

Achieved the mid-term management plan ahead of schedule! Launching new service for further growth

October 28, 2020

Company overview	URL: https://www.ditgroup.jp/	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	NI Investment Co., Ltd. (13.02%), Norikazu Ichikawa(12.89%), The Master Trust Bank of Japan, Ltd. (Trust Account) (9.25%), Satoshi Ichikawa (7.05%), Japan Trustee Services Bank, Ltd. (Trust Account) (5.39%), (Top 5 shareholders, as of June 30, 2020, 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 tenth consecutive fiscal year through the most recent fiscal year ending June 2020.** The current representative, Satoshi Ichikawa, is the son of the current chairman, Norikazu Ichikawa. He was appointed as Representative Director in July 2018.

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. 58.1% to total sales in FY6/20), 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. 31.9% 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. 4.5% to the total sales).** It offers two main services: WebARGUS, a cybersecurity product described below, and xoBlos, a product that streamlines Excel operations. **In addition, DIT started the DD-CONNECT electronic contract outsourcing service in October.** Fourth segment, the System Sales Business (approx 5.5% 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 2,700. 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: The Company also emphasizes development of 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.**

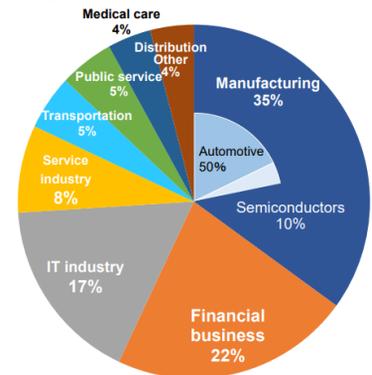
The other security solutions focus on "identifying" or "blocking" attacker, etc., which is basically "preventing damage from occurring." This approach differs from that of other products that instead use identification, defensive and other measures against attacks for preventing losses. **Using this different stance means that there are almost no competitors, resulting in substantial potential for growth.** Furthermore, companies can start using DIT's software with ease because it uses the SaaS and subscription model. This product is therefore in step with current user needs because even the Japanese government has started shifting from emphasis on preventive measures to system resilience with priority on system restoration.



Stock Price Data (October 26, 2020)

Stock price	1,391 yen	Market cap	21,563 million yen
Trading Volume (5-day Average)	377,440 shares	EPS (Forecast)	61.81 yen
PER (Forecast)	22.52x	PBR (Actual)	5.79x
Shareholders equity ratio	68.2%	ROE (end of previous FY)	29.6%
Dividend per share (Forecast)	20.00 yen	Dividend yield	1.44%

(Sales Composition by Industry)



*Prepared by Finantec based on the Company's materials



Satoshi Ichikawa, President and Representative Director

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Strong performance. Expand new products to further improve profit margins

The other original product is “xoBlos,” Excel work optimization software. It can automate Excel-based data aggregation and can streamline workflow drastically. This product also meets the requirements of working style reforms. **Growth in the number of users is fast. More than half of the 450 companies currently using this software started within the past two to three years. The software has outstanding scalability. Recently, DIT has been creating proposals for increasing added value by using links with the ERP and RPA products of oRo (3983/TSE 1st section) and other companies.**

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 3 trillion 42.5 billion yen between 2019 and 2030 (according to the survey by Fuji Chimera Research Institute, Inc.). Furthermore, corporations’ expenditure on IoT, which is the backbone of embedded product development, will augment about 1.8 times to 12 trillion 636.3 billion yen between 2019 and 2024 (according to IDC Japan findings). In addition, the automotive semiconductor market is expected to grow to \$58.6 billion by 2030, up about 90% from 18 years, according to the Yano Economic Research Institute. **The Company’s entire business has the wind at its back.**

Performance and finance: The earnings steadily soared. **Net sales in the previous term ended June 2020 were about 13.4 billion yen (9.2% YoY increase) and operating income was about 1.3 billion yen (23.5% YoY increase), achieving an increase in sales and profit for the 10th consecutive term. The Company has achieved earlier than expected the KPI of its medium-term plan, which is explained later in this report.** One reason is the strong performance of the growing business sectors of embedded software development and DIT’s own products. In addition, the concentration of activities on high-margin projects has significantly raised the profit margin. In FY6/21, sales and earnings are expected to be basically unchanged, with sales up 0.6% and operating income up 0.4%. At the earnings announcement ([click here](#)), DIT president Satoshi Ichikawa explained that this is an extremely conservative forecast incorporating the big change in the business climate due to COVID-19 and is the minimum target for the fiscal year. Financially, the Company maintains low liabilities and debt-free management, thus equity ratio is about 63%.

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. At the same time, the Company’s strategy is to focus on two businesses, its high-margin embedded solutions and its own products, in order to achieve both growth in scale and higher profit margins.

Currently, the Company is focusing on strengthening its own products. “WebARGUS,” the Company will strengthen its marketing structure by actively expanding sales agent marketing, together with its industry partners. The company is developing a service called DIT Security, which provides one-stop security-related peripheral solutions. As for xoBlos, the Company is further strengthening cooperation with other ERP products. DIT has already provided an OEM version of xoBlos to oRo, and has begun full-scale collaboration with them.

In October, DIT launched the DD-CONNECT electronic contract outsourcing service. This service is based on the electronic contract cloud service of NS Solutions, which has retained the leading market share in this category for the past four years. DIT works with Daiko Denshi Tsushin to provide assistance for starting to use electronic contracts and to produce electronic contracts for other companies. By using its system operation and maintenance expertise and meeting companies’ needs to go paperless and implement working style reforms, DIT plans to increase the number of DD-CONNECT users to 100 companies over the next three years.

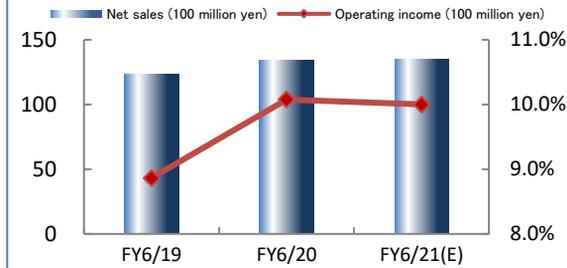
As for the difficulty in employing talent, which is the bottleneck in the industry, it started nearshoring in Ehime prefecture, with which the founder is familiar, and promoted regionally-oriented operation. Further, most recently, it adopted the Japan Employee Stock Ownership Plans Trust (J-ESOPs Trust 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. Due to its strong performance, DIT has achieved all of its targets for FY6/21 one year early. The company is currently creating a new long-term vision that reflects the COVID-19 pandemic as well as the increasing speed of the digital transformation.**

Stock price and shareholder returns: The stock price dropped briefly in March because of the COVID-19 outbreak and subsequently recovered to the current 1,400 yen level. As of October 26, the PER was 22.5 based on the FY6/21 forecast. The average PER (actual earnings) for companies in the information and communications sector of the Tokyo Stock Exchange first section, which includes DIT, is 33.9 and the average PBR is 3.0. Based on actual performance, DIT’s PER of 21.6 is far below the sector average and its PBR is 5.8. Furthermore, the ROE based on actual earnings is very high at 29.6%. This places DIT at about number 100 in the ROE ranking of all listed companies in Japan. Although DIT has announced a conservative FY6/21, the Company’s ten consecutive years of sales and earnings growth and achievement of goals one year early demonstrate the strength of its business operations. This indicates that the stock price has been consistently undervalued. DIT places importance on dividend consistency and has a dividend payout ratio target of at least 30%. **The Company raised its dividend for FY6/20 due to upward revisions to the forecast for sales and profits.**

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.

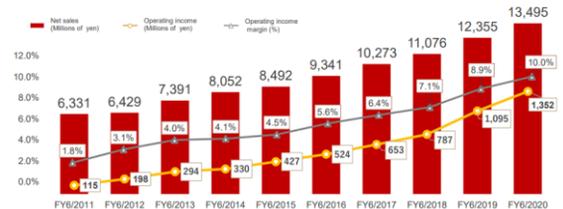
Business Trends



(Million yen)	FY6/19	FY6/20	FY6/21 (E)
Net sales	12,355	13,495	13,580
Operating income (Operating income ratio)	1,095 (8.9%)	1,352 (10.1%)	1,358 (10.0%)
Ordinary income	1,106	1,357	1,358
Net income	737	978	942
Dividend (yen)	16.0	20.0	20.0
EPS (yen)	48.07	64.18	61.81
ROE(%)	26.5	29.6	-

■ Achieved Mid-Term Management Targets “Triple 10” one year ahead of schedule

Mid-term Management Targets “Triple 10”	Net Sales 10 billion yen	Operating income 1 billion yen	Operating income margin 10%
Planning target year	FY6/2017	FY6/2019	FY6/2021
Achieved year	FY6/2017	FY6/2019	FY6/2020



*Prepared by Finantec based on the Company’s data

Company Analysis

Strength	<ul style="list-style-type: none"> Technological capabilities cultivated in operations to a wide range of industries Large number of transactions with major companies High profit margin centered on embedded development and original products
Weakness	<ul style="list-style-type: none"> Difficulty in recruiting due to shortage of engineers Securing stable human resources
Opportunity	<ul style="list-style-type: none"> Growing needs in the DX and automotive markets Increase sales composition ratio of in-house products Acceleration of DX due to COVID-19
Threat	<ul style="list-style-type: none"> Reducing corporate ICT investment due to economic downturn Severe labor shortage in the industry