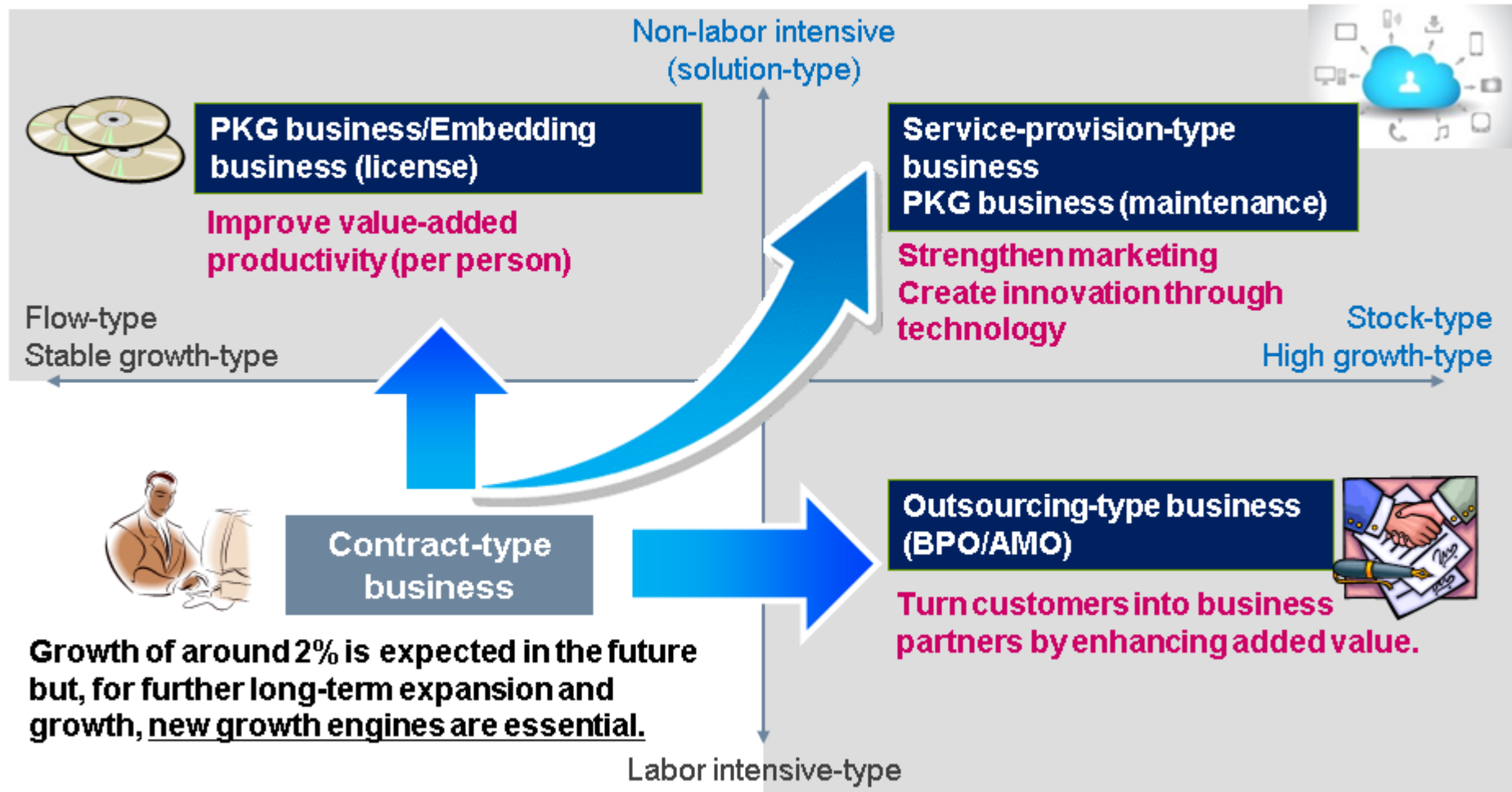
Make sure that large projects are profitable.

- Promote visualization of projects.
- Strengthen project management.

Achieve new Medium-Term Management Plan sales targets of ¥6 billion for new business and ¥2 billion for overseas business.

## 5-(3) Reform business model

Reform business model toward solution/service-provision-type businesses and outsourcing-type businesses, and create new businesses.

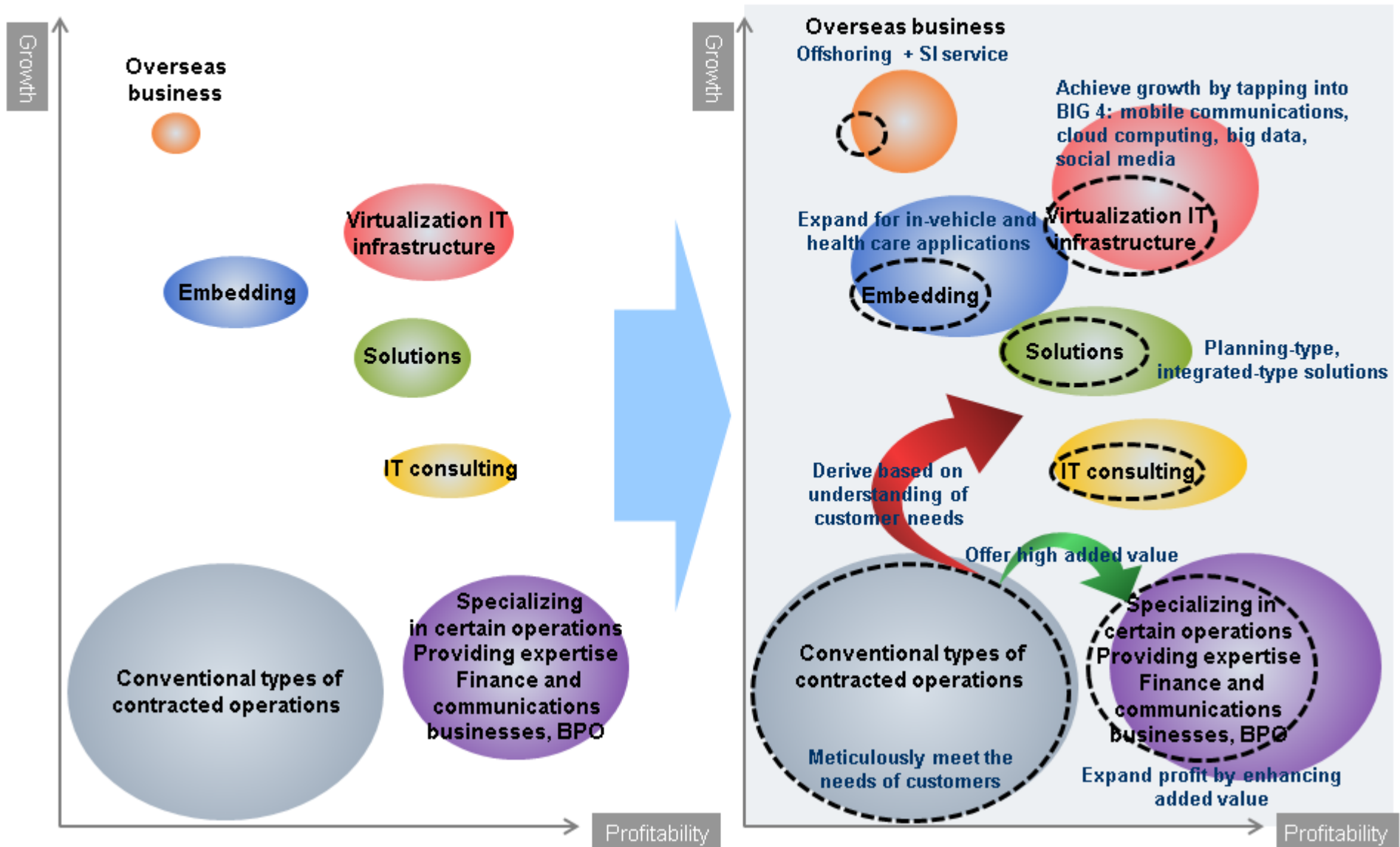


Achieve new Medium-term Management Plan target sales ratio for solution-type business/outsourcing-type business of 30%

# Future Direction of the Group's Business Portfolio

FY13/3 (41<sup>st</sup> term)

FY16/3 (44<sup>th</sup> term)



## 5-(4) Enhance management base

Step up development and utilization of human resources to achieve sales of ¥100 billion in the 50<sup>th</sup> term.

Increase organizational agility, to readily adapt to the changing business environment.

HR utilization and development

### HR utilization and rotation

- Assign outstanding human resources to important contracts.
- Strategically rotate human resources in accordance with a development plan.

### Discussion and exchanges

- Hold **President's cram school** and sales training camps.
- Diversity, technology & experts working groups
- Exchanges with human resources from other companies

### Training and career paths

- Expand and improve training to support reforms.
- Maintain professional certification programs.

### New way of thinking

- Continue to instil a new way of thinking requiring employee "self-regulation" (DTS WAY working groups).
- Increase communication through internal SNS.

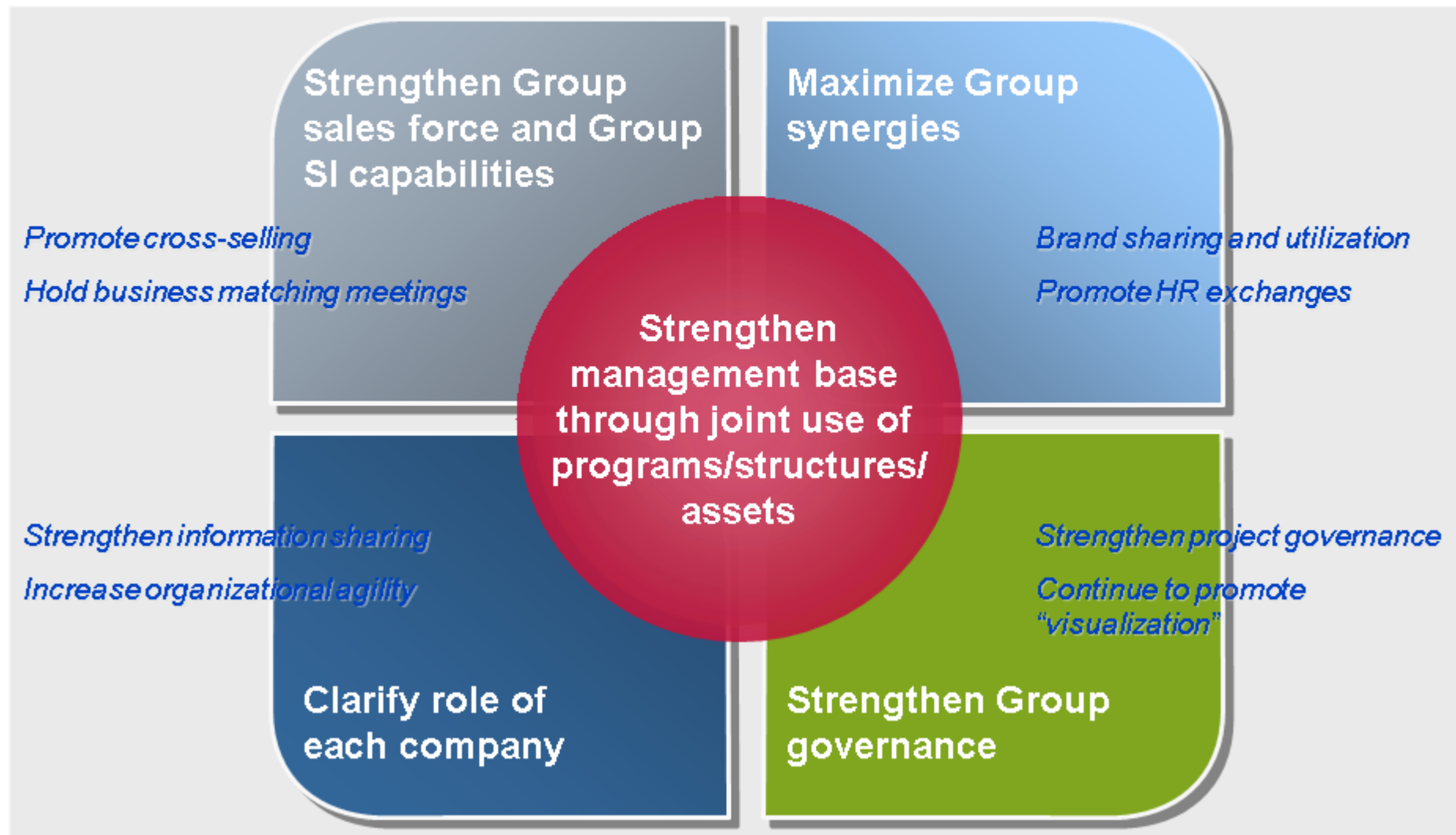
Organizational reform

### Carry out radical organizational reforms, adopting business division system/supervisory system

- Reorganize organizations according to characteristics and roles (increase flexibility of organization/functions).
- Promote staff mobility/cooperation.
- Improve productivity of/downsize **administrative business units**.

## 5-(5) Gather overall strength of the Group

**Gather overall strength of the DTS Group to achieve total optimization and to maximize Group synergies.**





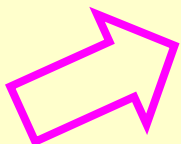
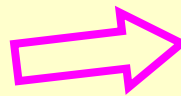
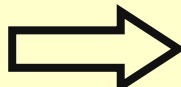

## 6. New Medium-Term Management Plan Targets

Aim to improve value-added productivity (per person, operating margin) to achieve the targets shown below.

	41st term		44th term
<b>Net sales</b>	¥61 billion	<b>Average annual growth +6.0%</b>	¥72 billion
<b>Operating income</b>	¥4 billion		¥5.6 billion
<b>Operating margin</b>	6.6%		7.8%

## III. FY 14/3 Forecast

# Outlook for Business Environment

Sector		Topic	Market trend
Finance	Banks	Prepare to step up development for <b>large-scale renovation contracts</b> . Continue working on <b>payment systems and information systems</b> currently under development. Start work on design for <b>overseas contracts</b> .	
	Trust Banks & Life and Non-Life Insurance	Continue working towards service rollout in <b>integration contracts and core system reconstruction</b> for trust banks, and renovation contracts with life insurers.	
	Securities	Expect to steadily receive contracts, especially <b>AMO projects and infrastructure construction</b> .	
Transportation & Communications	Communications	Demand in areas such as <b>cloud platforms for mobile communications</b> and IDC operators is expected to remain strong.	
	Transportation	Large-scale renovation projects for the <b>air transport sector</b> will enter a maintenance phase, but development projects for new customers will expand.	
Services		Solid performance forecast due to firm IT investment demand.	
Manufacturing, Public, Wholesale and Retail		Inquiries about <b>embedded systems</b> are increasing in the automotive and health care sectors. Large contracts are expected in the <b>public sector</b> , and aggressive investment is expected in the <b>wholesale and retail sectors</b> .	

# Non-Consolidated and Consolidated Performance Forecasts for the Fiscal Year Ending March 2014



(Units: Million yen, %)	Non-consolidated				Consolidated			
	Amount	Ratio to sales (%)	YoY		Amount	Ratio to sales (%)	YoY	
<b>Net sales</b>	<b>38,000</b>	-	<b>103.8%</b>	<b>+1,392</b>	<b>62,000</b>	-	<b>101.6%</b>	<b>+960</b>
Gross profit	6,550	17.2%	107.3%	+445	10,200	16.5%	109.0%	+840
SG&A expenses	3,400	8.9%	114.2%	+423	6,100	9.8%	113.9%	+743
<b>Operating income</b>	<b>3,150</b>	<b>8.3%</b>	<b>100.7%</b>	<b>+22</b>	<b>4,100</b>	<b>6.6%</b>	<b>102.4%</b>	<b>+97</b>
Recurring income	3,300	8.7%	100.6%	+18	4,150	6.7%	101.3%	+55
Net income	2,050	5.4%	100.5%	+9	2,200	3.5%	101.0%	+23

# Non-Consolidated and Consolidated Performance Delivering Tomorrow's Solutions

## Forecasts for First Half of Fiscal Year Ending March 2014

	Non-consolidated				Consolidated			
	Amount	Ratio to sales (%)	YoY		Amount	Ratio to sales (%)	YoY	
(Units: Million yen, %)								
<b>Net sales</b>	<b>17,850</b>	-	<b>103.0%</b>	<b>+526</b>	<b>30,200</b>	-	<b>101.5%</b>	<b>+457</b>
Gross profit	2,900	16.2%	103.9%	+108	4,750	15.7%	109.0%	+391
SG&A expenses	1,700	9.5%	118.1%	+261	3,050	10.1%	113.5%	+362
<b>Operating income</b>	<b>1,200</b>	<b>6.7%</b>	<b>88.8%</b>	<b>-152</b>	<b>1,700</b>	<b>5.6%</b>	<b>101.8%</b>	<b>+29</b>
Recurring income	1,300	7.3%	88.6%	-167	1,750	5.8%	101.7%	+30
Net income	800	4.5%	88.3%	-106	920	3.0%	101.7%	+16

# Reference) Full-year forecasts for Group companies for fiscal year ending March 2014

(Units: Million yen, %)					
Company name	Net sales		Operating income		
	Amount	Year on year	Amount	Ratio to sales (%)	Year on year
DATALINKS CORPORATION	7,980	103.3%	240	3.0%	105.3%
DIGITAL TECHNOLOGIES CORPORATION	6,200	89.2%	105	1.7%	190.3%
FAITEC CORPORATION	5,600	95.9%	535	9.6%	146.3%
JAPAN SYSTEMS ENGINEERING CORPORATION	4,300	107.5%	290	6.7%	104.8%
KYUSHU DTS CORPORATION	1,390	110.2%	77	5.5%	124.9%
SOUGOU SYSTEM SERVICE CORPORATION	1,200	100.0%	79	6.6%	78.3%
MIRUCA CORPORATION	365	103.3%	3	1.0%	[+10]
DTS (Shanghai) CORPORATION * To be consolidated in the current period	364	-	38	10.6%	-

Notes: Figures for each company are on a non-consolidated basis, so the total does not equal consolidated figures.  
Figures in brackets represent FY 14/3 amount minus FY 13/3 amount.

# Dividend

Payment of commemorative dividend of 5 yen to celebrate the 40<sup>th</sup> anniversary of the Company's foundation on August 25, 2012 and to thank shareholders for their everyday support

	End of second half	Year end	Full year	Payout ratio (consolidated)
<b>FY 13/3</b>	<b>15 yen</b>	(Forecast) <b>20 yen</b> <small>Including commemorative dividend of 5 yen</small>	(Forecast) <b>35 yen</b> <small>Including commemorative dividend of 5 yen</small>	(Forecast) <b>38.2%</b>
<b>FY 14/3</b>	(Forecast) <b>15 yen</b>	(Forecast) <b>15 yen</b>	(Forecast) <b>30 yen</b>	(Forecast) <b>32.4%</b>