

# 2Q FY March 2019 Results Presentation

November 2, 2018

**DTS CORPORATION**

# Contents

1

Overview of 2Q FY 19/3 Results

2

Progress of Key Initiatives

3

FY 19/3 Full Year 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.

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# **1. Overview of 2Q FY 19/3 Results**

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## 1. Absorption-type merger of DATALINKS

Executed an absorption-type merger of DATALINKS CORPORATION on October 1, 2018 with the aim of improving management efficiency and speeding up decision-making by expanding business synergies and making more efficient use of resources.

## 2. Treasury stock acquisition

Acquired treasury shares in May and June 2018 to improve capital efficiency and raise the return to shareholders (approx. 134 thousand shares, approx. 600 million yen).

# Consolidated Results

Net sales increased ¥730 million year on year. The expansion of projects in the information and communication business, transportation and postal business and embedded business (in-vehicle), among others, covered the decline in integration projects.

Operating income increased ¥580 million year on year after the improvement of the cost ratio, despite an increase in negative results due to unprofitable projects. Both net sales and operating income set new record highs.

(Units: 100 million yen, %)	Results	Ratio to sales (%)/ YoY		Year on year		Progress for initial forecast
Net sales	415.6	—		+7.3	101.8%	47.8%
Gross profit	83.6	20.1%	(+0.9pt)	+5.2	106.6%	48.6%
SG&A expenses	39.2	9.4%	(-0.3pt)	-0.6	98.4%	46.2%
Operating income	44.3	10.7%	(+1.2pt)	+5.8	115.1%	51.0%
Recurring income	45.0	10.8%	(+1.4pt)	+6.6	117.3%	51.5%
Profit attributable to owners of parent	30.6	7.4%	(+1.1pt)	+5.0	119.9%	52.4%

# Non-Consolidated Results

Net sales increased ¥250 million year on year. The expansion of projects in insurance, megabanks, transportation and other wide variety types of industries covered the decline in integration projects.

Operating income decreased ¥140 million year on year, mainly due to the strengthening of the system of the Sales Sector, an increase in education and training expenses after an increase in new graduate recruits and the emergence of unprofitable projects.

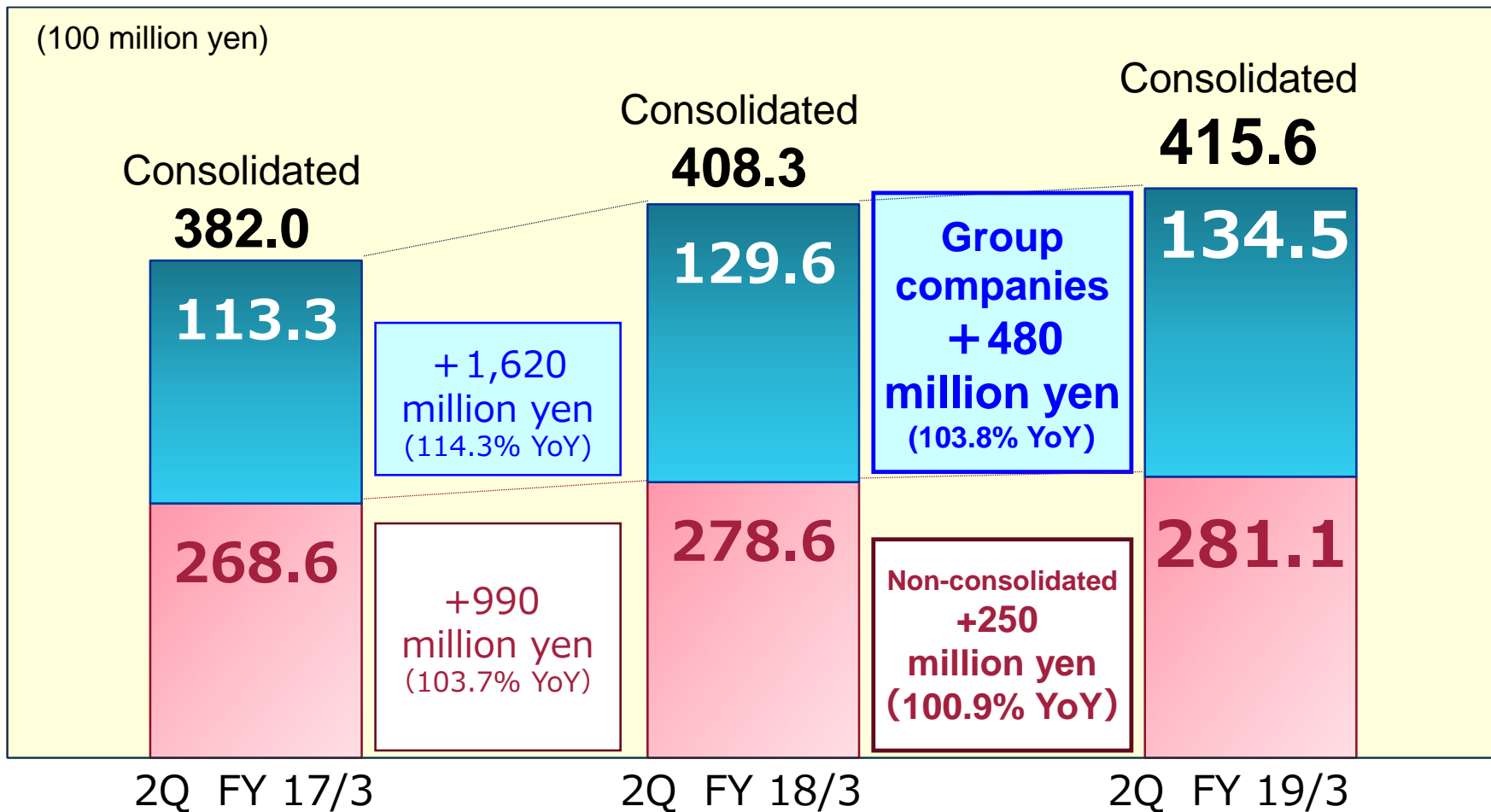
(Units: 100 million yen, %)	Results	Ratio to sales (%)/ YoY		Year on year	
Net sales	<b>281.1</b>	—		<b>+2.5</b>	<b>100.9%</b>
Gross profit	<b>55.3</b>	<b>19.7%</b>	<b>(-0.4pt)</b>	<b>-0.6</b>	<b>98.8%</b>
SG&A expenses	<b>22.5</b>	<b>8.0%</b>	<b>(+0.2pt)</b>	<b>+0.6</b>	<b>103.2%</b>
Operating income	<b>32.7</b>	<b>11.6%</b>	<b>(-0.6pt)</b>	<b>-1.4</b>	<b>95.9%</b>
Recurring income	<b>36.3</b>	<b>12.9%</b>	<b>(-0.3pt)</b>	<b>-0.4</b>	<b>98.7%</b>
Net income	<b>25.9</b>	<b>9.2%</b>	<b>(-0.1pt)</b>	<b>+0.0</b>	<b>100.1%</b>

# Changes in Net Sales [Non-Consolidated/Group Companies]



Due to the strong performance of projects of embedded business, etc., net sales of the entire group companies increased ¥480 million, or 3.8%, year on year, exceeding the non-consolidated growth (DTS) for the second consecutive year.

■ Non-consolidated net sales
 ■ Net sales of group companies (including consolidated adjustments)

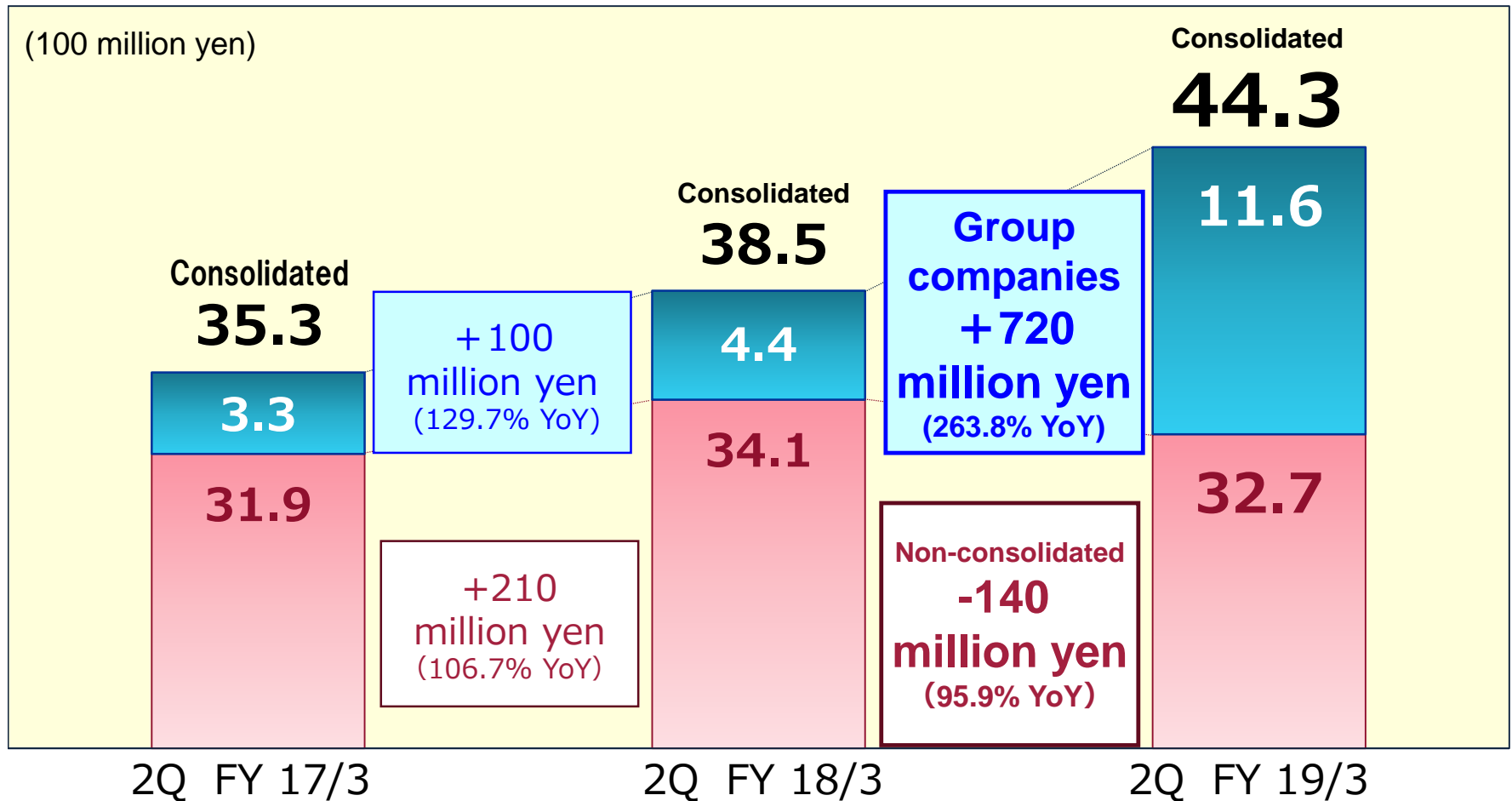


\*The data for FY17/3 is adjusted with respect to the impact of the business transfer from DTS to DTS INSIGHT CORPORATION conducted in FY18/3.

# Change in Operating Income [Non-Consolidated/Group Companies]

Operating income of the group companies for the second quarter of the fiscal year ending March 31, 2019 increased ¥720 million year on year, driving an increase in consolidated operating income.

■ Non-consolidated operating income    
 ■ Operating income of group companies (including consolidated adjustments)





# Net Sales by Segments

- Sales in the finance and public segments decreased, despite growth in projects for megabanks and life insurance companies, which were unable to cover the decrease in integration projects.
- Sales rose in the corporate communication solutions segment, while projects in the information and communication business, transportation business and in-vehicle embedded business expanded.
- Sales in the operation BPO segment increase as operation projects expanded in the life insurance business and in the information and communication business.
- Sales rose in the regional, overseas, etc. segment due to the strong performance of development projects for the financial sector.

(Units: 100 million yen, %)	Results	Ratio to sales (%) / YoY		Year on year		Progress for initial forecast
Net sales	415.6	—		+7.3	101.8%	47.8%
Finance and public	122.7	29.5%	(-3.7pt)	-13.0	90.4%	44.0%
Corporate communication solutions	124.8	30.0%	(+2.8pt)	+13.6	112.3%	49.4%
Operation BPO	65.5	15.8%	(+1.0pt)	+5.3	108.8%	52.0%
Regional, overseas, etc	102.4	24.7%	(-0.1pt)	+1.5	101.5%	48.3%

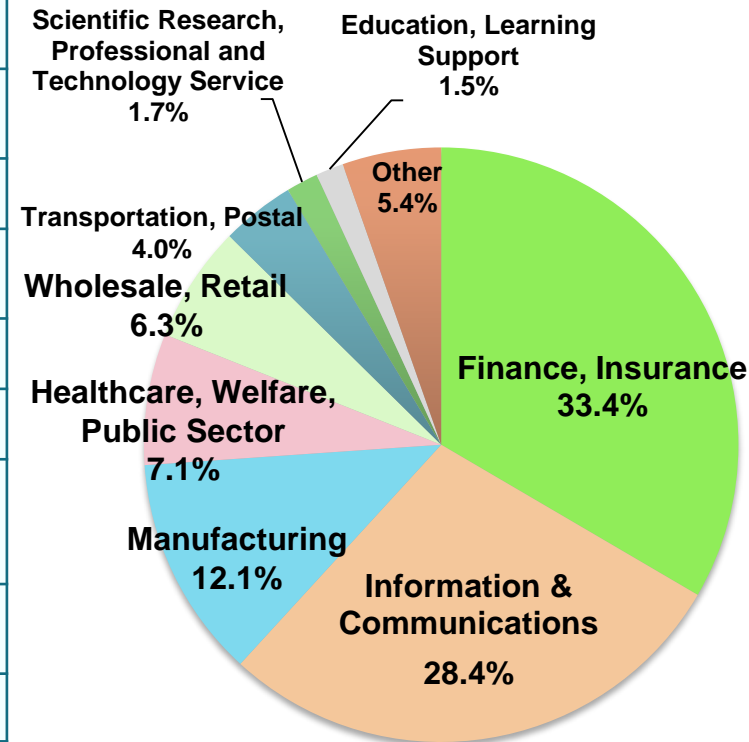
\* The results are sales to the outside of the Group.

# Consolidated Sales by End User

- Sales in the finance and insurance business declined due to the effect of integration projects. However, sales from life insurance and other users increased steadily.
- Sales rose in the information business increased, due to the expansion of projects for information services.
- Sales in the transportation and postal business increased due to the growth of the railway business, which covered the decrease in the aviation business.
- Sales in healthcare, welfare and the public sector rose due to the growth of projects for pensions and mutual aid.

## Industrial Classification of METI

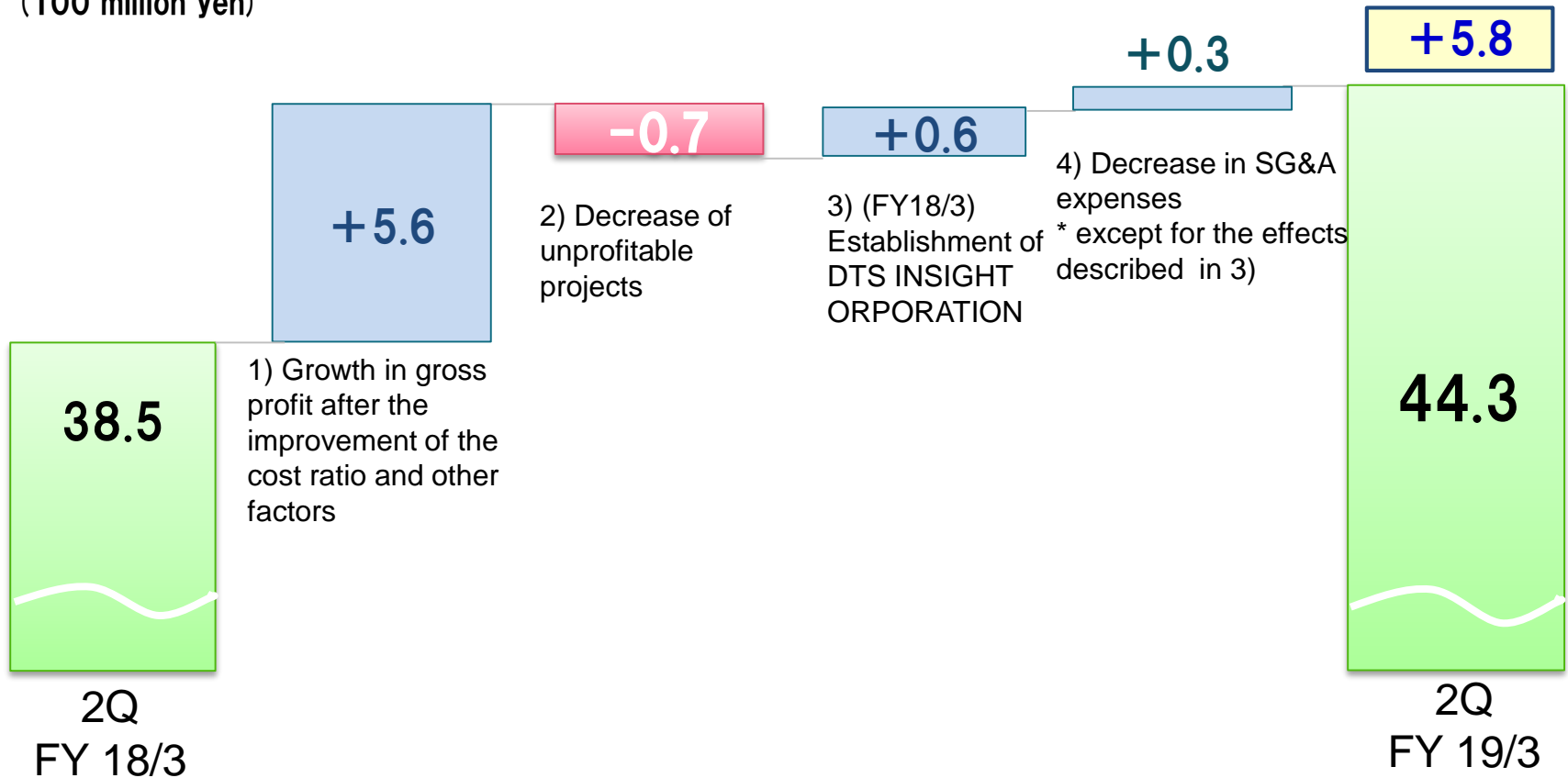
(Units: 100 million yen, %)	Amount	Composition ratio	Year on year	
Finance, Insurance	138.9	33.4%	-8.0	94.5%
Information & Communications	117.9	28.4%	+6.0	105.4%
Manufacturing	50.2	12.1%	+1.7	103.7%
Healthcare, Welfare, Public Sector	29.6	7.1%	+2.2	108.3%
Wholesale, Retail	26.3	6.3%	+0.0	100.1%
Transportation, Postal	16.6	4.0%	+2.8	120.3%
Scientific Research, Professional and Technology Service	7.2	1.7%	+1.6	130.1%
Education, Learning Support	6.2	1.5%	-2.8	68.6%
Other	22.3	5.4%	+3.7	120.2%
<b>Total</b>	<b>415.6</b>	<b>100.0%</b>	<b>+7.3</b>	<b>101.8%</b>



# Reason for an Increase in Consolidated Operating Income

Improvement in the cost ratio after growing profitability in the embedded business covered the negative results due to an increase in unprofitable projects. Operating income surged ¥580 million, or 15.1% year on year, to hit a record high.

(100 million yen)



[Order Backlogs]

- The order backlog in the finance and public segment increased due to the acquisition of large-scale projects for securities companies and the expansion of projects for life insurance companies and megabanks, which covered the decrease in integration projects.
- The order backlog in the corporate communication solutions segment grew in the information and communication business and the embedded business.
- The order backlog in the operation BPO segment increased due to the expansion of insurance-related projects and existing projects in the information and communication business.
- The order backlog in the regional, overseas, etc. segment increased due to the acceleration of the time for order receipt and the expansion of the existing projects.

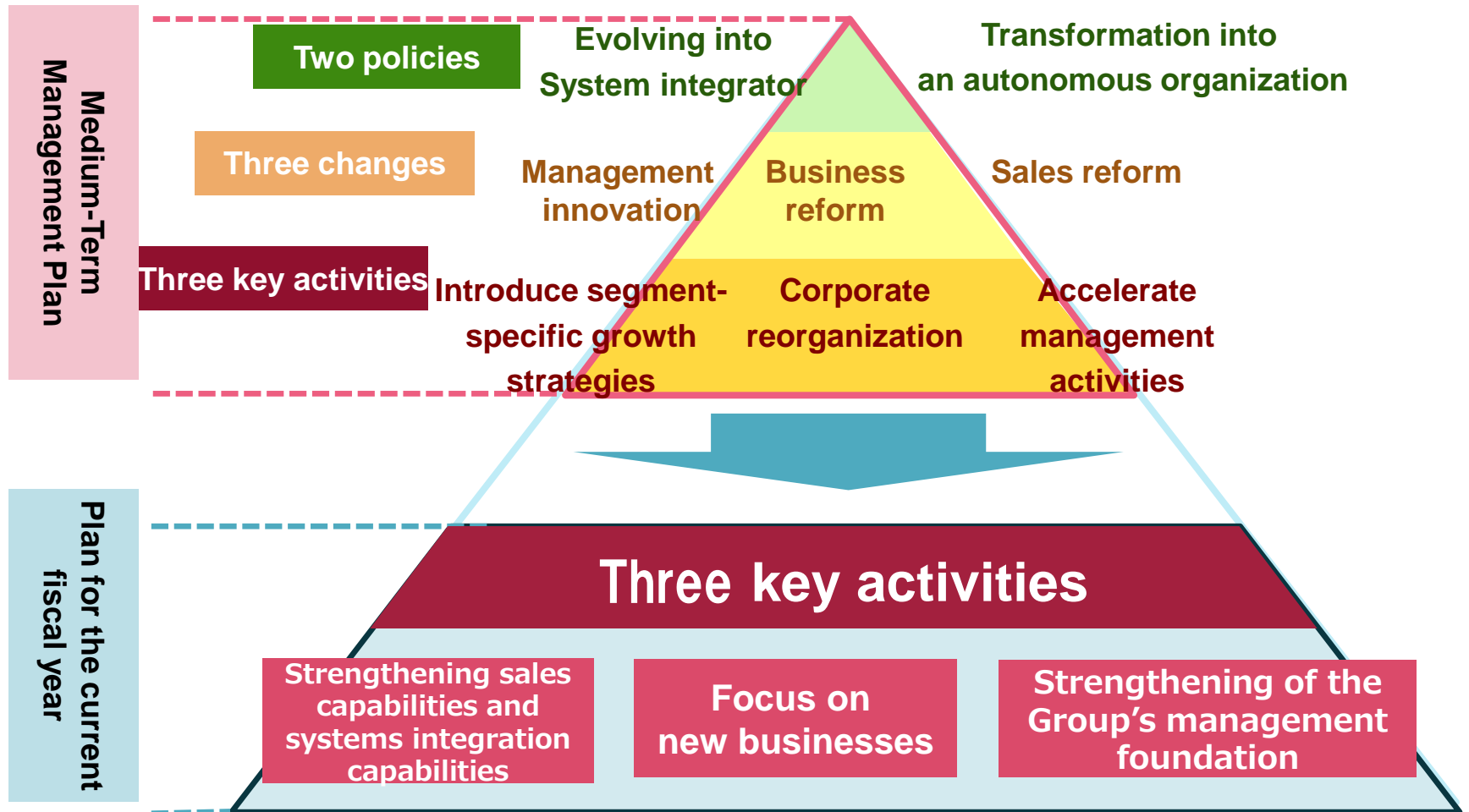
(Units: 100 Million yen, %)	Order Volume				Order Backlog			
	Results	Composition ratio	Year on year		Results	Composition ratio	Year on year	
Total	<b>333.4</b>	—	<b>+22.4</b>	<b>107.2%</b>	<b>271.4</b>	—	<b>+28.5</b>	<b>111.7%</b>
Finance and public	<b>85.0</b>	<b>25.5%</b>	<b>-3.7</b>	<b>95.7%</b>	<b>100.9</b>	<b>37.2%</b>	<b>+6.1</b>	<b>106.5%</b>
Corporate communication solutions	<b>125.4</b>	<b>37.6%</b>	<b>+22.3</b>	<b>121.6%</b>	<b>67.8</b>	<b>25.0%</b>	<b>+8.2</b>	<b>113.9%</b>
Operation BPO	<b>18.1</b>	<b>5.4%</b>	<b>+2.9</b>	<b>119.2%</b>	<b>59.6</b>	<b>22.0%</b>	<b>+6.7</b>	<b>112.8%</b>
Regional, overseas, etc	<b>104.8</b>	<b>31.4%</b>	<b>+1.0</b>	<b>101.0%</b>	<b>42.9</b>	<b>15.8%</b>	<b>+7.2</b>	<b>120.5%</b>

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## 2. Progress of Key Initiatives

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**We are focusing on the three key activities to achieve further growth in the future, in accordance with the Medium-Term Management Plan.**



## 1. Strengthening sales capabilities and systems integration capabilities

- The Company has continued to implement its "Plus One Strategy" and "BiG8 Strategy" in order to build a robust customer base.
- In order to respond widely to customer needs as a one-stop provider, the Company established the SI Promotion Division in the Sales Sector, and accordingly this new division has been working together with account sales representatives to strengthen proposal activities. As a result, it has acquired a large-scale SI project.
- To expand the sales of various solutions, the Company hosted exhibits at trade shows, including exhibits showcasing its memory monitoring tools for streamlining the development of in-vehicle embedded software, its connected industry solutions linking manufacturing operators and its hybrid cloud solutions utilizing virtualization technology.
- The Group is proceeding with the expansion of off-shore development by actively using overseas group companies.

## 2. Focus on new businesses

- The Company has been expanding projects for work efficiency by utilizing business knowledge and RPA in the finance and insurance industries.
- The group has been developing money laundering countermeasure solutions and has been aiming to acquire new customers through sales to virtual currency exchanges and hosting exhibits at overseas trade shows.
- In September 2018, new "Walk in home", which underwent a refresh involving significant updates to functionality, such as significant increases in processing speeds, went on sale.
- The Group has been expanding its sales of solutions for enabling hybrid cloud environments.

## 3. Strengthening of the Group's management foundation

- In April 2018, the Company commenced the trial operation of a staggered working hours system with the aim of enabling work-style reforms at DTS.
- In October 2018, DTS deployed a new expenses system for improved business efficiency.
- In October 2018, DTS absorbed DATALINKS CORPORATION with the aim of streamlining management and accelerating decision-making.

To strengthen its customer base, the Company has focused on two activities.  
The Plus One Strategy aims to achieve the acquisition of new leading companies in the finance and insurance industries. The Big8 Strategy is implemented for the further sales expansion of the focused companies.

## <Plus One Strategy>

The net sales of three new customer companies are each expected to expand to the scale of 100 million yen.

[Number of customers: leading companies in the finance and insurance industries]

9 companies (At the beginning of FY17/3) → 12 companies (Plan for FY19/3)

[Total net sales of three new companies acquired]

40 Million yen (FY17/3 Results) → 410 Million yen (Plan for FY19/3)

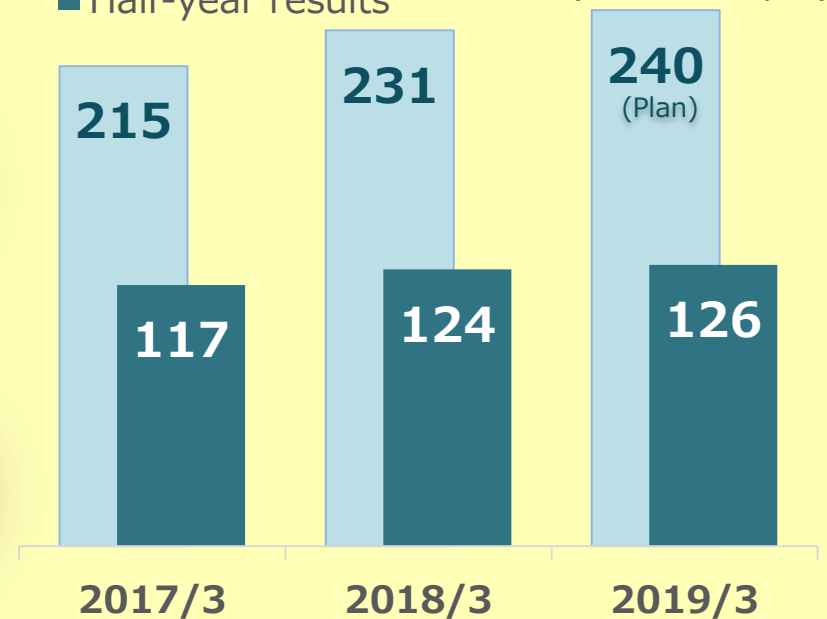
## <BiG8 Strategy>

[Total order volume of the focused companies]

■ Full-year results

■ Half-year results

(100 Million yen)





The Company has established the SI Promotion Division in the Sales Sector and has promoted cooperation among the business divisions and the group companies. As a result, it is expected to secure orders for large-scale SI projects.

The Company aims to increase SI competitive strengths by strengthening frameworks with respect to the overseas group companies and further increasing the ratio of off-shore development.

## <Acquisition of large-scale SI projects>

The result of the Group's working on proposal activities as one, centered on the SI Promotion Division

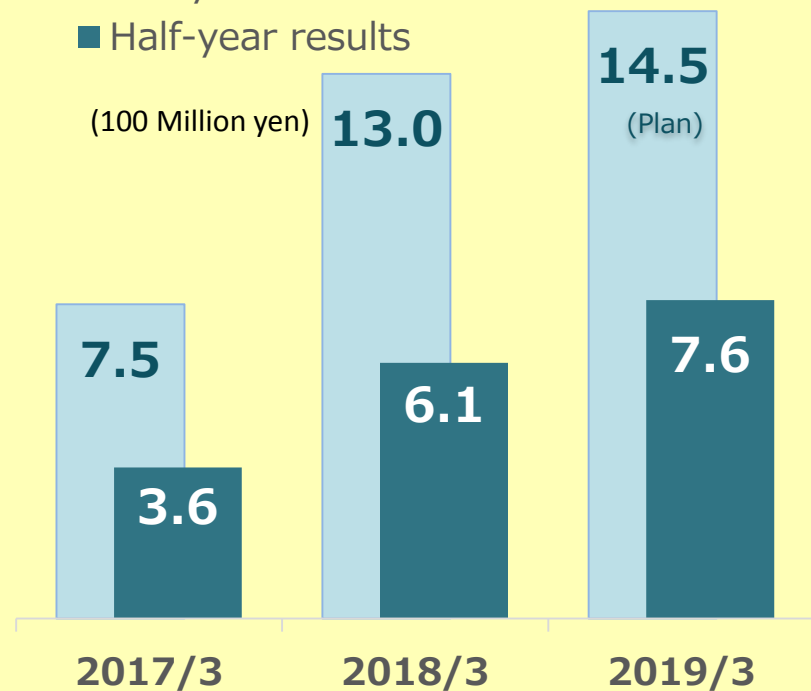


## Results

Expectation of securing orders for SI projects over 2 billion yen in total

## <Off-shore order amount (consolidated)>

■ Full-year results  
■ Half-year results



# (Reference 2) Focus on new businesses (1)

The DTS Group focuses on activities for CAMBRIC.

In RPA, projects in the finance and insurance industries for improved business efficiency are expanding, among others. In addition, DTS and JAPAN SYSTEM ENGINEERING (JSE) are proceeding with consideration toward internal deployment.

The Company conducted demonstration trials using AI and other technologies for saving labor in store operations.

In cloud solutions, sales of digital technology HCI are expanding.

## <Robotics(RPA)>

[Expansion of projects]

**2 projects** (as of September 2017) → **13 projects** (as of September 2018)

[Strengthening of solutions]  
New certification as development resource partner of UiPath (DTS)

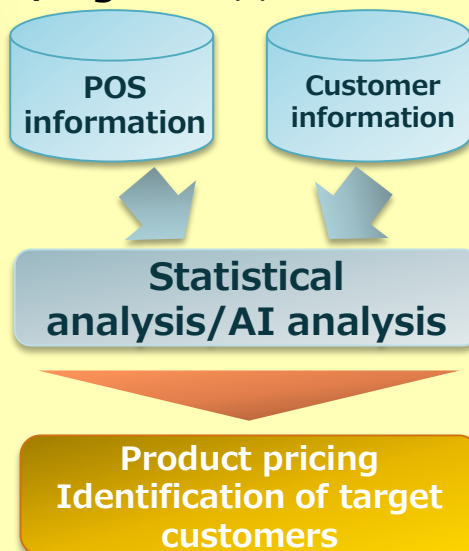
◆ Solutions handled



**WINACTOR**

## <AI/big data>

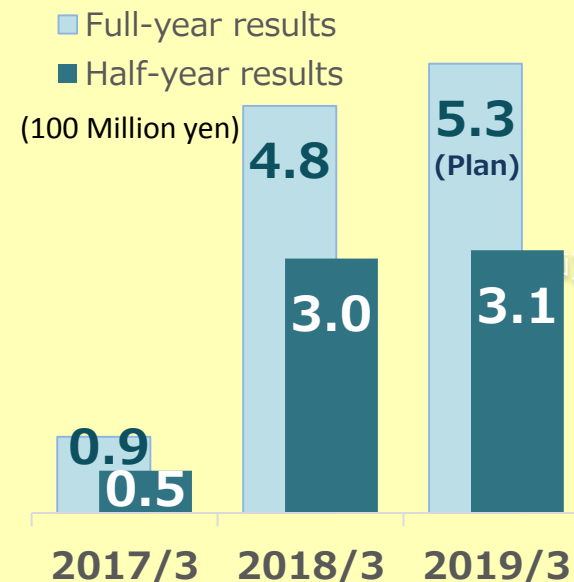
Conduct of demonstration experiment utilizing AI/big data (\*)



\*Conducted jointly with TOSHIBA TEC

## <Cloud>

Sales of hyper-converged infrastructure (HCI) for enabling hybrid cloud environments are expanding.



# (Reference 2) Focus on new businesses (2)

DTS has made progress in developing money laundering countermeasure solutions and has been working on sales, particularly to virtual currency exchanges, to acquire new customers.

DTS and Nelito held joint exhibits at SIBOS 2018 and ASOCIO Digital Masters Summit 2018 to increase recognition of the solutions of both companies.

## <DTS/Nelito joint exhibits at trade shows>



The finance-related solutions of DTS and Nelito are featured at international trade shows. (ASOCIO to be held in Tokyo on November 7-8.)

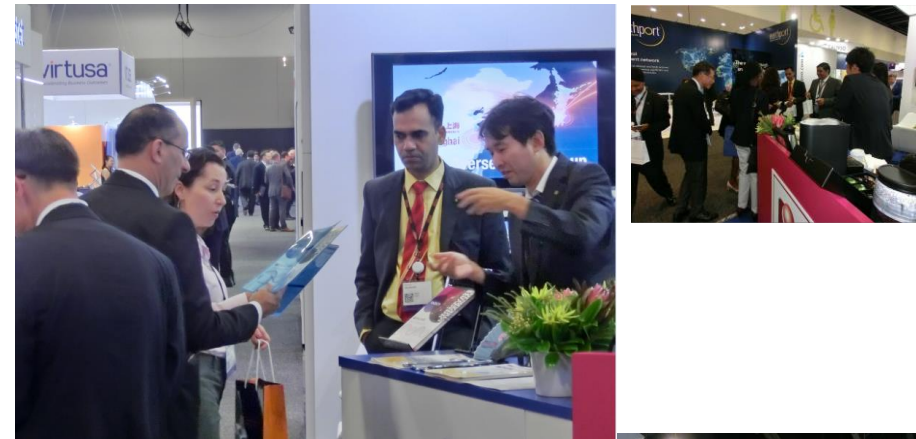
### ◆ Solutions exhibited at trade shows



**AML solution**  
(anti-money laundering solution)



**FinCRAFT**  
(Core banking system for small- and medium-sized banks)



In September 2018, sales of Walk in home, which underwent a refresh involving significant updates to functionality, commenced.

Due to the refresh, “significant increase in processing speeds due to reform of the system infrastructure,” “addition of the real shadow functions by using the original CG engine” and “strengthening of links with other systems” were realized. The Company will aim for software renewal by existing customers and the acquisition of new customers.



## <Three characteristics of renewal>

### ◆ Fast

Processing speeds are [twice the current rate](#).

### ◆ Beautiful

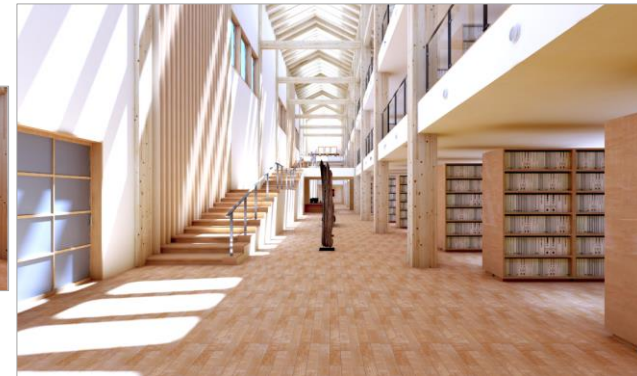
The function of instantly producing [CG images with superior image quality](#) is incorporated, and the [prompt display of a perspective](#) is achieved.

### ◆ Easy to use

[Reduction of burden of work for operators](#) through increase of links with other systems, among other measures.

<New WIH: images of picture quality>

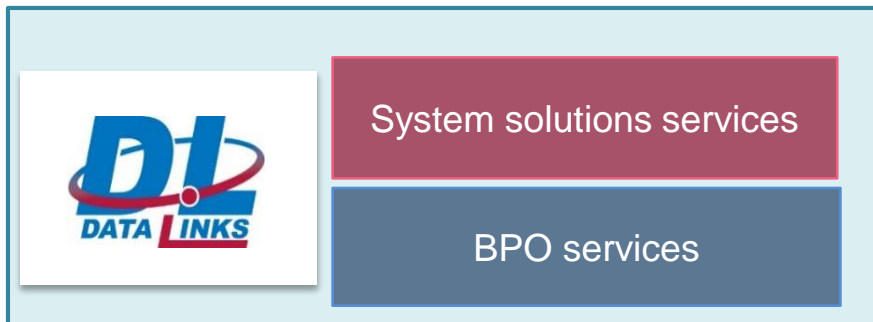
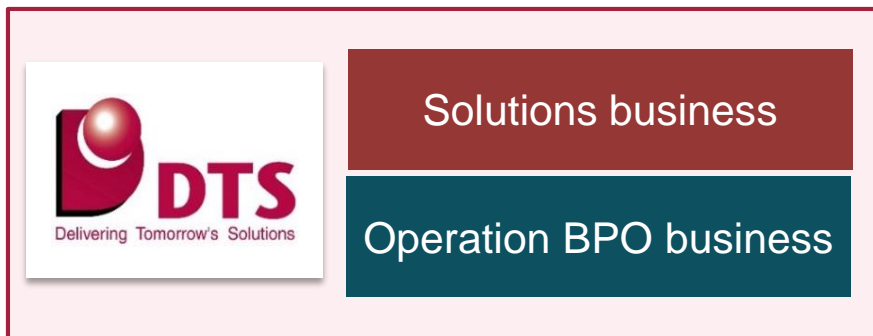
*Instant display of real grain of wood and reflection of glass*



# (Reference 3) Strengthening of the Group's management foundation (1)

**In October 2018, DTS CORPORATION absorbed DATALINKS CORPORATION.**  
 By streamlining management and accelerating decision-making, the Company will proceed with the expansion of business synergies and the efficient use of resources, and will thereby work more on the enhancement of the profit-earning capabilities and corporate value of the Group.

## (Merger of DATALINKS)



Effect of the merger	
Step up sales activities	- Share customer bases to boost the efficiency of sales activities and focus sales activity resources on the cultivation of new customers and domains
Step up development efforts	- Integrate DTS' capability to develop solution packages with DATALINKS' technological strengths in data mining and core systems to bolster the foundations for development and technologies toward acquiring new customers
Develop staff members	- Exchange personnel between the two companies to share business know-how and enhance staff development
Solidify management foundations	- Increase management efficiency and speed up decision-making - Streamline administrative operations and improve productivity

DTS commenced the trial operation of a staggered working hours system with the aim of enabling work-style reforms from April 2018. It is considering the expansion of the organizations to which the said system is applied and the operation of the said system on a full scale.

DTS deployed an expenses system and is promoting improved business efficiency through the review of the business process, initiatives involving paperless processes and the use of mobile devices and the reduction of the man-hours of personnel in charge of accounting, among other actions.

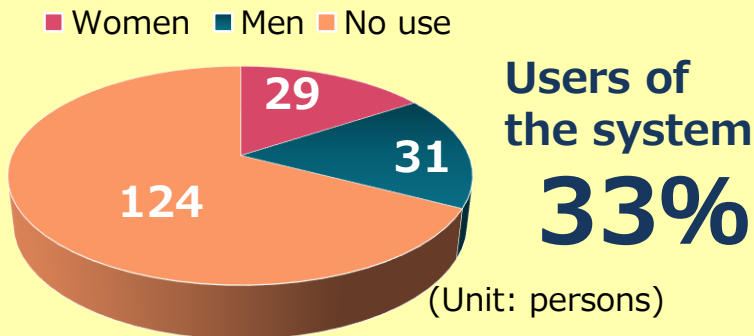
## <Staggered working hours system>

Workers at the head office of DTS

Trial operation is underway with (office/business divisions).



Of 184 staff members who are included in the scope of this system, 60 members use the system. Part-time employees, including those who engage in childcare, also use the system. Diversified work styles are achieved.



## <Deployment of an expenses system> Effects of deployment for more efficient operations

Improved business efficiency through a review of the business process, initiatives involving paperless processes and the use of mobile devices



Reduction of man-hours for reimbursement operations

Staff of the head office/business divisions  
**Decrease of operation**

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## **3. FY 19/3 Full Year Forecast**

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# Outlook for the Group's Business Environment

The business performance of domestic companies will be strong. IT investment is also expected to be steady. Investment in the projects related to productivity improvement and workstyle reforms for the purpose of the resolution of labor shortages and IT investment relating to the increase of customer management and customer contact points are also expected to increase.

Sector	Outlook for IT Investment
Finance, Insurance	<ul style="list-style-type: none"> <li>- Expansion of investment in the renewal of the core systems of banks and trust companies is expected.</li> <li>- New investment for productivity investment, such as RPA, increases.</li> </ul> <p>- In the insurance sector, demand for the renewal of core systems is expected to be strong.</p>
Information & Communications	<ul style="list-style-type: none"> <li>- Although the trend of restraining capital investment will not change, new investment demand for the renewal of core systems such as those for customer management is expected to continue.</li> </ul>
Manufacturing	<ul style="list-style-type: none"> <li>- In the automobile industry, demand for the development of automated driving technologies and the peripheral infrastructure is expected to increase.</li> <li>- In industries other than the automobile industry, information appliances will continue to decrease; however, investment in projects relating to AI, IoT and robotics, among other technologies, is expanding.</li> </ul>
Other	<ul style="list-style-type: none"> <li>- In the healthcare, welfare and public sector, demand for the renewal of core systems of local governments and mutual aids, among other organizations, is expected to continue.</li> <li>- In the wholesale and retail sector, investment mainly for productivity improvement and increasing customer management and customer contact points is expected to be strong.</li> </ul>



# Full-Year Forecast for FY 19/3[Consolidated]

Aim to increase sales by ¥3.83 billion year on year, with the growth rate exceeding 4%.  
 Aim to increase operating income by ¥170million year on year, achieving growth of both sales and income and recording high figures for the second consecutive year. With respect to the full-year consolidated earnings forecasts, there is no change from the earnings forecasts announced on May 10, 2018.

(Units: 100 million yen, %)	Amount	Ratio to sales (%)/ YoY		Year on year	
Net sales	870.0	—		+38.3	104.6%
Gross profit	172.0	19.8%	(-0.0pt)	+7.5	104.6%
SG&A expenses	85.0	9.8%	(+0.2pt)	+5.7	107.3%
Operating income	87.0	10.0%	(-0.2pt)	+1.7	102.1%
Recurring income	87.5	10.1%	(-0.3pt)	+1.7	102.0%
Profit attributable to owners of parent	58.5	6.7%	(-0.2pt)	+0.8	101.5%

The dividend at the end of the second quarter is ¥35 per share as initially planned.

For the full year, the Company plans to pay a dividend of ¥80 per share as initially planned. We will continue paying stable dividends and aim for a total return ratio of 40% or more.

	End of first half	Year end	Full year	Total return ratio (consolidated)	Payout ratio (consolidated)
<b>FY 19/3 (Forecast)</b>	<b>¥35</b>	<b>¥45</b>	<b>¥80</b>	<b>42.1%*</b>	<b>31.9%</b>
<b>FY 18/3</b>	<b>¥35</b> (Including ¥5 commemorative dividend)	<b>¥45</b>	<b>¥80</b>	<b>42.9%</b>	<b>32.3%</b>

In May and June, 2018, approximately 134,000 shares of treasury stock (600 million yen) were acquired.

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# Other References

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# (Reference 4) Major Press Releases

Date of release	Company	Title, brief description
June 18	DTS	Notice concerning the status and completion of acquisition of treasury shares * Total number of shares acquired: 134,700 shares; total acquisition cost: ¥599,717,000; period: May 14 – June 15, 2018
August 3	DTS	Notice concerning the absorption-type merger of DATALINKS CORPORATION as a consolidated subsidiary (simplified and short-form merger) * It was determined that the absorption-type merger of DATALINKS CORPORATION into DTS would take place on October 1, 2018.
September 21	DTS	Long-expected renewal of the living space presentation CAD software "Walk in home" **"Walk in home," which underwent a refresh involving significant functionality updates, went on sale.
October 4	Digital Technology	Conclusion of the distributorship agreement with TidalScale *Digital Technology became Japan's first distributor of TidalScale to sell, install and maintain the products. With the servers of Dell and Software-Defined Server solution of TidalScale, the Company will develop new markets mainly among private companies, research institutions and DC/cloud business bases.

## <External Press Releases>

Date of release	Company	Title, brief description
July 18	TOSHIBA TEC	Product pricing and identification of target customers with the use of statistical analysis and AI: Start of demonstration trial of labor saving in store operations * K-PORT Co., Ltd., the operator of a chain of drugstores, commences a demonstration trial of labor saving in store operations with the use of the PrimeStore store system and the CSdelight customer data system from Toshiba Tec Corporation as well as DTS' statistical analysis and AI-assisted analysis service for the period from July 20, 2018 to September 30, 2018.

2Q FY 19/3  
Results Presentation

Thank you for your attention.



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