

FY 16/3

Results Presentation

Creating new value
Change! for the Next

May 17, 2016

 株式会社 **DTS**
DTS <http://www.dts.co.jp/>
DTS Corporation

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New Medium-Term Management Plan
(April 2016 – Mar 2019)

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.



1. FY 16/3 Results

Factors of change from FY 15/3

- Merged with DTS WEST CORPORATION in April 2015, leaving SOUGOU SYSTEM SERVICE CORPORATION as the surviving company. Changed company name to DTS WEST
- Transferred selected DTS embedding operations to ART System Co., Ltd. (corporate divestiture) in April 2015, and concentrated embedding-related businesses under ART System Co., Ltd.
- Posted extraordinary profits of approximately ¥1.1 billion and extraordinary losses of approximately ¥500 million in April 2015, due to the sale of land and buildings (including headquarters) as part of the process of consolidating facilities
- Consolidated financial results for SOUGOU SYSTEM SERVICE CORPORATION for the three months from January to March 2015 with results for the fiscal year under review due to a change in the company's fiscal year-end (from December to March)
- Posted additional contribution of approximately ¥1.2 billion as extraordinary losses, due to withdrawal from the information service industry welfare pension fund

FY 16/3 Consolidated Results

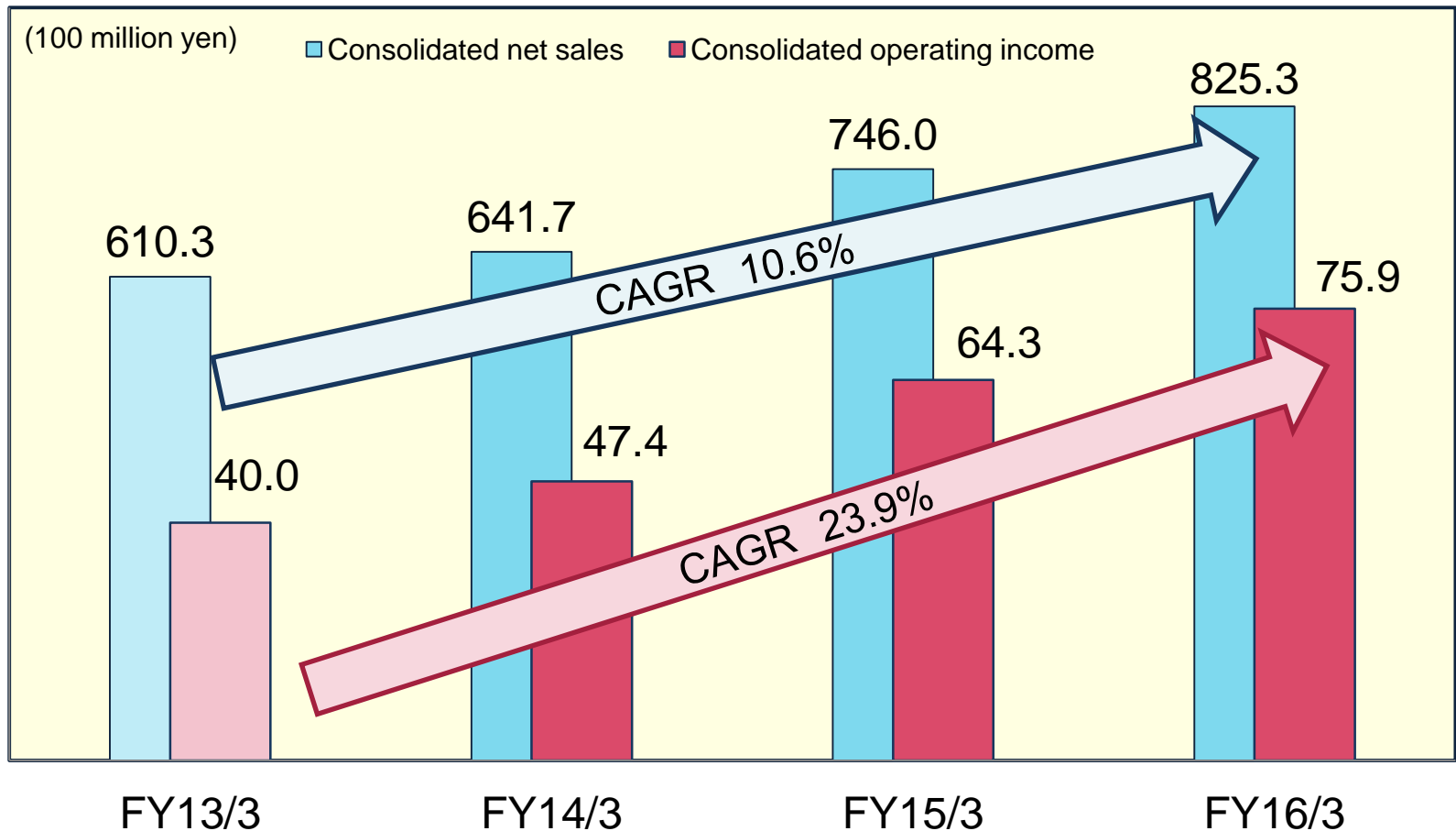


Both net sales and operating income increased substantially, by 10.6% and 18.2% respectively year on year, accompanied by a 0.6 point increase in the operating income margin.

(Units: 100 million yen, %)	Results	Ratio to sales (%)	Year on year		Compared to initial forecast	
Net sales	825.3	—	110.6%	+79.2	107.2%	+55.3
Gross profit	149.8	18.2%	113.7%	+18.1	107.0%	+9.8
SG&A expenses	73.8	8.9%	109.5%	+6.4	101.2%	+0.8
Operating income	75.9	9.2%	118.2%	+11.6	113.4%	+8.9
Recurring income	77.0	9.3%	118.2%	+11.8	114.2%	+9.5
Profit attributable to owners of parent	43.4	5.3%	117.6%	+6.4	95.4%	-2.0

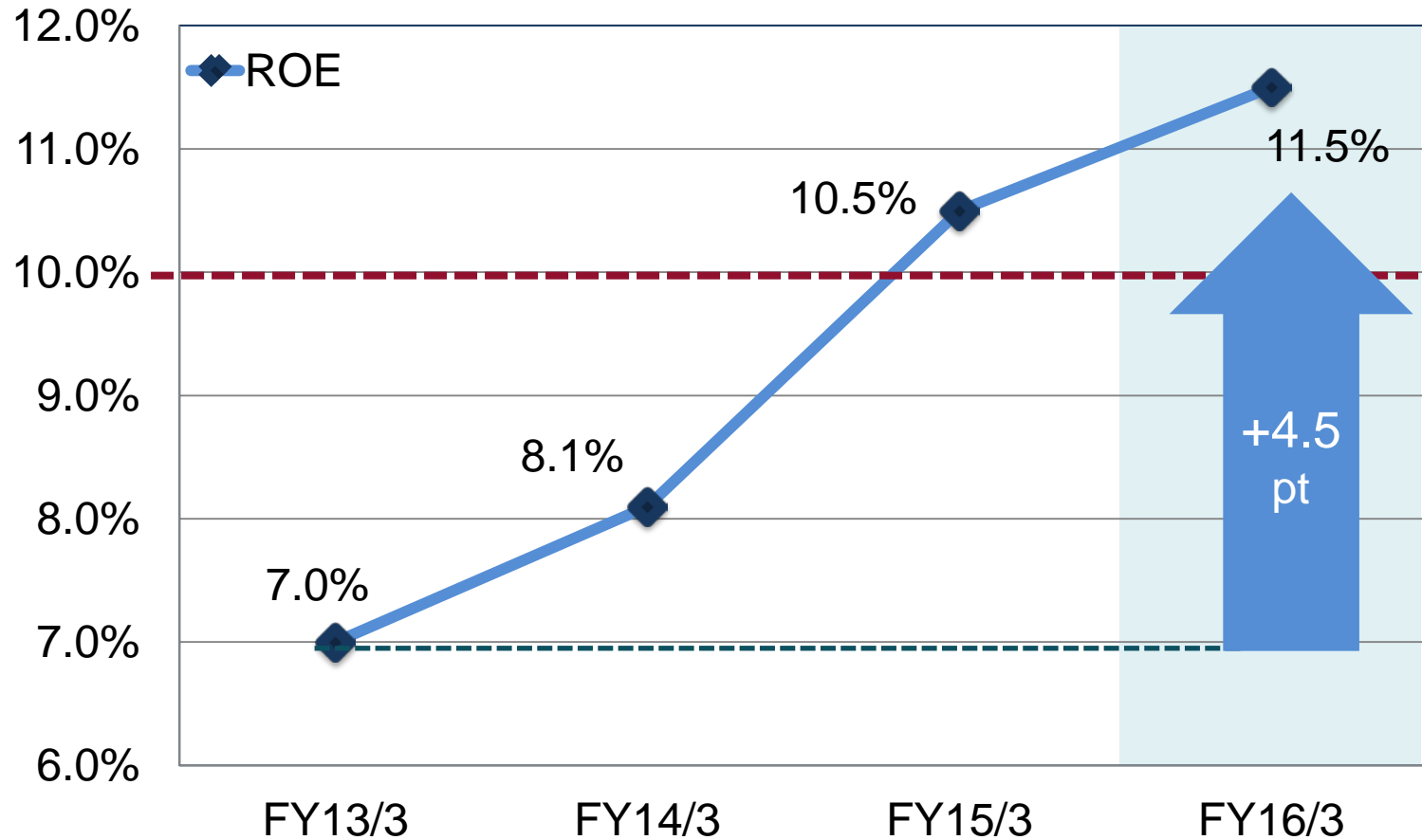
Change in Consolidated Net Sales and Operating Income

- Consolidated net sales hit a **record high for the third consecutive year**.
- Consolidated operating income once again hit a **record high**, following on from the previous year.



Change in Consolidated ROE

ROE for FY 16/3 came to 11.5%, an increase of 1.0 point year on year



Consolidated Net Sales by Segment

- Sales in the system segment increased substantially due to increased demand, particularly in the finance sector.
- Product sales were down compared to a spike in demand the previous year.

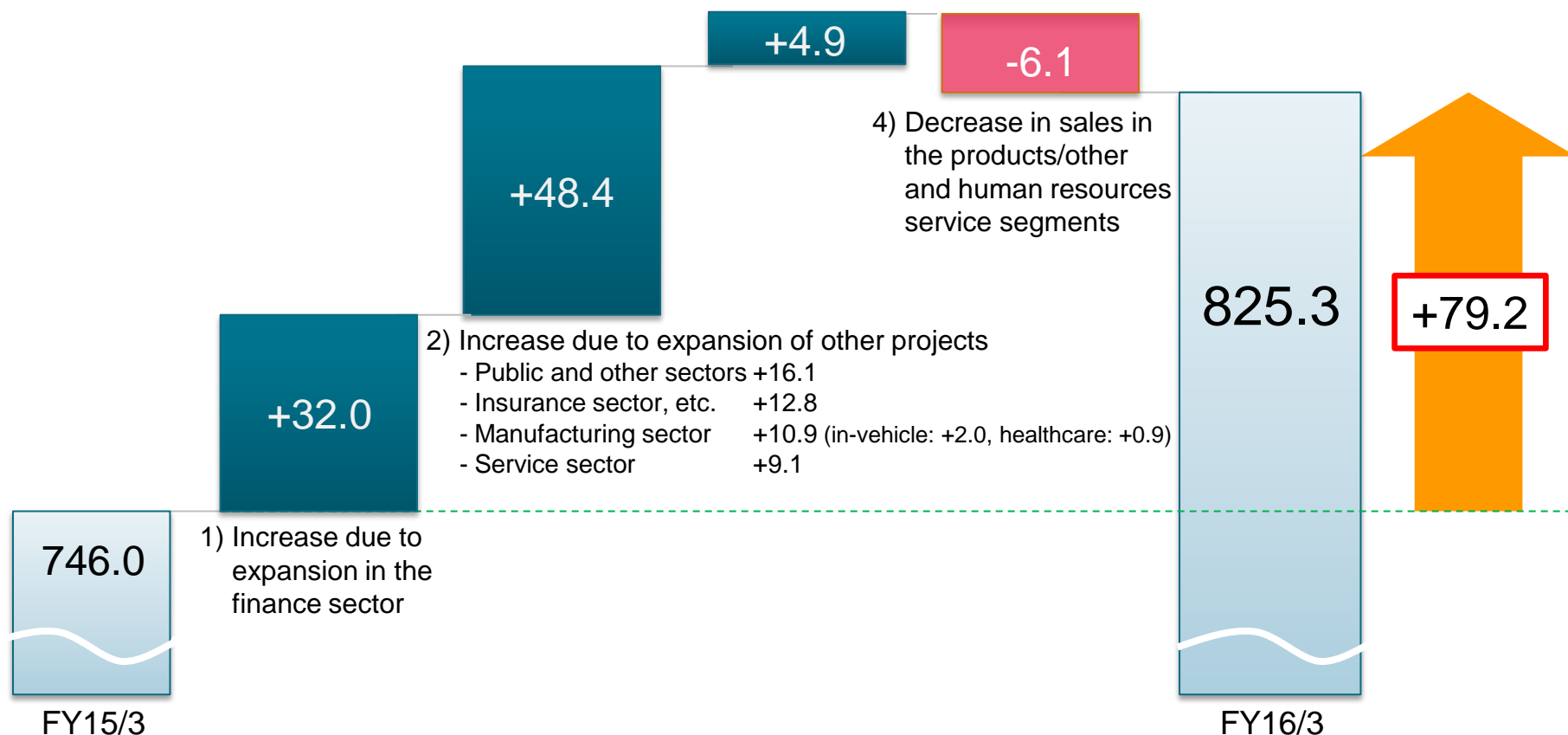
(Units: 100 million yen, %)	Results	Ratio to sales (%)	Year on year		Main factors of change
Net sales	825.3	-	110.6%	+79.2	
Information service	793.6	96.2%	111.7%	+83.0	
System	592.4	71.8%	115.8%	+80.8	- Expanded projects in the finance and insurance sectors - Sales remained strong in the service and public sectors, and across a wide range of other businesses
Operation	135.1	16.4%	103.6%	+4.6	- Sales remained healthy for operations and maintenance, including the service and communications sectors
Products and other	66.0	8.0%	96.5%	-2.4	- Down compared to a spike in demand for internet companies
Human resources service	31.6	3.8%	89.3%	-3.7	- Struggled due to factors such as difficulties securing human resources

Reasons for Increase in Consolidated Net Sales

Net sales were boosted by increased sales in the finance sector and the expansion of projects in the manufacturing, insurance and service sectors in particular.

(100 million yen)

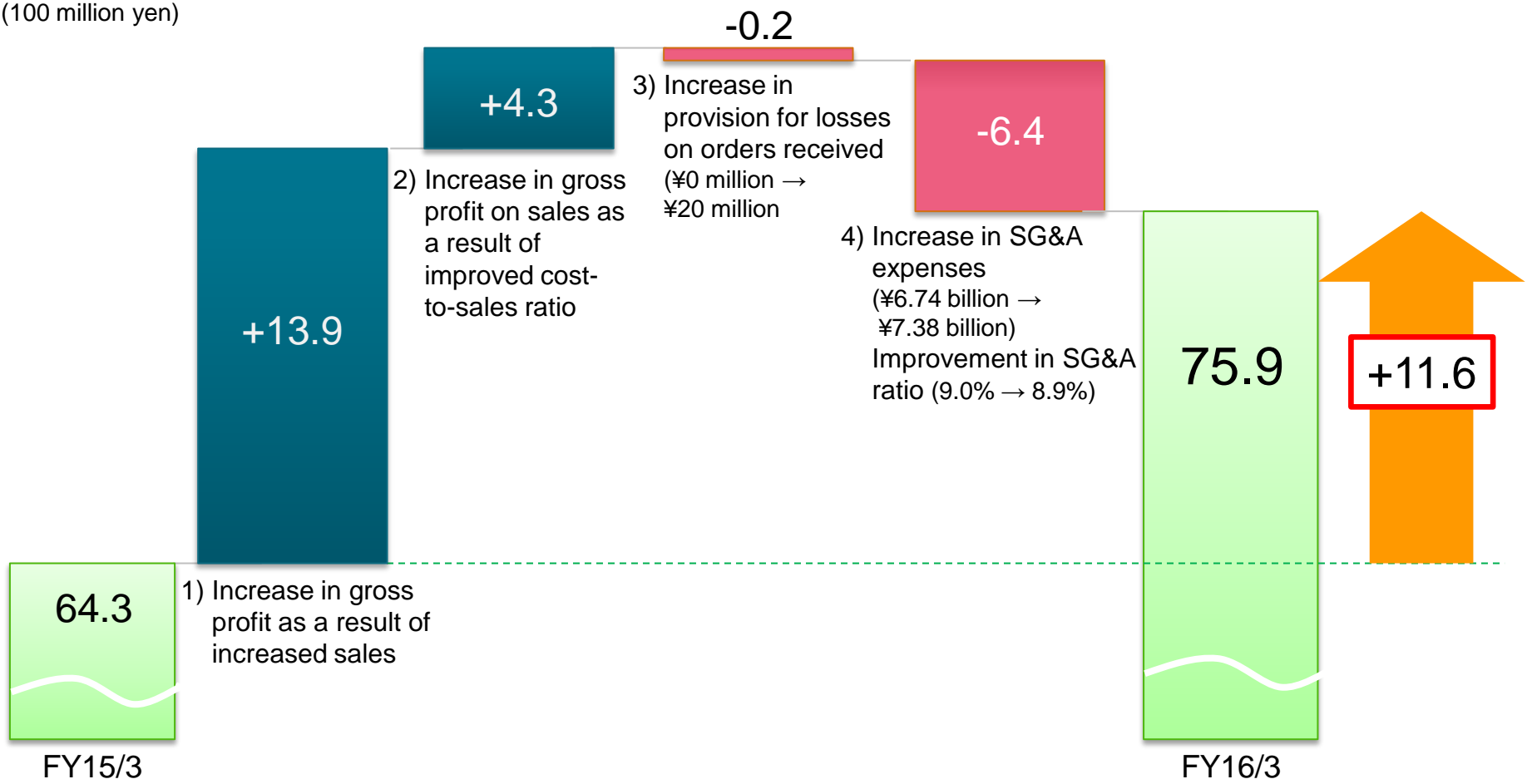
3) Impact of change to fiscal year-end at SOUGOU SYSTEM SERVICE



Reasons for Increase in Consolidated Operating Income

- Operating income increased substantially due to improved sales and cost-to-sales ratio.
- SG&A expenses were strategically invested to facilitate future growth and reforms.

(100 million yen)



New Contracts and Backlogs

New contracts and backlogs were maintained at the same level as the previous year, thanks to increases in system and operation contracts cancelling out a decrease in contracts due to the transfer of the DATALINKS business.

(Units: 100 million yen, %)	New contracts				Backlogs				Main factors of change (Backlogs)
	Results	Composition ratio	Year on year		Results	Composition ratio	Year on year		
New Contracts and Backlogs	826.3	-	100.0%	-0.2	303.9	-	100.3%	+0.9	
Information service	803.6	97.2%	101.5%	+11.9	296.7	97.6%	103.5%	+9.9	
System	598.7	72.5%	102.0%	+11.7	199.2	65.5%	103.3%	+6.3	- Expanded projects in the public, insurance and securities sectors - Decrease in large-scale projects for banks
Operation	138.7	16.8%	101.3%	+1.7	96.3	31.7%	103.9%	+3.6	- Expanded projects in the public and service sectors
Products and other	66.0	8.0%	97.6%	-1.6	1.1	0.4%	94.8%	-0.0	
Human resources service	22.7	2.5%	65.2%	-12.1	7.1	2.3%	44.4%	-8.9	- Down due to transfer of a group company's business, etc.

Non-Consolidated Results for FY 16/3



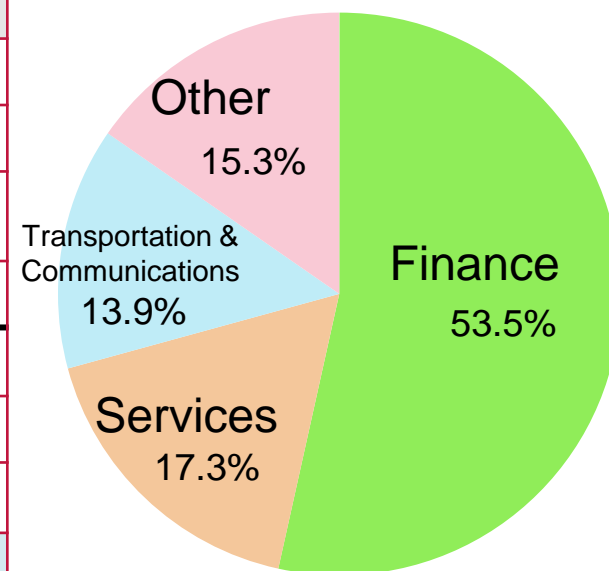
An 11.1% increase year on year in net sales and a 14.8% increase year on year in operating income contributed significantly to consolidated results. The company's operating income margin also rose by 0.6 point.

(Units: 100 million yen, %)	Results	Ratio to sales (%)	Year on year		Compared to initial forecast	
Net sales	560.7	—	111.1%	+55.8	107.8%	+40.7
Gross profit	102.2	18.2%	112.4%	+11.3	106.5%	+6.2
SG&A expenses	39.7	7.1%	109.0%	+3.2	99.4%	-0.2
Operating income	62.4	11.1%	114.8%	+8.0	111.6%	+6.4
Recurring income	63.7	11.4%	113.7%	+7.6	112.9%	+7.2
Net income	38.1	6.8%	80.3%	-9.3	91.9%	-3.3

[Non-Consolidated] Sales by End User for FY 16/3

- Business in the financial sector grew significantly due to an increases in bank, life insurance and other projects
- Sales also remained strong in the Services and Other businesses, such as those in the public sector.

(Units: Million yen, %)	Amount	Composition ratio	Year on year	
Finance	292.4	53.5%	117.3%	+43.1
Services	94.4	17.3%	110.7%	+9.1
Transportation & Communications	76.1	13.9%	98.3%	-1.3
Other	83.8	15.3%	104.2%	+3.3
For the manufacturing sector	31.5	5.8%	92.5%	-2.5
For the public sector	23.9	4.4%	128.6%	+5.3
For the whole sale and retail sector	14.8	2.7%	117.0%	+2.1
Systems and operations	546.8	100.0%	111.0%	+54.3



Finance: Sales increased particularly for large-scale system integration at banks. Development projects for life insurance firms also increased.

Transportation & Communications: Sales in the transport and communications sector were down slightly due to factors such as major customers continuing to hold off investment

Services: Sales remained strong, thanks in part to securing new customers

Other: Public sector sales increased due to factors such as the integration of pension plans. Actual sales from manufacturing increased by ¥0.39 billion due to the transfer of ¥0.64 billion to a group company in the embedding business

(Reference) Group Company Results for FY 16/3

Company name	Net sales			Operating income			
	Amount	YoY (%)		Amount	Ratio to sales (%)	YoY (%)	
DATALINKS CORPORATION	77.5	101.8%	+1.3	3.2	4.2%	117.4%	+0.4
DIGITAL TECHNOLOGIES CORPORATION	68.5	101.3%	+0.8	1.1	1.7%	125.7%	+0.2
JAPAN SYSTEMS ENGINEERING CORPORATION	48.6	108.2%	+3.7	3.5	7.3%	135.2%	+0.9
YOKOGAWA DIGITAL COMPUTER CORPORATION	32.6	104.5%	+1.4	1.2	3.9%	122.8%	+0.2
DTS WEST CORPORATION*	27.3	102.7%	+0.7	1.7	6.5%	75.0%	-0.5
ART System Co., Ltd.*	23.6	248.4%	+14.1	2.9	12.6%	463.7%	+2.3
KYUSHU DTS CORPORATION	19.0	123.8%	+3.6	1.9	10.3%	151.9%	+0.6
MIRUCA CORPORATION	4.0	97.6%	-0.1	0.2	5.9%	41.8%	-0.3
DTS America Corporation	3.1	231.0%	+1.8	0.5	17.4%	236.1%	+0.3
DTS (Shanghai) CORPORATION	2.8	74.8%	-0.9	-0.1	-	-	-1.2

Note: As figures for group companies are on a non-consolidated basis, the total does not add up to the same as consolidated figures.

* Year-on-year figures for DTS WEST are compared against combined figures for both DTS WEST and SOUGOU SYSTEM SERVICE.

* ART System took over selected embedding operations from DTS in April 2015.

1

Strengthen ability to make proposals

Focusing on visualizing customer information, improving coordination between business divisions, and strengthening and promoting proposal activities to secure new customers

Strengthening sales systems

Working to secure new projects

2

Strengthen business base and reform business model

Strengthening embedding operations, developing new solutions, strategically investing in priority sectors, and conducting research and testing

Creating a “third pillar” in addition to finance and communications

Creating a new planning-type business

Securing profits from projects

Establishing a global business base

3

Enhance the Group management base

Improving training initiatives, promoting development of high value-added human resources, and focusing on strengthening groupwide capabilities based on the new Medium-Term Management Plan, alongside measures to improve SI capabilities at group companies

Developing high value-added human resources

Group structural reform and management optimization

Progress with Key Initiatives (1)

1. Strengthen ability to make proposals

Stronger sales systems	<ul style="list-style-type: none">- Sales strategy committees have been reformed for individual accounts. Visualization of customer needs and coordination in terms of information is being strengthened as part of customer-oriented sales activities.- The scope of customer satisfaction surveys has been extended, and improvements are being made in areas with low levels of satisfaction (improved customer service, etc.), in order to increase trust amongst customers.
Working to secure new projects	<ul style="list-style-type: none">- Target management has been introduced as part of proposal activities for new customers and projects, while promoting proposal activities and improving the contents of proposals in a concerted effort to secure new markets.

2. Strengthen business base and reform business model




Creation of a “third pillar”	<ul style="list-style-type: none">- Selected DTS embedding operations have been transferred to ART System. Sales from embedding-related business have increased approximately four-fold since FY 14/3, due in part to the effects of M&A.
Creation of new-planning-type businesses	<ul style="list-style-type: none">- Joint research and development has been carried out with other companies, including group companies, and sales management solutions and diagnostic support systems for rheumatoid arthritis have been commercialized. Development is also underway on new versions of products such as DaTaStudio and Walk in home.- Strategic investment and testing are being carried out in new areas such as Fintech and IoT.
Securing profits in projects	<ul style="list-style-type: none">- Ongoing training is being provided in order to further reinforce project management, including project management training at PM and Leader level, and steps taken to reduce or minimize problematic projects.
Establishment of a global business base	<ul style="list-style-type: none">- Establishing systems and securing human resources to strengthen facility operating bases remains a key focus, in order to adapt to economic and other changes in the environment.

3. Enhance the Group management base

<p>Development of high value-added human resources</p>	<ul style="list-style-type: none">- Improvements are being made to the human resource training environment, including partially revising in-house certification schemes and establishing training systems, and steps being taken to improve employees' skills.- Ongoing training is being provided to develop global human resources, in order to promote overseas business. Core human resource development is being improved as part of global operations, including assigning trainees to overseas group companies and providing training.
<p>Group structural reform and management optimization</p>	<ul style="list-style-type: none">- PMS (development standard) is being rolled out groupwide, and steps are being taken to establish and promote standards in order to strengthen cooperation and improve quality throughout the group.- EMS (environmental management systems, ISO 14001 certification) are being rolled out groupwide, and steps are being taken to create environmentally friendly, pleasant workplaces and improve productivity.

2. FY 17/3 Forecast

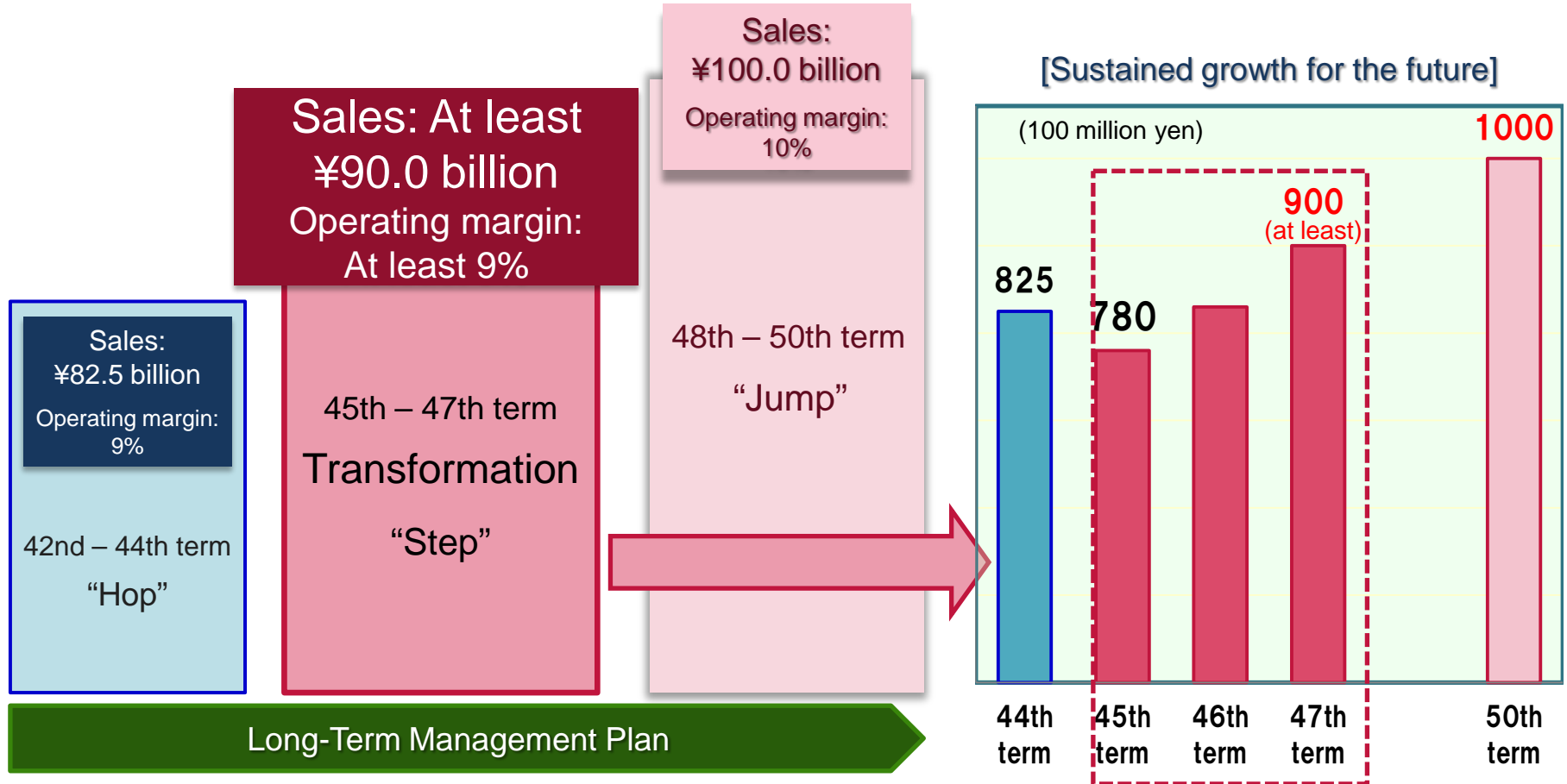
With large-scale projects expected to peak, conditions in the finance sector are set to become difficult due to changes in the external environment. Although restrained investment is expected to continue in the communications sector, there will be signs of a recovery. Demand is likely to remain steady in the services and transportation sectors.

Sector	Outlook for IT Investment	
Finance	<ul style="list-style-type: none"> - Investment among banks will decrease, as large-scale projects peak - Investment among life and non-life insurance companies will remain steady - There are concerns regarding the impact of negative interest on IT investment across the finance sector in general 	
Transportation & Communications	<ul style="list-style-type: none"> - There will be continued demand for investment in the air transport sector 	
	<ul style="list-style-type: none"> - Although the trend towards major carriers holding off investment in the communications sector will continue, there will be some signs of a recovery 	
Services	<ul style="list-style-type: none"> - As corporate earnings improve, demand is expected to increase across a wide range of customers 	
Other	<ul style="list-style-type: none"> - Despite an underlying slowdown in the manufacturing industry, demand will increase in the embedding sector, particularly for in-vehicle and healthcare products. - In the wholesale and retail sectors, IT investment is expected to be targeted at improving productivity and efficiency. 	

Positioning of this Year in the Medium-Term Management Plan

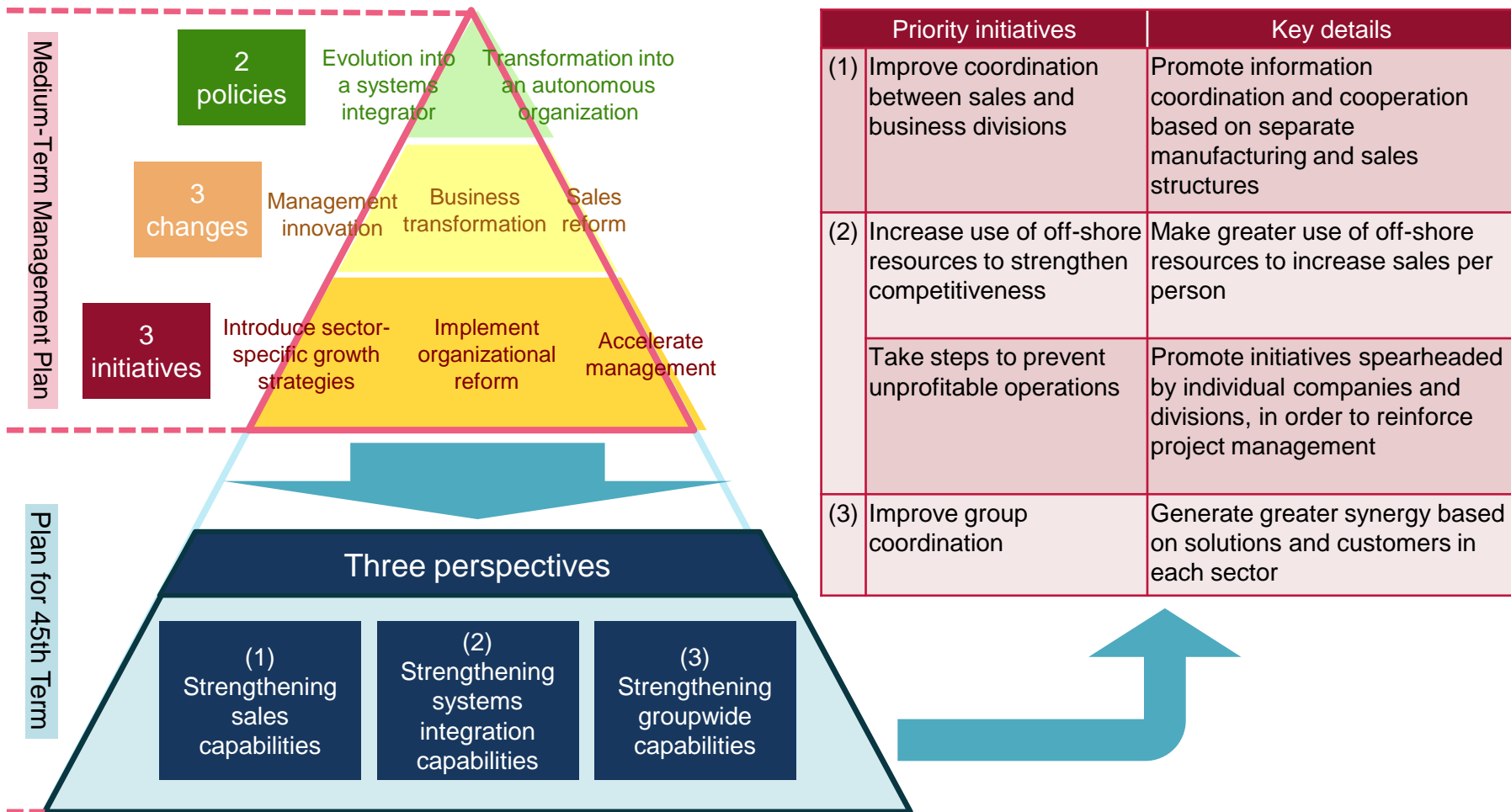


As the first fiscal year of a Medium-Term Management Plan aimed at transforming the company for the future, the focus of this year will be on investing in new businesses and strengthening management foundations, in order to secure a net income and accelerate growth, in spite of declining sales due to fewer large-scale finance projects.



Priority Initiatives for FY 17/3

Priority initiatives, required to amplify the effects of organizational reform and strengthen the group's management base, will be implemented in order to achieve further growth.



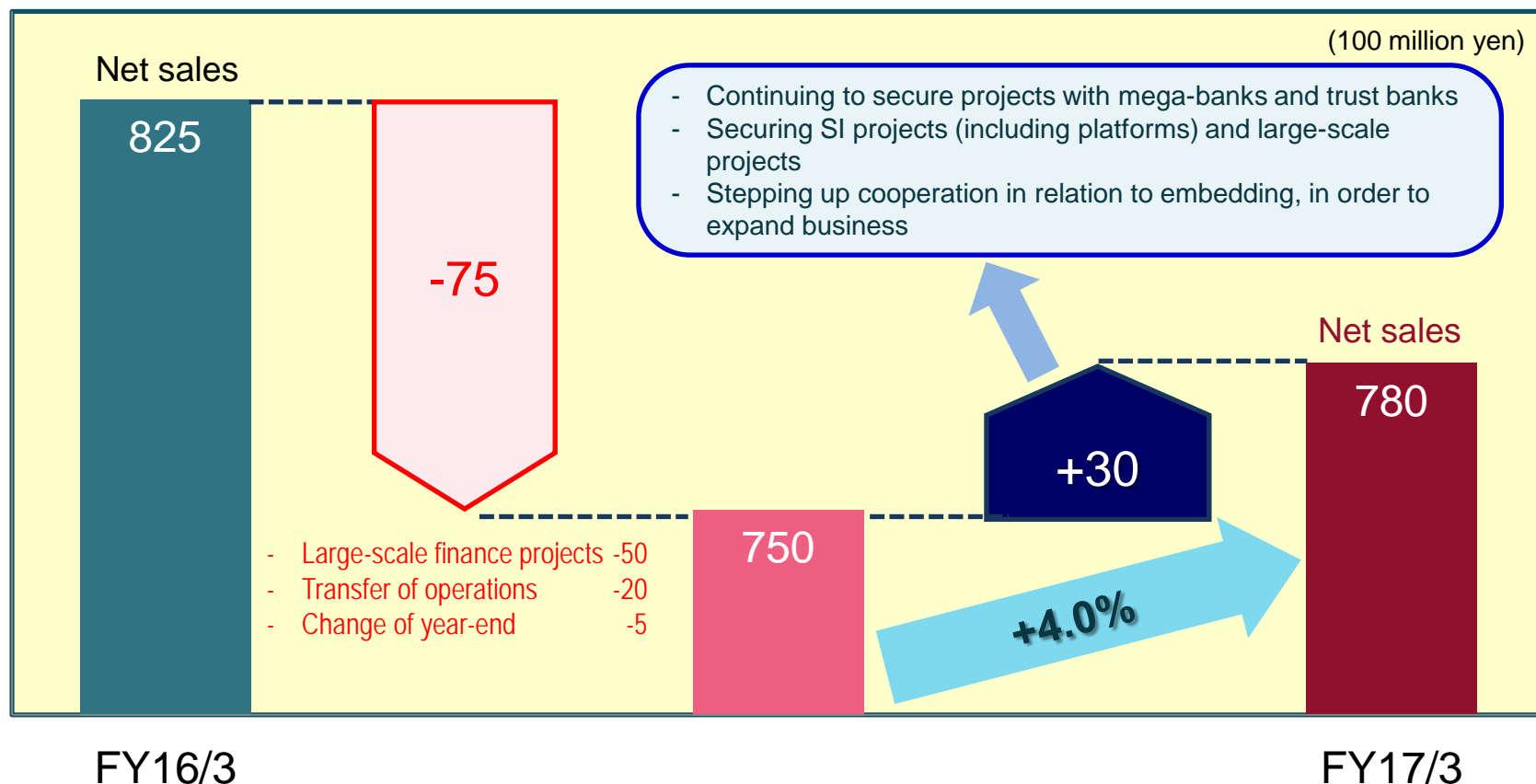
Full-Year Forecast for FY 17/3

Net sales, operating income and recurring income will be down, due to factors such as a drop in sales for large-scale finance projects and the transfer of selected operations of a group company. The aim is nonetheless to increase profit for the term.

(Units: 100 million yen, %)	Consolidated				Non-consolidated			
	Amount	Ratio to sales (%)	Year on year		Amount	Ratio to sales (%)	Year on year	
Net sales	780.0	–	94.5%	-45.3	540.0	–	96.3%	-20.7
Gross profit	151.0	19.4%	101.3%	+1.9	105.5	19.5%	103.2%	+3.2
SG&A expenses	81.0	10.4%	110.9%	+7.9	47.0	8.7%	118.1%	+7.2
Operating income	70.0	9.0%	92.1%	-5.9	58.5	10.8%	93.6%	-3.9
Recurring income	71.0	9.1%	92.1%	-6.0	59.5	11.0%	93.3%	-4.2
Profit attributable to owners of parent	45.0	5.8%	103.7%	+1.5	40.0	7.4%	105.0%	+1.8

Sales Forecast for FY 17/3

- Sales will be down by approximately ¥7.5 billion, due to large-scale finance projects peaking, selected operations of a group company being transferred, and a change in a group company's fiscal year-end.
- Apart from areas in decline, the aim is to achieve a groupwide growth rate of 4.0%.



Dividend Forecast for FY 17/3

With results exceeding the company's forecast, year-end dividends for FY 16/3 will be increased by ¥5 from initial projections, taking the annual dividend to ¥60. The projected annual dividend for FY 17/3 is also ¥60. The aim is to continue paying stable dividends, and to achieve a total return ratio of at least 40%, including acquisition of treasury stock.

	End of first half	Year end	Full year	Total return ratio (consolidated)	Payout ratio (consolidated)
FY 17/3 (Forecast)	¥25	¥35	¥60	At least 40%	30.7%
FY 16/3	¥20	¥40	¥60	48.8%	32.1%

Changes to Segment Details

In line with organizational restructuring and sector-specific growth strategies set out under the Medium-Term Management Plan, the following changes have been made to segments for reporting purposes.

Existing segments		New segments		Consolidated forecast (Net sales)	
		Sectors			
Information service	System engineering services	Finance and public	Finance	¥26.5 billion	
	Operation engineering services		Social security		
	Products services Others services	Corporate communication solutions	Corporate and communication solutions Embedding		¥20.7 billion
Human resources service	Human resource services Other services	Operation BPO	Operation BPO		¥12.1 billion
		Regional, overseas, etc.	Regional Overseas Other sectors		¥18.7 billion
		Total		¥78.0 billion	

FY 16/3
Results Presentation

Thank you for your attention.



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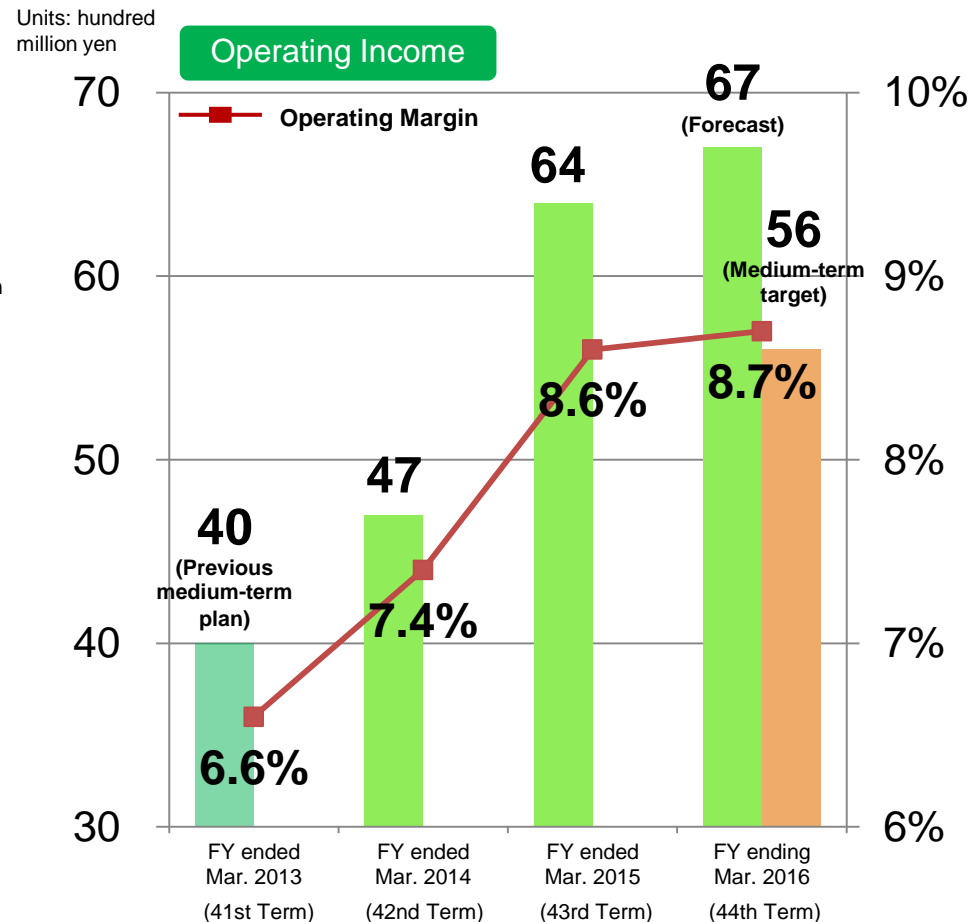
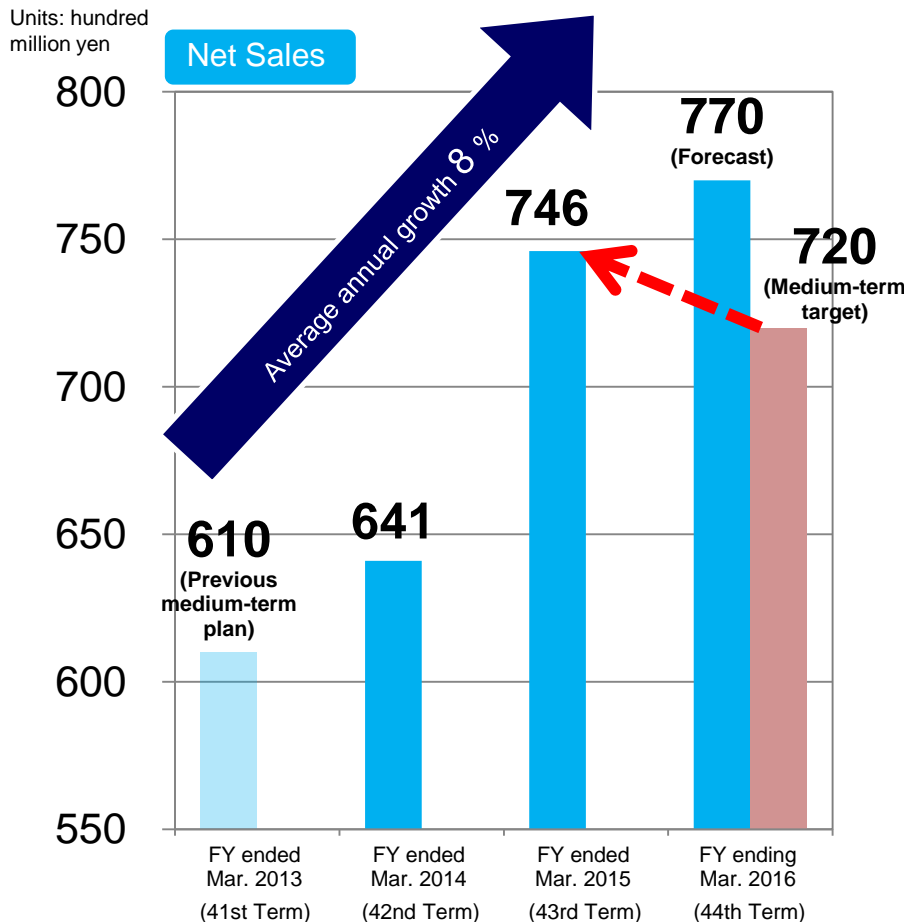
(reference)

Medium-Term Management Plan

(April 2016年 to March 2019)

I-1. Review of Period Covered by Current Medium-Term Management Plan (Financial Results)

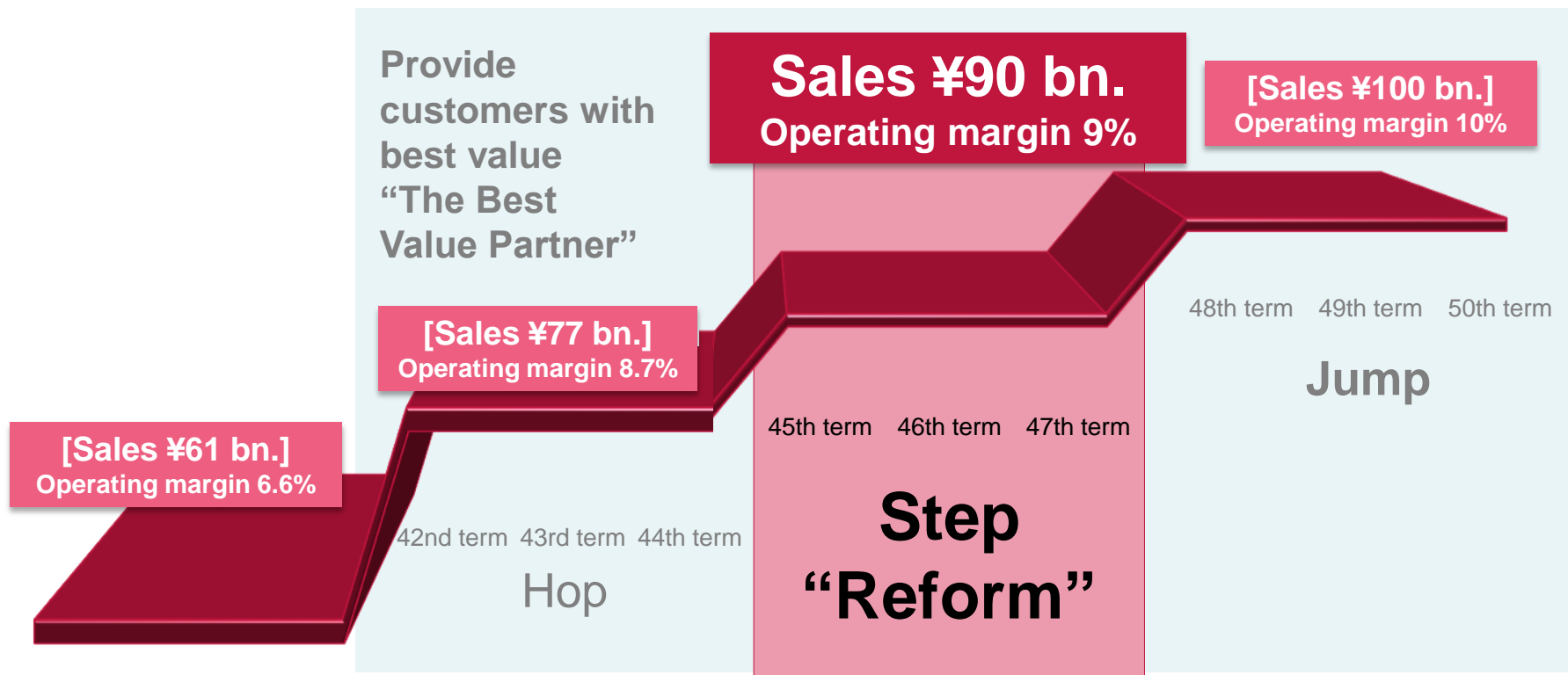
- New record high net sales and operating income were achieved in the fiscal year ended March 2015 (43rd term).
- Current medium-term targets were achieved one year ahead of schedule, resulting in the highest performance expected for the second consecutive year.



III-1. Positioning of Medium-Term Management Plan

This medium-term plan will cover the three years following the current Medium-Term Management Plan as the second stage, in which we will **accumulate strength** and **achieve reforms**.

DTS WAY management vision “Creating new value” MADE BY DTS



Creating New Value *Change! for the Next*

The DTS Group creates **new value** for society and customers by reforming itself.

Next customer

Next solution

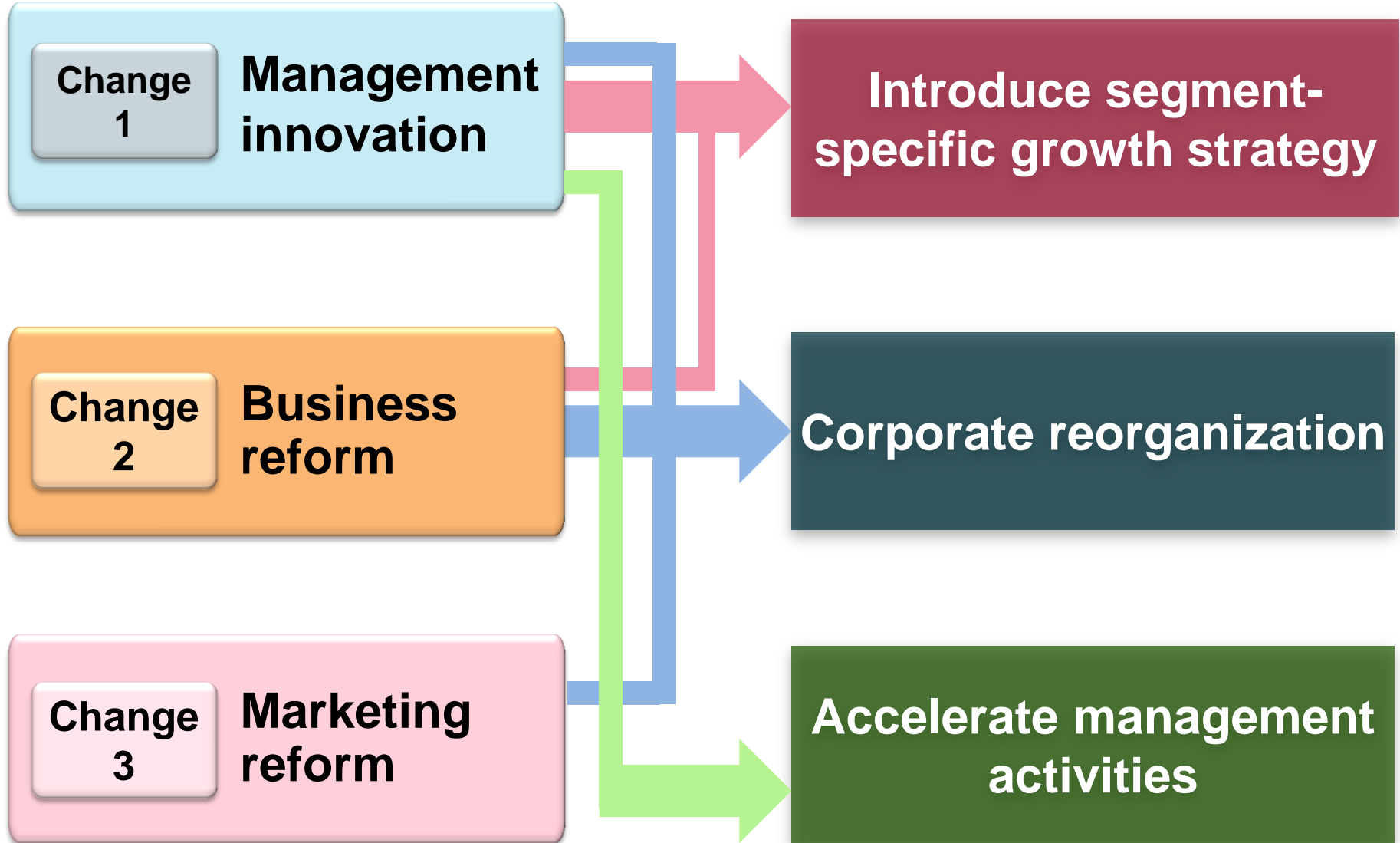
Next value

Next generation

Next technology

Three "Changes"

"Key Activities"



III-3. Key Activity 1: Growth Strategy in Each Segment

- Reorganize the business units into segments that take into account the synergy of the businesses, technology, and HR in order to respond promptly to changes in the business environment.
- Aim for the growth of the Group by implementing strategies that are appropriate for the characteristics of each segment.

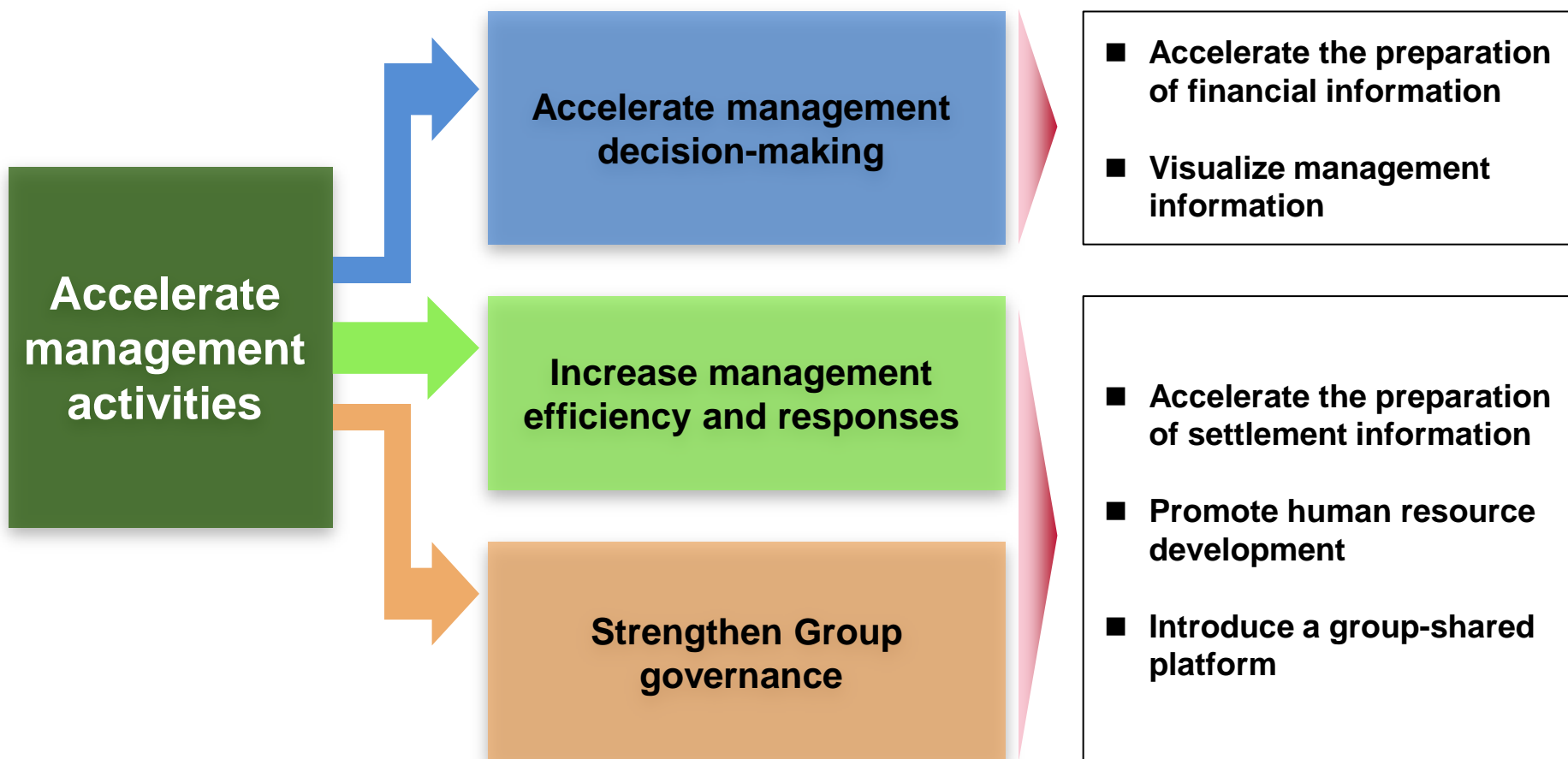
Segment	Growth Level	Growth Strategy
1 Finance	Maintained	<ul style="list-style-type: none"> - Respond to the end of the peak in large projects. - Expand in the market-, settlement-, and information-related, securities, asset management, credit, and other segments. - Take on challenges in the system integration business and FinTech-related areas.
2 Social security	Sustainable growth	<ul style="list-style-type: none"> - Establish a presence in core businesses such as life insurance, pension, mutual aid, health care, etc. - Increase nonlife insurance and local government projects in view of future trends.
3 Corporate communications	Sustainable growth	<ul style="list-style-type: none"> - Expand entrusted development in the corporate communication segment. - Develop future core businesses (manufacturing and energy). - Acquire the main operations of large customers through the total system integration business that includes cloud computing and infrastructure.
4 Solutions	Rapid growth	<ul style="list-style-type: none"> - Commercialize core products, provide total solutions, and establish new businesses. - Increase the product competitiveness of the company's packages.
5 Operation BPO	Stable growth	<ul style="list-style-type: none"> - Advance into new businesses in growth areas such as BPO and operation design. - Maintain existing businesses by reducing costs.
6 Embedding technologies	Rapid growth	<ul style="list-style-type: none"> - Establish a presence in embedding-related areas, particularly health care and in-vehicle equipment. - Improve skills to develop new products and develop product-based solutions and services.
7 Regional	Sustainable growth	<ul style="list-style-type: none"> - Advance into local industries and develop new businesses from existing customers. - Expand near-shore businesses outside the Group.
8 Overseas	Rapid growth	<ul style="list-style-type: none"> - Restructure the business base to correspond to structural changes in overseas markets.

III-3. Key Activity 2: Corporate Reorganization

- Implement the corporate reorganization of DTS alone in response to the segment-based reorganization of business units.
- Improve marketing and proposal skills and expand the system integration business, solutions and services in addition to the conventional contract business.

	Keys in Organizational Reform	Reasons
1	Establish the marketing sector	<ul style="list-style-type: none"> - Shift from the unified system of manufacturing and sales to a separated system of manufacturing and sales. - Improve account sales, marketing personnel, and cooperation.
2	Reorganize the division in charge of infrastructure	<ul style="list-style-type: none"> - Combine the division in charge of infrastructure and the division in charge of development to build a system of providing total system integration from infrastructure to AP development.
3	Establish the solution business sector	<ul style="list-style-type: none"> - Separate from the division for receiving contracts and gather solution businesses. - Grow into the “pillar” that supports the Group by developing and operating businesses that provide new solutions and services.
4	Establish the ICS business sector	<ul style="list-style-type: none"> - Gather operation- and BPO-related businesses and build an efficient business operation system.

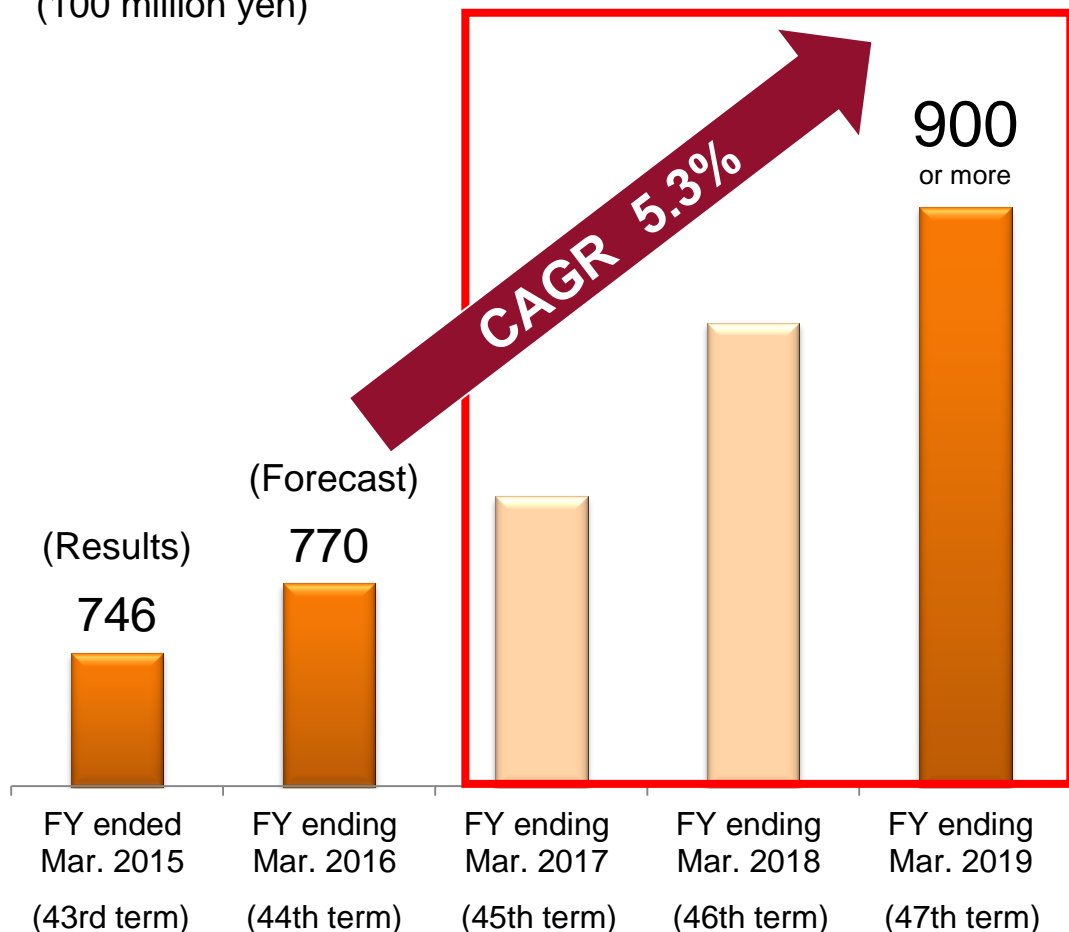
During the period of this medium-term plan, we will implement activities to **accelerate management activities** in order to respond promptly to changes in the business environment.



III-4. Medium-Term Management Goals (Consolidated)

Consolidated Net Sales
(100 million yen)

Period of this Medium-Term Plan



FY ending Mar. 2019

- **Consolidated net sales**
¥90 billion or more
- **Operating margin**
9.0% or above
- **Net sales per person**
¥20 million yen or more
- **ROE** **10%** or above
- **Total return ratio**
40% or above