



Bridge Report



Bridge Report Digital Information Technologies Corporation (3916)

 President Norikazu Ichikawa	Company	Digital Information Technologies Corporation	 Digital Information Technologies Corporation
	Code No.	3916	
	Exchange	TSE 1st Section	
	Industry	Information and communications	
	President	Norikazu Ichikawa	
	Address	FORECAST Sakurabashi, 4-5-4 Hatchobori, Chuo-ku, Tokyo	
	Business	An independent information service provider. It develops business systems, embedded devices, etc. It has many client enterprises in the fields of finance, communications, etc. It also concentrates on the development and sale of products based on its original technology.	
	Year-end	End of June	
	URL	https://www.ditgroup.jp/	

— Stock Information —

Share Price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
1,870 yen	7,750,720 shares		14,493 million yen	19.6%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
15.00 yen	0.8%	46.88 yen	39.9 times	519.35 yen	7.2 times

*The share price is the closing price on March 27. The number of shares issued was taken from the latest brief financial report. ROE and BPS are the values for the previous term. PBR was calculated while taking into account the share split (2-for-1) implemented on October 1, 2016.

— Earnings Trends —

(Unit: Million yen or yen)

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
Jun. 2013 (Actual)	7,391	294	266	109	16.97	2.00
Jun. 2014 (Actual)	8,052	330	339	209	32.51	3.50
Jun. 2015 (Actual)	8,492	427	427	297	45.86	10.00
Jun. 2016 (Actual)	9,341	524	553	351	47.60	12.00
June 2017 (Forecast)	10,012	570	558	360	46.88	15.00

*The forecast is from the company. EPS and BPS were retroactively recalculated.

*From the FY 6/16, net income is profit attributable to owners of the parent. Hereinafter the same apply.

This report introduces the first half of fiscal year June 2017 earnings results of Digital Information Technologies Corporation.

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Key Points

• **Digital Information Technologies Corporation is an independent information service company. Its sales are mostly from the undertaking of the development of business systems, embedded devices, etc. for clients mainly in the fields of finance, communications, etc. The company concentrates on the expansion of its products based on its original technologies, including “WebARGUS,” a website security solution, and “xoBlos,” an Excel work innovation platform. The company has a variety of characteristics such as “multifaceted, diverse information technologies” and “organizational strategies of partial and total optimizations.”**

• **Sales for the first half of the fiscal year (FY) ending June 2017 were 4,858 million yen, up 5.4% year on year (YoY). Although the computer sales business was sluggish, the software development business showed steady growth, resulting in the increase in sales. Even though SG&A expenses including labor, research and development costs increased, the costs were absorbed by sales growth, and operating income was 304 million yen, up 3.4% YoY. While refund for insurance cancellation decreased, lawsuits related costs were recorded. As a result, ordinary income and net income declined.**

• **There is no change in the earnings forecast. Sales are projected to be 10,012 million yen, up 7.2% YoY, and operating income is projected to be 570 million yen, up 8.7% YoY. Each business segment is expected to have steady growth. Operating income growth rate will decrease because the Company will invest in new businesses with high added-value. However, it will make efforts to increase sales and profit by stabilizing business foundation and strengthening growth elements. Ordinary dividend will be 12.00 yen/share and commemorative dividend will be 3.00 yen/share (a total of 15.00 yen/share).**

• **The previous report said “The progress towards achieving the business forecast was slow in the previous reporting term due to sluggish computer sales business.” Because the Company is only in the third term after it got listed in the stock market, we can only compare the quarter progress with the previous term. Sales remained the same as the previous term. Operating income also shows only slight growth in the second quarter due to slow start in the first quarter. It is noteworthy that the progress rate of the second quarter for the own-brand products, “WebARGUS” and “xoBlos”, which did not reach 20% in the first quarter, went up to around 50% in the second quarter. The performance in the third quarter, which gained one third of operating income last year, is a point of interest. In the medium term, we would like to pay attention to automotive equipment for which the market is expected to grow through advances in self-driving technology.**

【1-1 Corporate history】

The president Ichikawa discovered a new world of computers and obtained programming qualifications while he was working at Nippon Telegraph and Telephone Public Corporation. He set up his own business because he was willing to take on challenges and found a great appeal in the potential of computers.

In 1996, he was appointed president of Toyo Computer System, Inc. as the successor to one of his acquaintances. He expanded its business area starting from business system development, and then computer sales business, embedded product development validation business and operation support businesses tuning Toyo Computer System Inc. into a multifaceted and diverse IT company.

In 2002, he established Toyo IT Holdings Corporation, which is the predecessor of current Digital Information Technologies Corporation, by separating several companies under the same group and establishing subsidiaries with 100% ownership. In 2006, he integrated four subsidiaries into one company and renamed it to the current company name.

In addition, in January 2011, he established DIT America, LLC in Kansas, U.S.A. Digital Information Technologies Corporation was listed on JASDAQ of Tokyo Stock Exchange (TSE) in June 2015, listed on the second section of TSE in May 2016 and listed on the first section of TSE in March 2017.

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The details of the development and sales business for own-brand products are as follows:

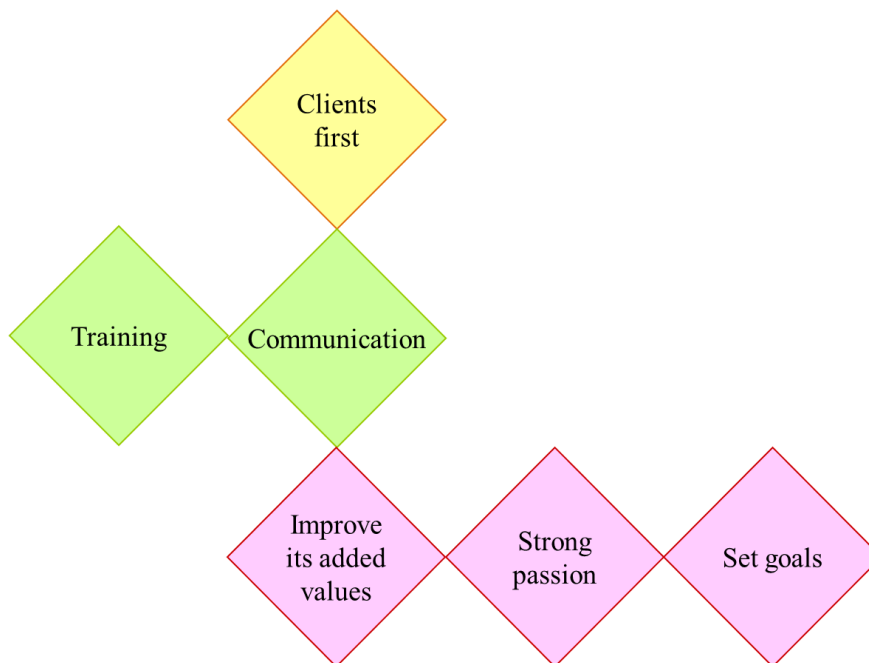
- April, 2005 - Released "APMG," a self-developed IT security product.
- October, 2009 - Released "xoBlos," an Excel work innovation platform.
- July, 2014 - Released "WebARGUS," a website security solution.

【1-2 Corporate ethos, etc.】



Our logo is a collection of cubes with an infinite number of stairs.
This collection is our company itself, and each cube represents each employee.
The 6 facets of the cubes represent six values which all employees share and consider valuable.
Our corporate identity represents these values in three tiers; clients, company and employees.

(From the company's website)



(From the company's website)

The above diagram is the unfoldment of the cube. According to the president Ichikawa, it emphasizes "clients first; this is where it all starts." Furthermore, the logo represents "training employees" and "communication with clients and among employees." These are important values to the company. Additionally, we implore employees to "improve its added values," "have passion" and "have a sense of purpose."

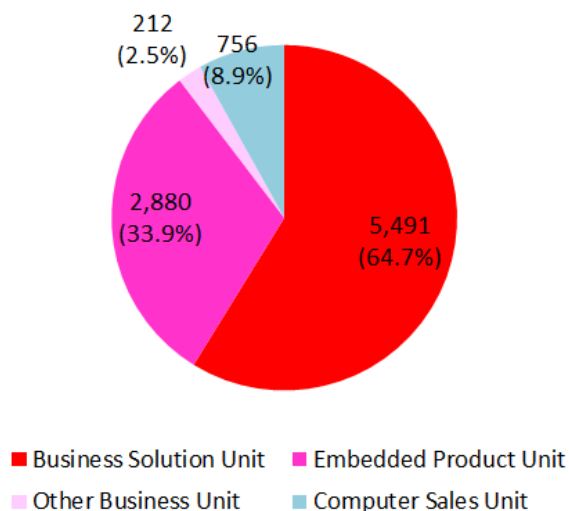
Employees are to uphold this company policy as their creed and follow these principles at all times.

【1-3 Business contents】

1. Segments

There are two segments: software development business and computer sales business. The software development business consists of 3 business units: business solutions unit, embedded product solution unit and other business unit.

Sales by Business Unit
(FY June 2016, unit: million yen)



(1) Software Development Business

1) Business Solution Unit

(Business system development unit)

The sales for this business unit is mostly from custom development for end-users and information systems companies which are clients' subsidiaries in a wide variety of industries including finance, communications, distribution and transportation as well as for leading SI vendors.

Specifically, development for websites and key systems, front and back office operations, new system development and maintenance development with technologies developed in each area. The company has developed trustworthy relationships with leading companies in each area which enables them to secure stable orders.

(Operation support unit)

Main clients include communications carriers, total human service corporations and information system companies which are airlines subsidiaries.

This "business unit to support clients' daily operations through IT" has stable revenue as it is an ongoing business in line with the business website domains of leading companies.

Specific business includes:

- ✧ Support desk operation for end-users who use various business systems.
- ✧ Build and maintain infrastructure (servers and networks).
- ✧ Efficient system operations in line with the latest technology trends.

2) Embedded Product Solution Unit

(Embedded product development unit)

This business unit is trusted by leading manufacturers to directly develop custom software for in-vehicle devices, mobile devices, information home appliances and communication devices. For in-vehicle devices, mobile devices and information home appliances, the unit develops custom software for overall systems including firmware, device business unit controls and applications.

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It focuses on a new power system (*1) with new technology, running safety, ITS (Intelligent Transport System) and auto-drive as well as infotainment for in-vehicle devices as the demand for this market is expected to grow. In addition, it undertakes software development for wireless base stations, communication module devices and virtual networks (*2) for communication devices.

New power system (*1): power for hybrid, plug-in hybrid and fuel cell vehicles.

Virtual network (*2): software control technology to rebuild network flexibly without making any changes to the physical network.

(Embedded product verification unit)

This business unit verifies and makes suggestions to improve qualities and functions of products through its verification service.

It provides verification services domestically and internationally (North America, Asia, Europe, etc.) including laboratory tests using specialized devices to verify product operation and function, field tests to verify products in the actual environments, as well as overall system tests conducted as the final quality verification from the perspectives of the third party.

Some of the overseas field tests are designated to its subsidiary, DIT America, LLC, which provides fast service with verification of product usability from the perspective of local staff.

The range of products for verification includes in-vehicle devices, medical devices, communication devices and mobile devices.

3) Other business units

Other business units include development and sales of own-brand products.

Currently, the company strongly focuses on the sales of two products, “**WebARGUS**,” a website security solution, which detects tampered website simultaneously as it occurs and instantly restores the original normal condition, and “**xoBlos**,” an Excel work innovation platform, which features data decomposition and restoration as well as meeting various forms of data business processing needs.

There are other products such as “**APMG** (Anti Phishing Mail Gateway),” a solution to prevent damages from phishing and illegal use of brands by automatically adding electronic signatures on e-mails, and “**Rakuraku page**,” a CMS (content management system), which enables editing and updating websites easily.

(2) Computer Sales Unit

The company and its subsidiary, Toyo Infonet Co., Ltd, sell “**Rakuichi**,” a business support mission-critical system, for small and medium enterprises, manufactured by Casio Computer Co., Ltd. as its one of agencies.

The sales area is started at Kanagawa first and expanded to Tokyo, Chiba, Gunma and Ehime successively. The Company provides substantial support for their users to increase the client retention rate. In addition, they set up a call center to attract and build a new client base. The number of sales for “Rakuichi” has been recorded to be the highest across all agencies for 12 consecutive years.

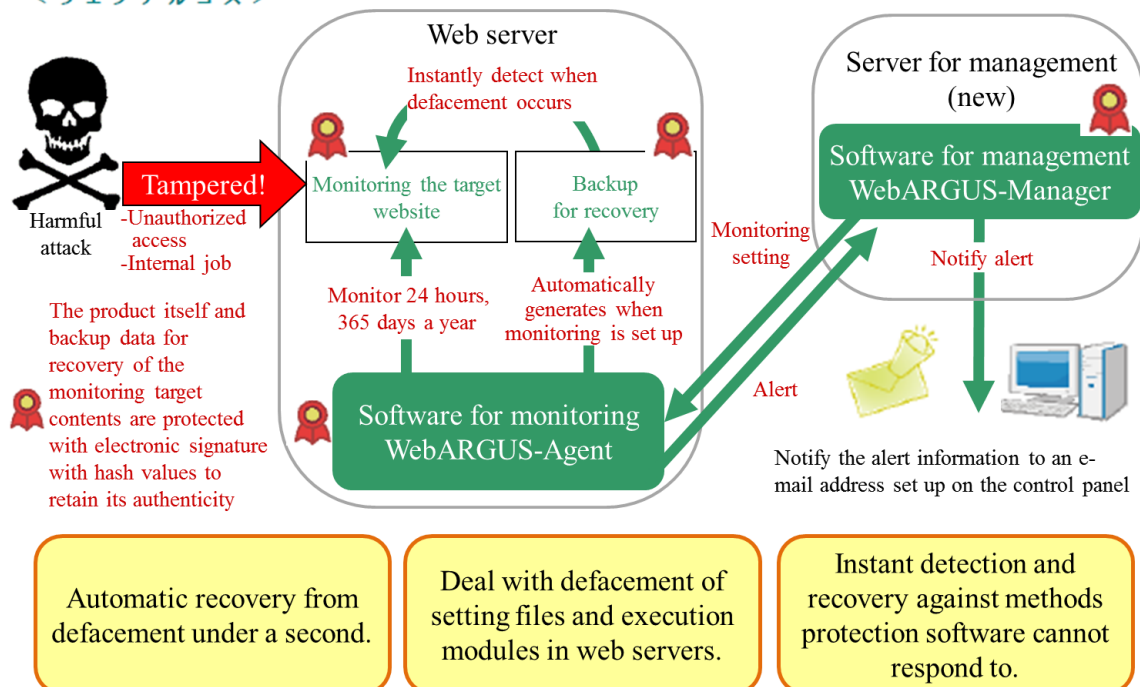
2. Main Strategic Products

1) “WebARGUS,” a new website security solution

WebARGUS is a new security solution which detects tampered websites instantaneously and immediately restores it to its original state. By detecting and recovering immediately when incident occurs, WebARGUS protects corporate websites from damage caused by malicious and unknown cyber-attacks and simultaneously prevents the escalation of the damage from viruses spreading via the tampered website.



WebARGUS is software for detecting tampered website and recovering the website instantly. Even when the attack breaks through the protection, it helps minimize defacement to nearly zero.

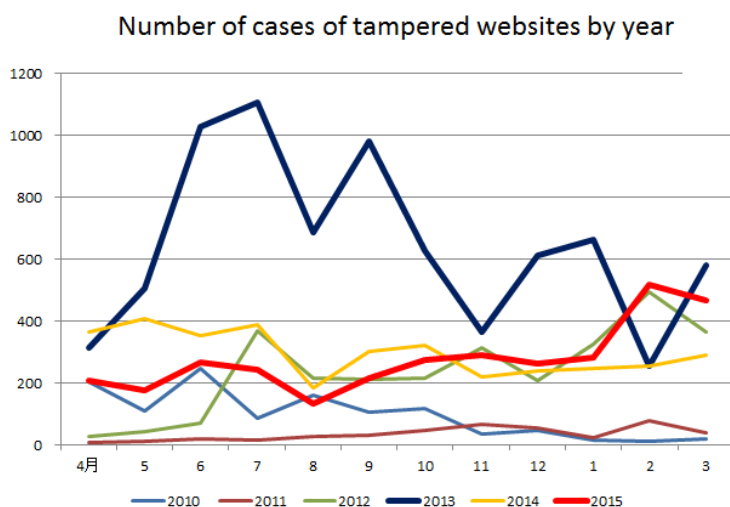


(Taken from the reference materials of Digital Information Technologies Corporation)

© Increasing tampering of websites

According to the research conducted by "JPCERT Coordination Center," (*) tampered websites reported to the center was 3,335 in fiscal 2015 (April 2015 to March 2016), smaller than 7,724 cases in 2013, but it is still at a high level following 2014.

"JPCERT Coordination Center" (*): This center receives reports concerning computer security incidents including hacking via internet and service disturbance in Japan. It also supports measures, grasps how the problems are generated, analyzes the methods, investigates and advises on measures to prevent recurrences from a technical point of view.



(Prepared from the reference materials of JPCERT)

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◎ The background of the development of "WebARGUS"

Under these circumstances, the company, which had already released a solution called "APMG" to prevent damage from phishing and illegal use of brand by automatically adding electronic signature in e-mails, started developing "WebARGUS," based on a core security technology in the spring of 2013, after 2 years of research. Then in July 2014, it released "WebARGUS."

The major characteristic and strength of the company is that it has a variety of rich IT related technologies, and has a highly standardized core security technology. This is because its engineers have a mindset to embrace challenges and are not afraid to take risks. Thus, they are not satisfied with just developing custom products. This is strongly influenced by the company's organization strategy represented by its corporate culture and in-house company system which will be explained later in this report.

◎ The features and overview of the product

Instant detection and recovery for minimizing tampered website to nearly zero
Provide protection from tampering by a fake identity posing as a registered member, internal attack and new methods which can be difficult to protect from.
It detects with high accuracy and uses "electronic signature" technology which protects from even 1 bit of tampering.
Protects from high level attacks aimed at applications and settings files.
The CPU load (usage rate) on a web server is less than 1% while it is monitoring on a regular mode.
Equipped with preservation of evidence function which stores the tampered files as evidence.

When a website has been tampered with, it can take an average of one month to recover. This is because the recovery process includes disabling the website, identifying the damaged files, strengthening protection, website recovery and re-enabling the website. For an e-commerce related website, the damage can be serious, including a drop in sales, time and effort to announce the re-enabling of the website and the difficulties in re-attracting clients who left the website.

On the other hand, if "WebARGUS" is installed, because it instantly detects and recovers websites when tampered with, the condition of a website can be maintained in the normal state. Thus, the website does not need to be disabled in a rush when the application detects a threat. Companies can concentrate on pursuing the cause and strengthening protection while its website is kept open to public.

Most of the detection software detects tampered website with a periodic monitoring on pre-configured, specified timing or intervals. With this method, there will be a time lag between when the website is tampered with and when it was detected, so it is inevitable for the website to be tampered. In addition, if the interval is shortened to reduce the time lag, there are other challenges such as increasing CPU load.

On the other hand, when some kind of event occurs (such as data deletion or addition excluding browsing), "WebARGUS" conducts real time scanning to detect the event.

The major feature of this product is that it is also equipped with an instant recovery function which enables restoration to the original state in less than 0.1 seconds after the detection (average time under the demo environment: 0.003 seconds per file). This instant restoration is its unique technology.

The annual license fee of "WebARGUS" is JPY480,000 (excl. tax) per OS with support.
This also includes free update modules for minor version updates.

◎ Introduction and sales

When WebARGUS was released, the sales growth was rather slow because general understanding of website security was mainly about protection against hacking into a computer system and awareness about "tampering" was limited. However, the acknowledgment that "software for detection is needed as well as for protection" is growing rapidly due to the more frequent mentioning of the independent administrative agency, "IPA (Information Processing Association)," taking measures to prevent defacement. This agency is established to support the IT national strategy from a technical and personnel aspect

perspective and is supervised by the Ministry of Economy, Trade and Industry.

Under these circumstances, the company has carried out promotion and marketing including organizing seminars for target users who recognize the necessity for a higher level of security, and participation in exhibitions.

It also focuses on agency sales to strengthening marketability. There are currently a total of 24 companies with agency contracts.

They have been actively involved in development collaborations with data centers and cloud service corporations.

Furthermore, the company is expected to expand its business overseas as well as product sales in Japan. The company is preparing to provide support for the tampering of websites across the globe.

◎ Strengthening the feature of merchandise

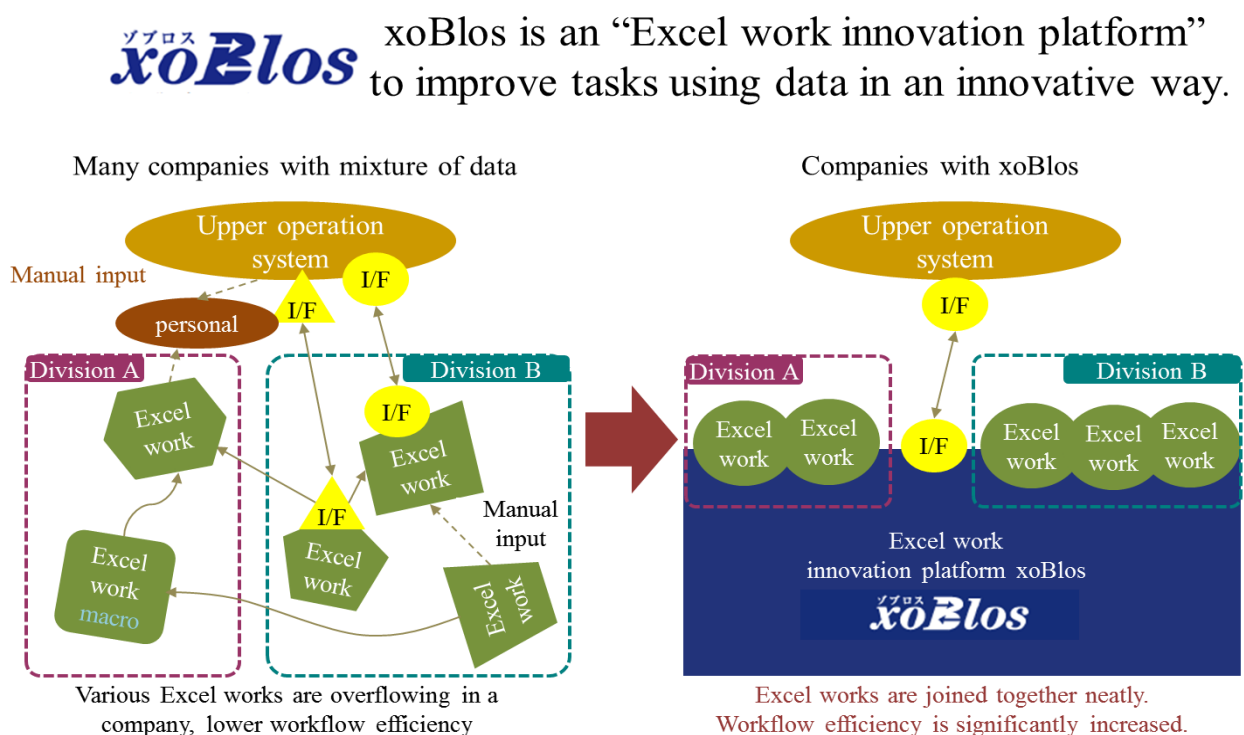
In April 2016, a Windows version was released in addition to the Linux version.

Also, the development of an enterprise version for large-scale users is underway, and the company aims to release it in summer 2017

Additionally, it is considering the release of products in a series including WebARGUS which can be used with embedded products for a security measure in the IoT age. For the embedded version, an official project has started product development and has been reviewing to provide specific business capabilities and researching relevant technology.

2) “xoBlos,” an Excel work innovation platform

Even in advanced corporations with a high level of IT, there are numerous Excel-based tasks in the office. Most non-routine tasks consist of repetitive manual operations such as generating Excel reports by manually inputting data from paper reports, aggregating totals from multiple Excel sheets and visualizing and analyzing CSV data extracted from packaged system. The company's original-brand, "xoBlos," entirely automates these inefficient Excel-based tasks and provides drastic improvements to workflow in a short term.



(Taken from the reference materials of Digital Information Technologies Corporation)

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◎ Background of development

Many corporations use Excel, the major spreadsheet software, for generating quotations and invoices. However, in cases where they generate these documents in different formats for each client according to the clients' requirements, manual input is mandatory because it is difficult to tally, sort and analyze in a systematic way.

For this, the company developed "xoBlos," an Excel work innovation platform, to automate tasks and significantly improve workflow efficiency.

◎ Product feature, overview and an example of introduction

Enables management of different data formats for tallying and processing
Enables increased efficiency on website platforms with current Excel spreadsheets.
Process up to dozens of times faster than using macros.
Can be embedded into other packaged products as an engine to output Excel spreadsheets.

There are several cases where "xoBlos" has been built-in as a part of a system on SI (System Integration) as well as sold as stand-alone software. It is anticipated that more products will be developed with "xoBlos" as core software.

One recent case is that "xoBlos" was chosen for "Disaster Information Management System" developed by IBM Japan which was provided for free, jointly with IBM Japan in the Kumamoto earthquake. The system was used for correspondence of relief supplies between shelters and national and local governments as well as exchanging information about action statuses

* A sample use case: Automated quotation and invoicing operations enabled a company to process over 30,000 tasks per month without overtime.

Yakult Support Business Co. Ltd. has implemented "xoBlos." Its business is to issue invoices on behalf of sales companies and management of business activities such as sales and revenue management for 11 companies including other Yakuruto subsidiaries. They issue 33,000 invoices monthly.

During the period when the most billing tasks occur, at the end and the beginning of each month, all employees except management had been engaged in billing by working overtime every day. In addition, mistakes and issues were common because they were pressed for time.

This was caused by the fact that there was a different invoice format for each client.

The process of billing operation mainly consist of each sales company inputting sales data into a mission-critical system developed by Yakult HQ, and then Yakult Support Business Co., Ltd outputting the data and mailing them to each client. However, because the invoice formats are different for each client, they had to output the raw billing data from the mission-critical system and input them into Excel spreadsheets manually to generate invoices.

There were hundreds of invoice formats, and the operation was extremely inefficient.

They implemented "xoBlos" to improve this situation, and soon the workflow become drastically more efficient. There have been no confusions during the billing period, and the company's credibility has increased. While the workload increased, it managed to eliminate 180 hours of overtime per month without increasing the number of employees.

◎ Introduction and sales

Currently, there are over 220 companies with "xoBlos."

The company has been expanding sales including hosting seminars jointly with one of its major agencies, Daiko Denshi Tsushin, Ltd (8023, the second section of TSE), by taking full advantage of its wide variety of clients, branches and marketability.

As the demand for the product from large companies increases, there are more cases where they can showcase examples of implementation of the system to the public.

In addition, as sales have increased, there are more agencies that started selling its products utilizing the resources of the whole company rather than just one section.

◎ Strengthening the features of merchandise

The company has promoted solutions in collaboration with other products developed by other companies.

For example, “xoBlos” collaborates with “X-point” developed by ATLED Corporation, which has been the best software in the workflow system market for 5 consecutive years.

As for the product itself, the company is aiming to strengthen the features of its website-based integrated version “xoBlos Corabo” to accommodate broader requirements.

【1-4 Characteristics and strengths】

1) Multifaceted and diverse IT company

The company has expanded its business areas by flexibly responding to the progress of information technology, from business system development business to computer sales, embedded product development and verification business, and operational support business as well as working on its original products based on its technical strengths which have been developed during the process of business expansion.

One of the major characteristics of the company is that it is a multifaceted and diverse IT company and has a wide range of business activities and provides own-brand product with originality.

2) Organizational strategies of partial and total optimization

Another significant characteristic of the company is that it has an organizational strategy with two opposite factors, partial and total optimization in a well-balanced manner.

For partial optimization, the company has specialized companies under an in-house company system which aim to be the best in each field. It also provides training and produces entrepreneurs with innovative spirits.

For total optimization, the company pursues synergy between companies while respecting independence of each in-house company; through scrap and build done by the headquarters, collaboration between each in-house company and development of new business areas.

(Overview of each in-house company)

Main business unit	Company name	Overview
Business system development unit	Business Solution Company	This company develops a proposal style SI business to provide solutions for clients. Especially in the fields of finance, communications and distribution, this company undertakes design and development of a wide range of software such as general purpose systems, website systems, mission-critical systems and information systems for leading companies in each industry. It also provides a new business area, ASP business for "Insurance Pharmacy Integrated Management System (Phant's)."
	e-business Services Company	This company provides website system architecture and maintenance for e-commerce websites and service websites for clients mainly for finance and major retail industries for many years. It provides a one stop service to suit clients' requirements with technologies which it has developed through experience.
Operation support unit	Support Business Company	This company's engineers have a wide range of knowledge enabling it to provide one stop optimal IT environment (service) to suit clients' requirements including support for introducing systems, infrastructure-building, network operation management and middleware development.
Embedded product development unit	Embedded Product Solution Company	This company specializes in control system development focused on embedded systems for in-vehicle devices, communication devices, industrial equipment and digital home appliances. It has many engineers with highly specialized skills for embedded system development. Because of the physical conditions of hardware, embedded systems development can be very restrictive, and requires a meticulous level of problem-solving that differs from general application development.

Embedded product verification unit	Quality Engineering Company	This company has a wide range of software validation and verification businesses from in-vehicle devices such as car navigation systems to medical devices, communication infrastructure and mobile terminals. It gives priority to improving the quality of products and provides total service from planning, designing, implementing, operating and analyzing tests to consulting. It has collaborated with DIT America, LLC, a local subsidiary in the U.S.A. since 2011. It also provides verification services overseas.
(Combination)	Western Japan Company	This company serves as a “contact in the West” for the group and provides solution services including system design, development, operation and maintenance to clients in a variety of industries and businesses. It expands businesses such as the software development business unit and embedded product solution business unit.
	Ehime Company	This company is located in Ehime and provides a high added-value one stop service for product development to meet the regionally specific requirements for a variety of industries and businesses as well as sales of software and system devices, operation and system support, and contributes to local revitalization. It also employs engineers locally at a multi-purpose IT development center to tackle the engineer shortage in the other companies.

3) Development and sales of original own-brand products

As mentioned above, the company has developed a variety of original own-brand products like “WebARGUS” with its unique technologies. Although the sales ratio of its own-brand products is still low currently, they are growing to be the primary source of revenue in the future.

2. First half of Fiscal Year June 2017 Earnings Results

(1) Consolidated Business Results

(unit: million yen)

	1H FY 16/6	Ratio to sales	1H FY 17/6	Ratio to sales	YOY
Sales	4,607	100.0%	4,858	100.0%	+5.4%
Gross margin	1,068	23.2%	1,120	23.1%	+4.9%
SG&A expenses	774	16.8%	816	16.8%	+5.4%
Operating income	294	6.4%	304	6.3%	+3.4%
Ordinary income	308	6.7%	296	6.1%	-4.0%
Net income	197	4.3%	193	4.0%	-1.8%

Increased sales and profit.

Sales were 4,858 million yen, up 5.4% YoY. Although the computer sales business was sluggish, the software development business showed steady growth, resulting in a sales increase.

Even though SG&A expenses including labor, research and development costs increased, the costs were absorbed by the sales growth, and operating income was 304 million yen, up 3.4% YoY. While refund for insurance cancellation decreased, lawsuit-related costs were recorded. As a result, ordinary income and net income declined.

(2) Trends by segment

(unit: million yen)

	1H FY 16/6	Composition ratio	1H FY 17/6	Composition ratio	YOY
Software Development Business	4,210	91.4%	4,533	93.3%	+7.7%
Computer Sale Business	397	8.6%	324	6.7%	-18.3%
Total sales	4,607	100.0%	4,858	100.0%	+5.4%
Software Development Business	243	5.8%	308	6.8%	+26.7%
Computer Sale Business	49	12.4%	-5	-	-
Adjustment	1	-	1	-	-
Total operating income	294	6.4%	304	6.3%	+3.4%

*Sales mean sales to external clients. The composition ratio of operating income means the ratio of operating income to sales.

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(Sales trends by segment)

(unit: million yen)

	1H FY 16/6	Composition ratio	1H FY 17/6	Composition ratio	YOY
Business Solutions Business	2,661	57.8%	3,057	62.9%	+14.9%
Embedded Solutions Business	1,439	31.2%	1,328	27.3%	-7.7%
Other Business	109	2.4%	147	3.0%	+34.6%
Computer Sale Business	397	8.6%	324	6.7%	-18.3%

◎Software Development Business

Sales and profit increased.

The system development in the field of finance and operation support business grew steadily in the business solution business segment, with a focus on existing customers.

In the field of the embedded solution business segment, the large-scale business transaction to verify in-vehicle devices has shifted to the third quarter.

In the own-brand business segment, the awareness on “WebARGUS” has grown, leading to improved business performance. xoBlos and CMS showed healthy growth.

◎Computer Sale Business

The sales strategies targeted at the new market of “Rakuichi” did not fully function. As a result, sales and profit declined.

(3) Financial condition

◎Main BS

(unit: million yen)

	End of Jun. 2016	End of Dec.. 2016		End of Jun. 2015	End of Dec. 2016
Current assets	2,493	2,707	Current liabilities	935	1,009
Cash and deposits	1,096	1,046	Trade payables	242	258
Trade receivables	1,250	1,420	Short-term interest-bearing debts	32	32
Inventories	104	157	Noncurrent liabilities	333	328
Noncurrent assets	732	730	Long-term interest-bearing debts	37	21
Property, plant and equipment	235	228	Total liabilities	1,268	1,337
Intangible assets	30	29	Net assets	1,957	2,101
Investments and other assets	466	473	Equity	2,000	2,135
Total assets	3,225	3,438	Total liabilities and net assets	3,225	3,438
			Balance of interest-bearing debts	70	54

Current assets rose by 214 million yen from the end of the previous term as a result of increase mainly in trade receivables. There was no notable change in noncurrent assets, and the total assets increased by 212 million yen to 3,438 million yen.

Current liabilities rose by 73 million yen from the end of the previous term as a result of including provision for bonuses. The total liabilities increased by 69 million yen to 1,337 million yen.

Net assets increased by 143 million yen to 2,101 million yen as a result of the increase in retained earnings.

Consequently, equity ratio rose by 0.4 points from 60.7% at the end of the previous term to 61.1%.

The balance of short and long-term debts dropped by 16 million yen from the end of the previous term to 54 million yen.

(4)Topics

◎ Listed on the first section of Tokyo Stock Exchange

The Tokyo Stock Exchange Market Company approved the listing of the Company on the first section on February 24, 2017. DIT moved to the first section of Tokyo Stock Exchange on March 17, 2017.

◎The Company announced the dividend forecast.

On February 24, 2017, the Company announced the dividend forecast for the fiscal year ending June 2017. It will distribute the year-end dividend of 12.00 yen/share based on the comprehensive examination of business forecast and financial status.

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In addition, it will distribute commemorative dividend of 3.00 yen/share for the fiscal year ending June 2017 to commemorate the listing on the first section of Tokyo Stock Exchange.

As a result, the year-end dividend will be a total of 15.00 yen/share (ordinary dividend: 12.00 yen/share, commemorative dividend: 3.00 yen/share).

Estimated payout ratio is 25.6% for the ordinary dividend only and 32.0% together with the commemorative dividend.

◎Sales of shares

The Company sold the shares.

Sales price: 2,020 yen, Number of shares sold: 530,000, Delivery date: March 17.

◎ Changes to the use of funds procured by issuing new shares

The Company will make changes to the use of funds procured by issuing new shares when it got newly listed in June 2015.

(Reasons for the changes)

The Company underwent its public stock offering when it was newly listed in order to invest in training facilities for employment and development of human resources, open local business establishments associated with business expansion, purchase office equipment and update software to enhance business efficiency, and invest in new product development to expand sales. To adapt to changes in a business environment, it decided to shift its investment priority to the own-brand product development, which is a growth factor. It will carry out investment in facilities when the time for good utilization of the facilities comes.

(Changes to be made)

Use of funds	Before change	After change
<ul style="list-style-type: none"> •Yokohama training center •Matsuyama training center •Sendai training center •Recruitment of training lecturers •Nagoya office 	145,000,000 yen	120,000,000 yen
•Purchase of office equipment	70,000,000 yen	20,000,000 yen
•Development of new products	100,000,000 yen	175,000,000 yen
Total	315,000,000 yen	315,000,000 yen

Out of 315,000,000 yen of planned funds before changes, 11,000,000 yen was used for purchasing office equipment and updating software and 100,000,000 yen was used for own-brand product development such as WebARGUS.

Out of remaining 204,000,000 yen, 9,000,000 yen will be used for purchasing office equipment and updating software, 75,000,000 yen will be used for developing own-brand products such as WebARGUS, and the remaining will be used to establish training facilities for employment and development of human resources. The specific schedule is to be determined.

◎Status of the own-brand products

<WebARGUS>

*Sales status

- Installation in 80 servers for a user with a large-scale financial system completed.
- A project to install the software in another large-scale financial system is on-going.
- Contracting agencies have increased from 22, which was announced last time, to 24.
- Specific business negotiation began for overseas sales.

*Development of feature extended versions and new products

- In January 2017, based on the demand from users, the Company released feature extended versions, “for Linux Version 1.5.0” and “for Windows Version 1.1.0”. *The extended feature allows flexible monitoring setting via online systems and services. The feature extended versions was presented at “Security Tokyo 2017” in the middle of March 2017.

- As a higher level product, the Company is developing the “Enterprise-version (tentative name)” for large-scale sites and large-scale systems. It is aiming to release the product in the summer of 2017.

*Entering into the IoT field

- The Company began to work on commercialization of “WebARGUS for IoT (tentative name)” based on Linux Version 1.5.0. The Company is now under development of specific function. For example, the new products will not only correspond to ARM architecture of the existing products but will be compatible with mobile network environment.
- The Company is also undertaking a project to load it into individual products.

<xoBlos>

*Sales promotion status

- Since its launch in October 2009, xoBlos has been introduced to over 220 companies as of February 2017.
- The number of agents increased from 29, which was announced last time, to 32.
- The use of xoBlos within Sumitomo Forestry Company and its group companies is expanding. It is used for their profit and loss and budget management systems and other internal systems. The Company considers the Sumitomo case as a model sales case targeting large corporations.
- The Company is trying to promote “Work Style Reform” in collaboration with a service of another major company. It is aiming to provide value added services by combining xoBlos, which drastically enhances work efficiency, with other company’s cloud-base network storage service.

*Active application to disaster prevention related systems.

- xoBlos is used as a record file outputting engine of the disaster prevention system of Katsushika city which was developed by IBM Japan. Following disaster prevention system of Katsushika city, which began its operation on October 1, 2016, xoBlos was adopted to the disaster prevention system of Aomori prefecture. It is now being prepared for operation.

3. Fiscal Year June 2017 Earnings Estimates

(1) Full-year earnings forecast

(unit: million yen)

	FY 16/6	Ratio to sales	FY 17/6 (Forecast)	Ratio to sales	YOY	Progress rate
Sales	9,341	100.0%	10,012	100.0%	+7.2%	48.5%
Operating income	524	5.6%	570	5.7%	+8.7%	53.3%
Ordinary income	553	5.9%	558	5.6%	+1.1%	53.0%
Net income	351	3.8%	360	3.6%	+2.6%	53.6%

*The estimated values are from the company.

No change in the earnings forecast. Continued growth in sales and profits.

There is no change in the earnings forecast. Sales are estimated to be 10,012 million yen, up 7.2% YoY, and operating income is projected to be 570 million yen, up 8.7% YoY. Each business segment is expected to have steady growth. Operating income growth rate will decrease because the Company will invest in new businesses with high added-value. However, it will make efforts to increase sales and profit by stabilizing business foundation and strengthening growth elements.

As described earlier, the ordinary dividend will be 12.00 yen/share and the commemorative dividend will be 3.00 yen/share (a total of 15.00 yen/share).

(2) Sales forecast of each business segment and efforts in the 2nd half

(unit: million yen)

	FY 16/6	Composition ratio	FY 17/6 (Forecast)	Composition ratio	YOY	Progress rate	Progress rate (1Q)
Business Solutions Business	5,491	58.8%	6,022	60.1%	+9.7%	50.8%	24.7%
Embedded Solutions Business	2,880	30.8%	3,039	30.4%	+5.5%	43.7%	23.3%
Other Business	212	2.3%	300	3.0%	+41.5%	49.3%	19.6%
Computer Sale Business	756	8.1%	650	6.5%	-14.0%	49.9%	20.4%

***Business solution business**

Both system development business in the field of finance and operation support business will show healthy growth.

***Embedded solution business**

The number and amount of orders for development and verification of in-vehicle devices business will increase, and it will cover the drop of mobile-related products business.

***Other businesses**

The own-brand products business (i.e. WebARGUS, xoBlos, CMS) will grow towards the end of the fiscal year.

***Computer sales business**

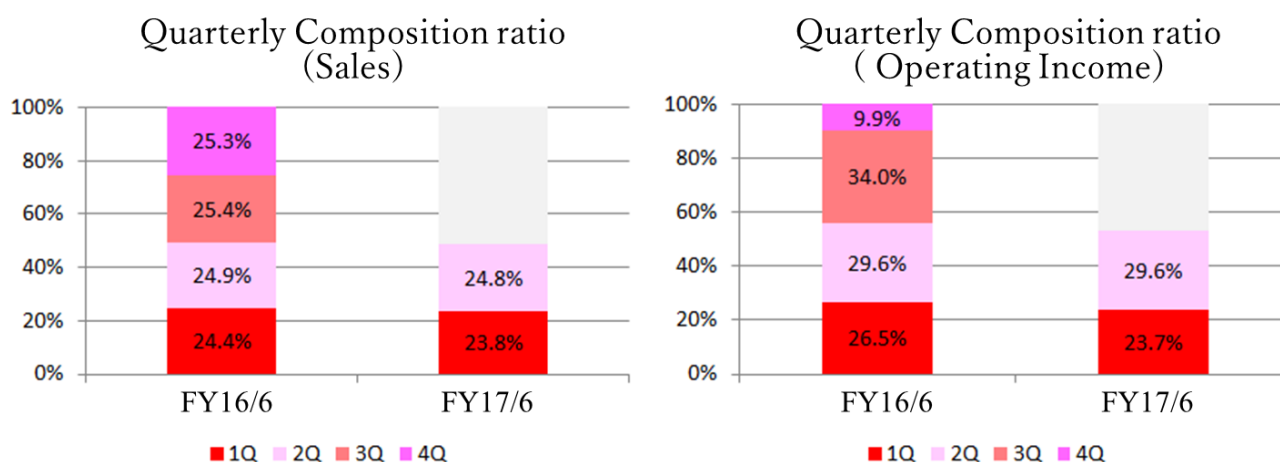
The Company will work hard to achieve better results than the first half of the year.

4. Conclusion

The previous report said, “The progress towards achieving the business forecast was slow in the previous reporting term due to sluggish computer sales business.”

Because the Company is only in the third term after it got listed in the stock market, we can only compare the quarter progress with the previous term. Sales remained the same as the previous term. Operating income also shows only slight growth in the second quarter due to slow start in the first quarter.

It is noteworthy that the progress rate of the second quarter for the own-brand products, “WebARGUS” and “xoBlos”, which did not reach 20% in the first quarter, went up to around 50% in the second quarter. The performance in the third quarter, which gained one third of operating income last year, is a point of interest. In the medium term, we would like to pay attention to automotive equipment for which the market is expected to grow through advances in self-driving technology.



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<Reference 1 : Growth Strategy>

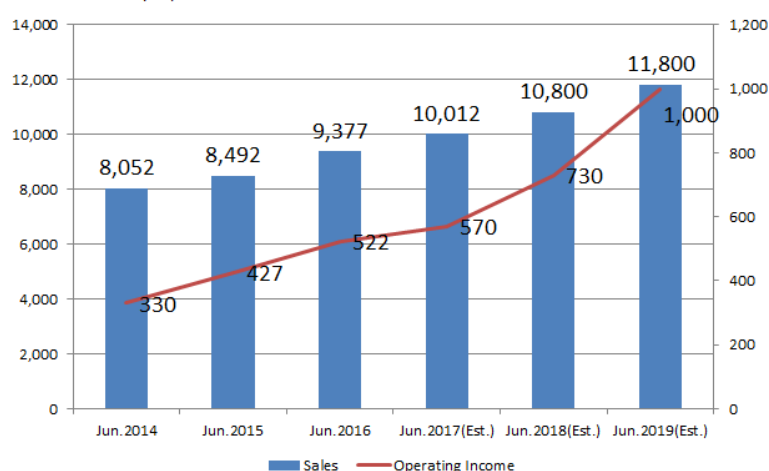
◎Overview of Midterm Business Development>

The company's medium-term business goals are: 1) to establish solid business foundations through stable business in a wide range of business fields, and 2) to provide new values with a focus on own-brand products based on the foundations. The company is aiming to grow substantially with these two wheels.

The company will focus its management resources on the promising fields in order to establish the business foundations. The company will proceed with strengthening of sales, for example, by forming of business tie-ups, and improving products, including other companies' ones.

The company set the goals of "development" for previous term ended Jun. 2016, "strengthening and establishment" for this term ending Jun. 2017, and "great strides" for the term ending Jun. 2018. Its goal is to achieve triple 10s ("Sales of 10 billion yen, operating income of 1.0 billion yen, and 10% of operating margin ratio") within 5 years.

* Unit: 100 million yen)



Sales	10,000 million yen	Term ending June 2017
Operating income	1,000 million yen	Term ending June 2019
Operating income margin	10 %	Term ending June 2021

◎Growth Strategies and Progress

[Development of Business Foundations]

The solid business foundations are consisted of "business solutions," "embedded solutions" and "computer sales." Their growth strategies and progress being made so far are described in the tables below.

◎Business Solutions

Subject	Details	Progress
◆ Expansion of stable foundations	(1) Sophistication and horizontal expansion of the financial business, which is the growth field and strength	<ul style="list-style-type: none"> • Healthy expansion in banking, credits and securities. • It has been already decided that the Company will take part in a new large-scale bank-related project.
	(2) Further expansion of the operation support business	<ul style="list-style-type: none"> • Healthy expansion for communication mega carrier and major matching service companies. • Obtaining projects that use new technologies such as cloud environment construction and IoT foundation development.

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	(3) Further growth of direct contract cases	<ul style="list-style-type: none"> Contracts with end users and major information system subsidiaries of major customers, as well as with major Sler, steadily expanded both in terms of ratio, size and number of customers.
◆ Providing comprehensive services	To meet a wide variety of customer needs, the company recognizes development, maintenance, infrastructure, own-brand products, etc. as components of the company's services and provides them to help expand the business.	<ul style="list-style-type: none"> Healthy growth by receiving orders for large-scale development projects from the customers in operation support business and orders of disaster prevention system that is combined with the own-brand products.
◆ Business expansion with local bases	Efficient use of the multi-purpose IT facility (which consists of technical experts to deal with multiple tasks).	<ul style="list-style-type: none"> The facility is being used for dealing with projects that have been expanded through collaboration and business partnerships. Multiple alliance projects between Kanto location and regional location have started. Preparation to launch a new SOC (*) business began.

*SOC: Abbreviation of "Security Operation Center". A SOC indicates roles or organizations specializing in monitoring and analyzing threats to information systems of corporations.

◎Embedded Solutions

Subject	Details	Progress
◆ Efforts in the automotive equipment business with growth potential	Applying the communications technology built through mobile device development to automotive equipment development	<ul style="list-style-type: none"> Expanding business for new and existing customers by shifting the concentrated management resources from mobile to in-vehicle device business. Received an order for large-scale verification from a leading in-vehicle device manufacturer in collaboration with DIT America.
◆ Entry to the medical equipment market	Using the third-party testing technology to enter the medical equipment market and expand from testing to development	<ul style="list-style-type: none"> Although it currently takes up low percentage in the entire business, the testing project of a leading medical equipment manufacturer is expanding steadily.
◆ Entry to the new IoT market	Applying the communications technology built through mobile and information appliance development to the new IoT market	<ul style="list-style-type: none"> Various new projects related to IoT (research and development of wearable devices, image recognition for automated driving, etc.) were launched and the progress is steady.

◎Computer Sale

Subject	Details	Progress
◆ Growth of sales among existing customers	(1) To boost sales among existing customers	<ul style="list-style-type: none"> Expanding sales among existing customers by selling the following products: *The company's product "Rakuraku Page", "xoBlos" *Other maker's product "All-in-one Printers" *Optional products of Casio "Rakuichi" ~"Rakuraku PC Output Support Powered by xoBlos"
◆ Sales expansion by increasing new customers	(1) To develop new customers	<ul style="list-style-type: none"> Expanding the clientele by targeting the retailers who have less than 50 workers, in addition to the current major clientele of manufacturers and distributors that have less than 20 workers.
	(2) To increase new customers by organizing regular exhibits.	<ul style="list-style-type: none"> It is becoming possible to stably gather potential customers.

Also attempting further revitalization of the company's product sales by using Toyo Infonet.

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[Growth Elements]

“WebARGUS” and “xoBlos” are the growth elements on which the company focuses its greatest efforts. The growth strategies and the progress are as follows.

(1) WebARGUS

Subject	Details	Progress
◆ Enhancing sales capabilities	(1) Enhancing sales by agencies	• Total number of agency contracts: 24
	(2) Business expansion by collaborations	• Promoting support and provision of OEM within their service to collaborative companies such as data centers and cloud service businesses.
◆ Upgrading products	(2) Development of the enterprise version (for large-scale users)	• The development began for scheduled release in early July 2017.
◆ Expanding application fields	Expand application fields by creating a family of products including existing products based on the system resilience philosophy.	• Activities to create a family of products for ARM architecture, which is the most widely used architecture for mainstream IoT device processors.

(2) xoBlos

Subject	Details	Progress
◆ Enhancing sales capabilities	Enhancing sales by agencies (co-hosting seminars with major agencies) Establishment of a dedicated seminar room.	• Business alliance with Daiko Denshi Tsushin, Ltd. was established. Sales with a wide range of customers and bases using Daiko Denshi Tsushin's capabilities is in progress. • Installed by over 220 companies
◆ Upgrading products	(1) Establishing a line-up that corresponds with the users' scale and making a series of business solutions.	• Develop and launch the integrated-version of “xoBlos corabo” that has better functions. • Preparing to provide first step of budget development and schedule management series that have high individual needs from clients.
	(2) Providing solutions in collaboration with the products of partner companies.	• Promoting collaboration to develop a data conversion tool and form a development tool as a package with other companies' accounting tools. • Consider realizing value added service through cooperation with other company's cloud-based network storage service
◆ Participating in SI projects	Acquisition of development projects centered on xoBlos	• Being used for a disaster prevention system project via IBM Japan as well as for public bidding projects for government offices.

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<Reference 2 : Regarding corporate governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory board
Directors	10 directors, including 2 external ones
Auditors	3 auditors, including 2 external ones

◎ Corporate Governance Report

Last Update: January 30, 2017

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
<Supplementary principle 1-2-4>	Because the number of foreign shareholders such as foreign companies is small as of the most recent record date, the convening notices of general shareholders' meetings in English version are not provided yet for business efficiency reasons. The company will explore the possibility in accordance with the changes such as the composition of shareholders.
<Supplementary principle 4-11-3 >	Specific ways to analyze and evaluate the effectiveness of the board as a whole are currently under review. Once they are determined, we will disclose them.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
<Principle 1-4>	The company will decide holding of shares of other listed companies after confirming the mid- to long-term prospect of enhancing the company's corporate value at a board meeting. As for the voting rights, the accounting department examines each agenda to see if it will contribute to shareholders' value and makes request for decision by the President.
<Principle 3-1>	(1) Our management philosophy, business strategies, and business plans are disclosed at financial results briefings and on our webpage (at the following URL). 【Information for financial results briefings】 https://www.ditgroup.jp/ir/other.html (2) Our actions concerning corporate governance are published on our webpage (at the following URL). 【Corporate Governance】 https://www.ditgroup.jp/ir/governance.html (3) The principles and procedures to determine remuneration of the board directors are based on the Rules and Regulations for Board of Directors. The remuneration takes into account the common level of remuneration, the Company's business performance and other employees' salaries. It is determined at a board of directors meeting within the limits of total remuneration determined at a general shareholders' meeting. (4) We have established the standard to appoint board directors and auditors. Taking into account the overall performance, knowledge and experiences of each candidate, the President will propose the final candidate to the board of directors. The directors will deliberate and decide the final candidate, and the name will be submitted as an agenda for a general shareholders' meeting. (5) The reasons for nomination and appointment of each director or auditor are described in the notice of general shareholders' meeting.
<Principle 5-1>	The company is making efforts in collaboration with relevant departments, led by the President, to achieve constructive dialogue with shareholders. As an action to enrich dialogue methods other than individual meetings,

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	<p>the company hosts financial settlement briefings every quarter for the analysts and institutional investors. The IR Department also proactively receives IR interviews through meetings and phone calls from investors. As a measure to appropriately and effectively provide shareholders' opinions and concerns to the executives and board directors, the company regularly reports the questions raised at the financial settlement briefings and opinions from shareholders and investors to the management executives.</p> <p>The company also ensures appropriate management of insider information during dialogues with shareholders and investors in accordance with the internal regulations.</p>
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