

**A growing IT company equipped with high technological capabilities. The Company aims to improve profitability by expanding the businesses of original products and embedded products.**

December 19, 2019

<b>Company overview</b>	URL: <a href="https://www.ditgroup.jp/">https://www.ditgroup.jp/</a>	Established	January 2002
Code	3916	Industry: Information & Communications	Listing
Representative	Satoshi Ichikawa	Head Office	4-5-4, Hatchobori, Chuo-ku, Tokyo
Overview of Businesses	Design, operation, and maintenance of software development; development and sales of original products		
Major Shareholders	Norikazu Ichikawa(16.73%), NI Investment Co., Ltd. (13.02%), The Master Trust Bank of Japan, Ltd. (Trust Account) (8.18%), Japan Trustee Services Bank, Ltd. (Trust Account) (7.13%), Satoshi Ichikawa (6.92%) (Top 5 shareholders, as of June 30, 2019, some figures are rounded off to the nearest)		



**Information services company with a solid business foundation and growth fields**

**Company profile:** Digital Information Technologies Corporation is an independent information services company that engages in development of business systems and embedded systems, and manufacture and sales of its original products. The predecessor, Toyo Computer Systems Co., Ltd., was established in 1982 and has been engaged in system development and operation and maintenance since its inception. Subsequently, the Company established group companies in each development industry, but in 2002 it shifted to a holding company, unifying the group, and it changed its name to the current one in 2006. Afterwards, the Company steadily increased its performance, mainly in the development of financial services, and it listed on the JASDAQ in 2015 and Second Section of the Tokyo Stock Exchange in the following year, and in 2017, it transferred to the First Section of the Tokyo Stock Exchange. **The performance is also robust, with the Company achieving sales and profit growth for the ninth consecutive fiscal year through the most recent fiscal year ending June 2019.** The current representative, Satoshi Ichikawa, is the son of the current chairman, Norikazu Ichikawa. He was appointed as Representative Director in July of last year.

**Business:** The Company has two segments: (1) Software Development Business (2) System Sales Business. The former accounts for about 95% of sales and is divided into the following businesses. **In the Business Solutions Unit (approx. 59% to total sales in FY6/19), the Company focuses on the financial industry. In addition to outsourced system development in a wide range of fields, including manufacturing and distribution, it also provides operational support for support desks and other operations related to system operations. In the Embedded Solutions Unit (approx. 31% to total sales), the Company will mainly develop software for mobile and information appliances, as well as verify product quality, mainly in its mainstay automobile-related operations (approx. 60% to the total sales). In addition, in recent years, the Company has been focusing on the Original Product Unit as the next growth pillar (approx. 4% to the total sales).** It offers two main services: WebARGUS, a cybersecurity product described below, and xoBlos, a product that streamlines Excel operations. Another segment, the System Sales Business (approx 6% to the total sales), mainly sells Casio's "Rakuichi" which is a business and management support system for small and medium-sized companies. The Company has built up a track record in these businesses in a wide range of industries, and the number of client companies is approximately 2,600. The Company has many of the largest companies in the financial, automotive, telecommunications, and other industries in Japan. In the automotive sector, in particular, the Company deals with a number of major Japanese automakers and parts manufacturers, including those related to connected cars.

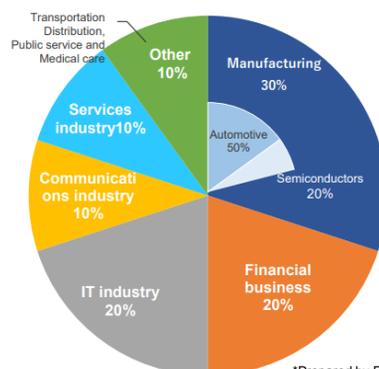
**Strengths and business models:** The strength of the Company is that it has a combination of a solid earnings base based on high technological capabilities and businesses that have a high profit ratio. It has reliable technological capabilities backed by a long track record in various industries and it is deeply trusted by major corporations, thus 70% of the development goes toward enhancement (maintenance). Thanks to the great trust the Company has, it's often asked to provide support afterward for system operation, maintenance, etc. The Company is rarely replaced by other companies to manage operation and maintenance; once it's in charge of the operation, it can secure stable high profitability. Further, by conducting the support services, the Company can deeply understand its clients' business, which makes it easier to start new development projects. It has established virtuous cycles where project development leads to handling operation and maintenance through which it builds trust with clients, it gains a deep understanding of the business, and this leads to starting new development projects. Recently the cases where the Company receives orders for development projects after handling operation and maintenance have increased.

Moreover, as for the embedded products development, transactions with major corporations related to IoT, automatic driving systems, etc. are increasing. **Based on the development that is backed by reliable technological capabilities, securing projects with a high profit ratio has become the source of the Company's earnings base.** And it allocates its earned funds to R&D actively, honing its technological capabilities, and the development of original products, which will be a new driver for growth.

**Noteworthy products of the Company:** Thanks to the proactive R&D, the Company developed its original products, "WebARGUS" and "xoBlos." **WebARGUS is security software that instantly detects tampering done by malicious programs targeting corporations' websites, etc. and restores them back to a previous operational state. It boasts an overwhelmingly quick restoration time of 0.03 seconds from detection to restoration.** Nowadays, popular security solutions focus on "identifying" or "blocking" the virus, attacker, etc., which is basically "preventing damage from occurring." However, the technologies of the attackers are becoming more and more advanced every day, which results in an endless cat-and-mouse game. **On the other hand, the Company's products block "anonymous attacks (zero-day attack)" and focus on the complete elimination of the damage, which puts the Company in a different league compared to other companies and opens up a great potential for growth.** There is currently no one who can compete with the speed of its constant monitoring that combines the detection and restoration functions. Additionally, adopting its solution is easy thanks to its monthly-fee subscription model.

Stock Price Data (December 10, 2019)			
Stock price	1,635 yen	Market cap	25,345 million yen
Trading Volume (5-day Average)	231,940 shares	EPS (Forecast)	51.81 yen
PER (Forecast)	31.56x	PBR (Actual)	8.12x
Shareholders equity ratio	63.3%	ROE (end of previous FY) (As of the end of the previous fiscal year)	26.5% 21.1%
Dividend per share (Forecast)	18.00 yen	Dividend yield	1.10%

**Sales Composition by Industry**



\*Prepared by Finantec based on the Company's materials



Satoshi Ichikawa, President and Representative Director

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## Aiming to increase the profit ratio by promoting the 2 original products

The other original product is “xoBlos,” Excel work optimization software. It can automate Excel-based data aggregation and can streamline workflow drastically. Moreover, it is highly expandable and it supports linking with all RPA and ERP products. It matches the work-style reforms and the number of companies that adopted the product is over 400, **200 of which have adopted the product during the past 2 years, marking a rapid expansion.**

**Market trends:** It is safe to say that the performance of industries with which the Company operates is considered healthy in the medium to long term. The scale of the digital transformation (DX) market, which digitally transforms corporations, is expected to grow 4 times to be about 2.36 trillion yen between 2017 and 2030 (according to the 2018 survey by Fuji Chimera Research Institute, Inc.). Furthermore, corporations’ expenditure on IoT, which is the backbone of embedded product development, will augment about 2 times to 11.7 trillion yen between 2017 and 2022 (according to IDC Japan findings). Further, the industry of in-vehicle devices is under development and the in-vehicle software market is expected to grow from 2020 to 2025 by about 15% each year to reach slightly less than 10 trillion yen. **The Company’s entire business, including connected cars, security measures, and work-style reforms, has the wind at its back.**

**Performance and finance:** The earnings steadily soared before and after the Company got listed. **Net sales in the previous term ended June 2019 were about 12.4 billion yen (11.5% YoY increase) and operating income was about 1 billion yen (39% YoY increase), achieving an increase in sales and profit for the 9th consecutive term.** In addition to the steady progress of development projects in the field of finance, the embedded product development and the original products, which are promising fields, made significant growth from the previous term, and particularly profit ratio has expanded considerably. The financial statements for the first quarter published on November 8 indicate the favorable trend, where net sales were about 3.3 billion yen (13.8% YoY increase and a progress ratio for the term of 25%) and operating income was 350 million yen (56.9% YoY increase and a progress ratio for the term of 30%), marking a record high for a quarter. All the Company’s businesses performed well, **which is a good start for maintaining an increase in sales and profit for the 10th consecutive term (a record high/the figure on the right).** It is typical in the industry that orders tend to increase around March, thus, the quarterly earnings tend to peak in the 3rd quarter and fall back in the 4th quarter.

Financially, the Company maintains low liabilities and debt-free management, thus equity ratio is about 63%. Additionally, ROE was as high as 26.5% for the term ended June 2019.

**The medium-term growth strategy:** The Company sets 2 business strategies as its medium-term growth strategy; one is expanding and stabilizing existing businesses and the other is strengthening the growing businesses. As for the Business Solutions Unit which is a business foundation, the Company strengthens its profitability by continuing the development for major corporations and meeting their maintenance needs. For the Embedded Solutions Unit, it plans to focus on the specialty area of in-vehicle devices, increase profit ratio, and secure cutting-edge development projects. In doing so, **it will not only strengthen the existing businesses, but will also foster its original products as a new driver for growth.** Regarding “WebARGUS,” the Company will strengthen its marketing structure by actively expanding sales agent marketing in addition to its own operations. Moreover, it will strengthen its lineup of products as “DIT Security” by bundling other related security solutions with “WebARGUS” as the main product. Since then, after the government’s amendment to the security guidelines, the idea of “system resilience,” which values the ability to recover and restore systems, was promoted; this was a strong fair wind to the Company’s original products, which has the restoration function. For “xoBlos,” the Company enhanced added value by strengthening the operating structure and linking it with ERP and RPA products of other companies. In recent days, it has been making bundles with the products of RPA Holdings, Inc. and oRo Co., Ltd. As mentioned above, the Company has expanded its original products and embedded product development, which has a high profit ratio; currently, it is focusing on growing profitability. It also plans to develop new products through long-term R&D.

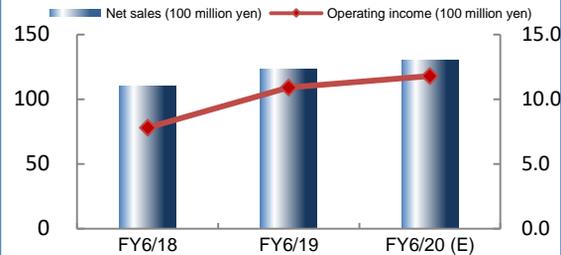
As for the difficulty in employing talent, which is the bottleneck in the industry, it started nearshoring in Ehime prefecture, with which the founder is familiar, and promoted regionally-oriented operation. Further, most recently, it adopted the Japan Employee Stock Ownership Plans Trust (J-ESOPs Trust system) and has been increasing the incentives for employees.

**The medium-term management goal:** **In the term ended June 2017, the Company set “Triple 10” for achieving 10 billion yen in net sales, 1 billion yen in operating income, and an operating income margin of 10% as goals to be achieved within 5 years, of which it has already reached the sales and operating income goals.** The Company plans to achieve the operating income margin goal as well by expanding the transactions in embedded products and expanding the original products segment.

**Stock price and shareholder returns:** The stock price is rising along with business performance. As of December 10, PER was 31.6 and PBR was 8.1, which indicates that the stock is overvalued, but considering the improvement of the corporate results, there should be room for an increase. Regarding the dividends, the Company focuses on a stable payment and aims to achieve a payout ratio of 30% while maintaining the dividend increase for the 5th consecutive term. In the term ended June 2018, the Company had purchased treasury stock and we expect it to have a flexible capital policy in the future. The Company expects payout ratio to be 35%, with the dividend being 18 yen/share.

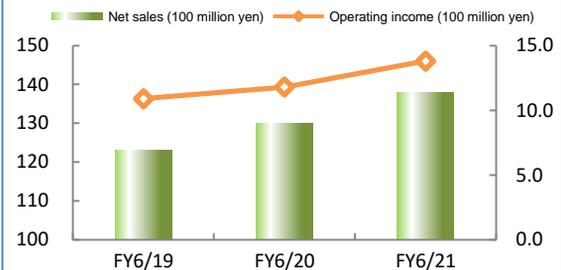
The Company carries out many transactions with major corporations thanks to its high technological capabilities and trust; it secures stable profit through its operation and maintenance services. We expect the Company to enhance its profitability further through the up-to-date development of security solutions and embedded products for the industry of in-vehicle devices, etc. and also through the expansion of original products which contribute to the work-style reforms. Moreover, we also expect it to grow even more in the future.

## Business Trends



(Million yen)	FY6/18	FY6/19	FY6/20 (E)
Net sales	11,076	12,355	13,030
Operating income	787	1,095	1,180
Ordinary income	790	1,106	1,177
Net income	531	737	790
Dividend (yen)	11	16	18
EPS (yen)	34.57	48.07	51.81
ROE(%)	21.1	26.5	-

## Medium-Term Management Target



(Million yen)	FY6/19	FY6/20 (E)	FY6/21 (E)
Net sales	12,355	13,030	13,860
Operating income	1,095	1,180	1,387
Operating income margin	8.9%	9.1%	10.0%

\*Prepared by Finantec based on the Company’s data

## Company Analysis

<b>Strength</b>	<ul style="list-style-type: none"> <li>Technological capabilities cultivated in operations to a wide range of industries</li> <li>Large number of transactions with major companies</li> <li>High profit margin centered on embedded development and original products</li> </ul>
<b>Weakness</b>	<ul style="list-style-type: none"> <li>Difficulty in recruiting due to shortage of engineers</li> <li>Securing stable human resources</li> </ul>
<b>Opportunity</b>	<ul style="list-style-type: none"> <li>Growing needs in the DX and automotive markets</li> <li>Increase sales composition ratio of in-house products</li> </ul>
<b>Threat</b>	<ul style="list-style-type: none"> <li>Reducing corporate ICT investment due to economic downturn</li> <li>Severe labor shortage in the industry</li> </ul>