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October 30, 2019

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2020 <under Japanese GAAP>

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 Stock listing: Tokyo Stock Exchange, First Section
 Stock code: 9682
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Scheduled date to file quarterly securities report: November 7, 2019
 Scheduled date to commence dividend payments: November 25, 2019
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Million yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2019	47,391	14.0	5,226	17.8	5,323	18.1	3,678	19.9
September 30, 2018	41,569	1.8	4,438	15.1	4,508	17.3	3,067	19.9

Note: Comprehensive income
 Six months ended September 30, 2019: ¥3,468 million [6.5%]
 Six months ended September 30, 2018: ¥3,257 million [11.3%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2019	79.34	—
September 30, 2018	65.68	—

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated basic earnings per share has been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
September 30, 2019	67,485	52,631	78.0
March 31, 2019	66,982	51,353	76.7

Reference: Equity
 As of September 30, 2019: ¥52,623 million As of March 31, 2019: ¥51,353 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019 (before stock split) (Reference)	–	35.00	–	60.00	95.00
Fiscal year ended March 31, 2019 (after stock split)	–	17.50	–	30.00	47.50
Fiscal year ending March 31, 2020	–	20.00			
Fiscal year ending March 31, 2020 (Forecasts)			–	30.00	50.00

Note: Revisions to the forecasts of dividends most recently announced: None

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated annual dividend per share (forecast) for the fiscal year ending March 31, 2020 takes the said stock split into account.

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2020	93,500	7.8	10,000	2.1	10,150	2.2	6,900	1.2	148.99

Note: Revisions to the earnings forecasts most recently announced: None

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated basic earnings per share for the consolidated earnings forecasts for the fiscal year ending March 31, 2020 takes the said stock split into account.

* Notes

- (1) Changes in significant subsidiaries during the six months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes
 Note: For the details, please refer to ‘(Application of specific accounting for preparing quarterly consolidated financial statements) in (4) Notes to quarterly consolidated financial statements in 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto’ on page 11 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement of prior period financial statements after error corrections: None
- (4) Number of issued shares (common stock)
 - a. Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2019	50,444,532 shares
As of March 31, 2019	50,444,532 shares
 - b. Number of treasury shares at the end of the period

As of September 30, 2019	4,183,214 shares
As of March 31, 2019	3,827,842 shares

- c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2019	46,360,796 shares
Six months ended September 30, 2018	46,709,530 shares

Note: The Company conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The stated total number of issued shares at the end of the period, number of treasury shares at the end of the period and average number of outstanding shares during the period have been calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

* **Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors.

For matters regarding the above earnings forecasts, please refer to '(2) Information regarding consolidated earnings forecasts and other forward-looking statements' in '1. Qualitative Information Regarding Settlement of Accounts for the First Six Months,' on page 5 of the attached materials.

Attached Materials

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1. Qualitative Information Regarding Settlement of Accounts for the First Six Months

(1) Information regarding consolidated operating results

In the six months under review, amid ongoing improvements in the employment and income environments, weaknesses were observed, particularly in exports. In addition, the outlook has remained unclear due mainly to uncertainty regarding trends and policies in overseas economies, caused by protectionist policies of the U.S. and geopolitical risk in the East Asia and Middle East, along with the impact of fluctuations in financial and capital markets, requiring a more cautious approach from corporate management.

Meanwhile, the environment in which the information services industry operates is projected to remain robust, with investment in information technology expanding in areas related to productivity improvements and work-style reforms to deal with labor shortages, and growth in digital business utilizing so-called CAMBRIC technology, a general term for Cloud Computing, AI, Mobility, Big Data, Robotics, IoT and Cybersecurity.

In this environment, the DTS Group has established a vision for its medium-term management plan (April 2019 to March 2022) of becoming a “Next Value Creator, providing new value to the society of tomorrow,” and has set financial targets of consolidated net sales of ¥100.0 billion or higher, overseas net sales of ¥5.0 billion or higher, a consolidated operating margin of 10% or higher, ROE of 12% or higher, and a total return ratio of 45% or higher.

In order to achieve the above targets, we have drawn up the three basic policies of “realization of a sustainable society,” “evolution into a new system integrator,” and “transformation into self-driven employees,” and have begun related initiatives. The Group has been promoting the five key activities of “strengthening marketing capability and SI capability,” “creating new business,” “strengthening the Group’s management foundation,” “innovating in-house information systems and administrative processes,” and “carrying out work-style reforms.”

In addition, during the fiscal year under review, the Group has performed favorably as it aims for net sales to grow by 7.8% year on year to ¥93.5 billion, operating profit to reach the long-term management target of ¥10.0 billion two years ahead of schedule, and operating margin to exceed 10% for the fourth consecutive year.

■ Strengthening marketing capability and SI capability

In order to enhance the value that we propose the customers, we have begun initiatives aimed at a systematic strengthening of the sales activities. Specifically, because we intend to propose wide-ranging solutions for issues faced by customers, we have enhanced the solutions marketing function of the Sales Sector. In addition, in order to carry out proposal activities that utilize new technologies such as CAMBRIC, a DX Promotion Office has been set up in the Sales Sector.

Also, we have been promoting active use of our offshore bases such as Dalian SuperElectronics Co., Ltd. and DTS SOFTWARE VIETNAM CO., LTD. to strengthen the foundations of our IT employees, and enhance our SI competitiveness.

The Group is working on agile development and the utilization of the “GeneXus”^(Note 1) automated application generation tool in order to further expand the digital business and the SoE business, and as a result, development times have shortened and quality has improved. Going forward we will proactively utilize the newest technologies and focus on providing IT services that capture customer needs.

■ Carrying out initiatives for new business

In preparation for reinforcing our initiatives for digital business that makes use of new technologies such as CAMBRIC, we have launched a group-wide working group, centered on the DX Promotion Office. This is drawing up the DTS Group’s DX strategy, and driving the creation of new business by sorting out common issues and examining initiatives to solve them. Furthermore, as we perceive the training of DX employees to a higher level to be an urgent issue, we are steadily advancing our plan to train employees, which was set by each organization.

<Finance and Society segment>

We are establishing an environment where each employee can come up with their own ideas and execute them by utilizing internal postings, business idea contests, etc., and promoting transformation in awareness regarding carrying out initiatives for new businesses.

<Corporate Solutions segment>

In April 2019 we began collaborating with a leading manufacturer of automotive components on initiatives for smart factory solutions. We have provided “GalleriaSolo,” our BI dashboard, which is a function that increases the visibility of data, sensors with data collection functions, and transmitters, in addition to participating in the development of a system that manages the operation of factory equipment, output, and workers.

<Operational Infrastructure BPO segment>

In October 2019, we began providing a service that realizes the centralized management and automation of system operations management and employee support. We provide a support portal for all employees of our customer companies and support them in quickly resolving issues on internal work.

<Regional, Overseas, Etc. segment>

In October 2019, we introduced a multilingual AI chatbot service ^(Note 2), “kotosora for LGWAN,” that can be used on the LGWAN (Local Government Wide Area Network). We will continue to work on this project actively with a view to expanding sales.

■ Strengthening the Group’s management foundation

In terms of ESG initiatives, the ESG Promotion Office, which has been set up within the General Affairs Department, surveys SDGs for all of the Company’s projects and exchanges opinions with other companies in the same industry.

In addition, Nelito Systems Limited was made a consolidated subsidiary in order to expand the global aspect of the DTS Group’s financial industry business. We are working to expand our operations in India, and push for growth in markets in Southeast Asia.

Moreover, after the 47th Annual General Meeting of Shareholders, Independent Officers accounted for a majority of seven out of 13 Directors. Additionally, the effectiveness of the Board of Directors was analyzed and assessed in July to August 2019, which received positive evaluations from all Directors. We will continue our efforts to ensure the effectiveness of corporate governance.

■ Innovating in-house information systems and administrative processes

In preparation for work-style reforms and improvements to business efficiency, we have started rationalization through the reviewing of work processes, as well as the rebuilding of in-house systems.

In order to begin introduction in November 2019, preparation has been progressing to replace the Company’s PCs with thin client devices, which aims to put infrastructure in place for a variety of work styles, strengthen security, and reduce the amount of administrative work.

Additionally, with respect to internal systems, we are relocating our data center with the aim of increasing business continuity.

■ Work-style reforms

In terms of health management, with the aim of realizing balance between work and private life, we hold regular seminars to support raising next-generation using a combination of occupational doctors and those with experience in this matter, the idea being to promote greater participation by women in the workplace, and greater participation by men in childcare.

Additionally, in order to promote the transformation into self-driven employees and cultivate a company culture where employees can proactively take on new challenges, we considered a personnel

system that evaluates challenges and reforms, and partially commenced operations. We are working on continual institutional reforms.

■ Other, including shareholder returns

In May 2019, we acquired 177,600 treasury shares in order to improve capital efficiency and to further improve returns for our shareholders.

In addition, we conducted a 1:2 stock split for common stock with an effective date of July 1, 2019. The purpose of the stock split was not only to reduce the price per investment unit of the Company's stock, creating a more investment-friendly environment, but also to improve the liquidity of shares and broaden the investor base.

Note 1: "GeneXus" is a development tool that creates business systems automatically, based on the description of a set of business requirements.

Note 2: AI chatbot service is a service for FAQs that uses an AI chat engine to enable natural conversations feel like those of a real person.

As a result of the above, the Group reported net sales of ¥47,391 million for the six months under review, an increase of 14.0% year on year. This was due to good progress in development projects such as the renewal of a securities company's intranet, the renewal of the core system of a governmental financial institution and a residential housing-related project, as well as the impact of the change in the fiscal year-end date for DIGITAL TECHNOLOGIES CORPORATION, and of the consolidation of Nelito Systems Limited.

Gross profit rose by 10.8% year on year to ¥9,269 million. The increase resulted from an increase in net sales and a decrease in unprofitable projects. Selling, general and administrative expenses rose by 2.9% year on year to ¥4,042 million, due to such factors as the consolidation of Nelito Systems Limited. Consequently, operating profit was ¥5,226 million, up 17.8% year on year, and ordinary profit was ¥5,323 million, up 18.1% year on year. Profit attributable to owners of parent was ¥3,678 million, up 19.9% year on year, due mainly to an increase in operating profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated	Year-on-year change (%)
			(Reference)	
Net sales	47,391	14.0	33,605	19.5
Operating profit	5,226	17.8	4,288	30.9
Ordinary profit	5,323	18.1	4,805	32.3
Profit attributable to owners of parent	3,678	19.9	—	—
Profit (Non-consolidated)	—	—	3,447	33.0

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change
		(%)
Finance and Society	15,610	10.3
Corporate Solutions	13,538	13.6
Operational Infrastructure BPO	12,869	13.5
Regional, Overseas, Etc.	5,372	28.9
Total	47,391	14.0

Summaries of the operational conditions of each segment are as follows.

Effective from the first quarter ended June 30, 2019, the Group changed the classification of its reporting segments. Consequently, in year-on-year comparisons the figures for the same quarter of the previous fiscal year have been restated into the figures for the classifications after the change.

Finance and Society Segment

Due to the good progress of development projects such as the renewal of a securities company's intranet, the renewal of the core system of a governmental financial institution and OA project for other financial institution, net sales came to ¥15,610 million, up 10.3% year on year.

Corporate Solutions Segment

Due to strong performance in a development project related to residential housing and a development project utilizing SAP, amongst other factors, net sales rose by 13.6% year on year to ¥13,538 million.

Operational Infrastructure BPO Segment

With operational design, maintenance and management of wholesale and retail systems performing strongly, due to the impact of the change in the fiscal year-end date for DIGITAL TECHNOLOGIES CORPORATION, net sales were ¥12,869 million, up 13.5% year on year.

Regional, Overseas, Etc. Segment

As a result of favorable conditions for development projects in the regional segment, and the consolidation of Nelito Systems Limited, net sales rose 28.9% year on year to ¥5,372 million.

(2) Information regarding consolidated earnings forecasts and other forward-looking statements

With respect to the full-year consolidated earnings forecasts, there is no change from the earnings forecasts announced on April 26, 2019.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	35,290,727	35,548,805
Notes and accounts receivable - trade	15,720,207	15,427,501
Securities	–	34,313
Merchandise and finished goods	1,041,972	651,271
Work in process	679,425	1,281,266
Raw materials and supplies	27,343	23,596
Other	603,491	1,009,197
Allowance for doubtful accounts	(3,204)	(6,429)
Total current assets	53,359,963	53,969,522
Non-current assets		
Property, plant and equipment	3,558,191	3,833,261
Intangible assets		
Goodwill	169,381	313,918
Other	630,177	871,831
Total intangible assets	799,558	1,185,750
Investments and other assets		
Other	9,272,044	8,503,519
Allowance for doubtful accounts	(6,918)	(6,817)
Total investments and other assets	9,265,126	8,496,702
Total non-current assets	13,622,876	13,515,714
Total assets	66,982,839	67,485,236

(Thousand yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	5,286,484	5,464,148
Income taxes payable	2,234,550	1,863,662
Provision for bonuses	3,422,569	2,958,505
Provision for bonuses for directors (and other officers)	57,820	32,520
Provision for loss on order received	198,797	114,379
Other	3,532,402	3,300,484
Total current liabilities	14,732,625	13,733,701
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	35,461	670
Retirement benefit liability	743,572	814,579
Other	117,761	304,867
Total non-current liabilities	896,796	1,120,116
Total liabilities	15,629,421	14,853,818
Net assets		
Shareholders' equity		
Share capital	6,113,000	6,113,000
Capital surplus	6,215,781	6,215,781
Retained earnings	41,342,281	43,622,210
Treasury shares	(3,385,247)	(4,185,444)
Total shareholders' equity	50,285,815	51,765,548
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,019,142	856,191
Foreign currency translation adjustment	27,365	(16,783)
Remeasurements of defined benefit plans	21,095	18,941
Total accumulated other comprehensive income	1,067,603	858,349
Non-controlling interests	–	7,520
Total net assets	51,353,418	52,631,418
Total liabilities and net assets	66,982,839	67,485,236

(2) Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income (cumulative)

(Thousand yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	41,569,965	47,391,078
Cost of sales	33,203,996	38,121,614
Gross profit	8,365,969	9,269,463
Selling, general and administrative expenses	3,927,958	4,042,652
Operating profit	4,438,011	5,226,810
Non-operating income		
Interest income	7,074	10,884
Dividend income	30,605	39,687
Gain on investments in investment partnerships	–	23,581
Other	46,903	39,027
Total non-operating income	84,584	113,181
Non-operating expenses		
Interest expenses	20	12,541
Loss on investments in investment partnerships	4,124	–
Foreign exchange losses	3,431	1,488
Commission expenses	4,807	–
Other	1,654	2,520
Total non-operating expenses	14,037	16,550
Ordinary profit	4,508,557	5,323,442
Extraordinary income		
Gain on step acquisitions	–	66,731
Total extraordinary income	–	66,731
Extraordinary losses		
Loss on retirement of non-current assets	72	120
Loss on valuation of golf club membership	5,104	2,808
Loss on sales of golf club memberships	1,925	–
Total extraordinary losses	7,102	2,928
Profit before income taxes	4,501,455	5,387,245
Income taxes	1,433,757	1,708,795
Profit	3,067,698	3,678,449
Profit attributable to non-controlling interests	–	18
Profit attributable to owners of parent	3,067,698	3,678,430

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	3,067,698	3,678,449
Other comprehensive income		
Valuation difference on available-for-sale securities	197,445	(162,950)
Foreign currency translation adjustment	(9,533)	(44,550)
Remeasurements of defined benefit plans, net of tax	1,612	(2,188)
Total other comprehensive income	189,524	(209,689)
Comprehensive income	3,257,222	3,468,760
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,257,222	3,469,176
Comprehensive income attributable to non-controlling interests	—	(416)

(3) Consolidated statements of cash flows

(Thousand yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	4,501,455	5,387,245
Depreciation	196,762	207,441
Amortization of goodwill	65,484	54,964
Increase (decrease) in provision for bonuses	(250,787)	(480,724)
Increase (decrease) in provision for bonuses for directors (and other officers)	(38,410)	(25,300)
Increase (decrease) in provision for loss on order received	98,743	(84,417)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	60	(34,791)
Increase (decrease) in retirement benefit liability	38,167	65,783
Decrease (increase) in trade receivables	1,823,320	903,432
Decrease (increase) in inventories	(447,260)	(207,416)
Increase (decrease) in trade payables	140,437	55,760
Other, net	(490,862)	(802,007)
Subtotal	5,637,110	5,039,968
Interest and dividends received	40,426	52,741
Interest paid	(20)	(4,384)
Income taxes paid	(1,770,993)	(2,212,077)
Net cash provided by (used in) operating activities	3,906,523	2,876,247
Cash flows from investing activities		
Purchase of property, plant and equipment	(47,775)	(165,577)
Purchase of intangible assets	(169,677)	(324,784)
Purchase of investment securities	(705,367)	–
Proceeds from redemption of investment securities	200,000	400,000
Payments for investments in capital of subsidiaries and associates	(16,114)	(70,171)
Payments into time deposits	(120,153)	(213,677)
Proceeds from withdrawal of time deposits	120,152	196,877
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(456,070)
Other, net	2,254	43,546
Net cash provided by (used in) investing activities	(736,681)	(589,858)
Cash flows from financing activities		
Dividends paid	(1,052,969)	(1,397,140)
Dividends paid to non-controlling interests	(18)	(1)
Purchase of treasury shares	(602,479)	(801,796)
Other, net	–	88,788
Net cash provided by (used in) financing activities	(1,655,467)	(2,110,150)
Effect of exchange rate change on cash and cash equivalents	(9,043)	(3,079)
Net increase (decrease) in cash and cash equivalents	1,505,330	173,160
Cash and cash equivalents at beginning of period	32,454,447	35,140,658
Cash and cash equivalents at end of period	33,959,778	35,313,818

(4) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Notes on substantial changes in the amount of shareholders' equity)

No items to report.

(Application of specific accounting for preparing quarterly consolidated financial statements)

(Calculation of taxes)

Taxes are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the second quarter under review, and next by multiplying the quarterly profit before income taxes by such estimated effective tax rate.

3. Others

Results of production, orders and sales

In the six months under review, order volume and order backlog in the Regional, Overseas, Etc. business have significantly increased year on year. This was due to Nelito Systems Limited being included in the scope of consolidation as a result of purchasing additional shares from the first quarter ended June 30, 2019.

Effective from the first quarter ended June 30, 2019, the Company partially changed the classification of its reportable segments. Consequently, the percentage of year-on-year change utilizes figures for the same period of the previous fiscal year that were created based on the new reportable segment classifications.

(1) Production

Production in the six months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Society	15,610,403	10.3
Corporate Solutions	13,538,727	13.6
Operational Infrastructure BPO	12,869,575	13.5
Regional, Overseas, Etc.	5,372,372	28.9
Total	47,391,078	14.0

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(2) Orders

Orders in the six months under review are as follows.

Segment	Order volume (Thousand yen)	Year-on-year change (%)	Order backlog (Thousand yen)	Year-on-year change (%)
Finance and Society	10,776,776	(0.2)	10,589,098	(6.7)
Corporate Solutions	13,220,032	13.4	6,978,083	11.4
Operational Infrastructure BPO	7,520,603	15.6	7,947,612	6.0
Regional, Overseas, Etc.	5,799,568	32.6	3,556,517	75.5
Total	37,316,980	11.9	29,071,312	7.1

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(3) Sales

Sales in the six months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Society	15,610,403	10.3
Corporate Solutions	13,538,727	13.6
Operational Infrastructure BPO	12,869,575	13.5
Regional, Overseas, Etc.	5,372,372	28.9
Total	47,391,078	14.0

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.