# FY 15/3
# Results Presentation

May 14, 2015

株式会社 DTS
http://www.dts.co.jp/

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**Caution**

**Sales and income forecasts included in this document are based on assumptions made on the basis of information currently available, including business trends, economic circumstances, clients' trends, etc., and can be affected by various uncertainties. Actual sales and income may differ materially from the forecasts.**

# I. FY 15/3 Results

# FY 15/3 Results

Factors of change from FY 14/3

- ✓ Made YOKOGAWA DIGITAL COMPUTER CORPORATION and ART System Co., Ltd. consolidated subsidiaries to expand the embedding business
- ✓ Made DTS America Corporation a consolidated company
- ✓ Merged with FAITEC, a consolidated subsidiary
- ✓ Established DTS WEST CORPORATION by spinning off the information service business from DTS’s Kansai and Chukyo branches

# FY 15/3 Results (Consolidated)

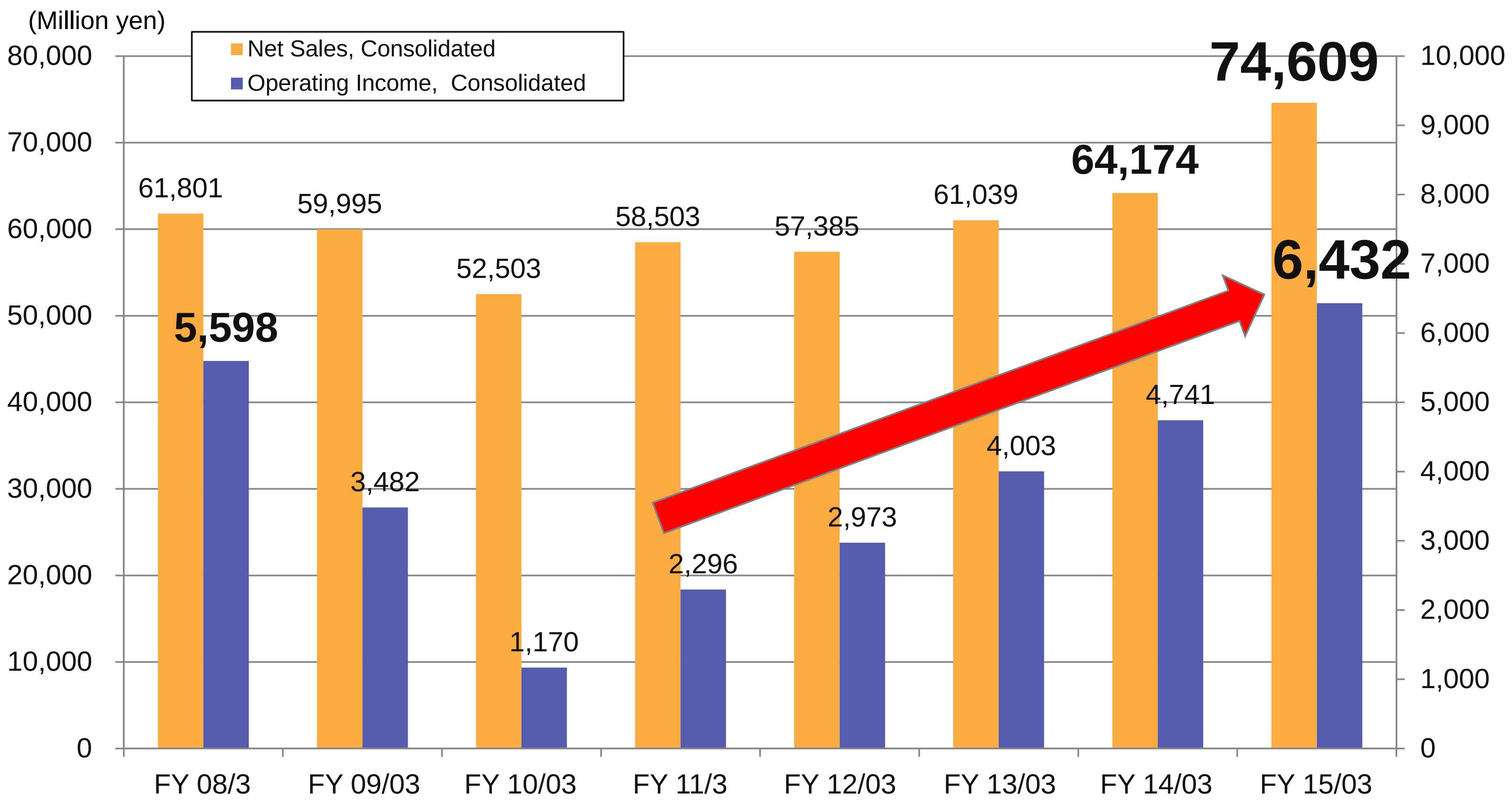
DTS

**Both net sales and operating income increased substantially, by 16.3% and 35.7% respectively year on year, achieving the target under the Medium-Term Management Plan (72 billion) one year ahead of the plan.**

| (Units: Million yen, %) | Amount | Ratio to sales (%) | Year on year | | vs. plan (11/5) | |
|---|---|---|---|---|---|---|
| **Net sales** | **74,609** | **-** | **116.3%** | **+10,434** | **103.6%** | **+2,609** |
| Gross profit | 13,173 | 17.7% | 124.0% | +2,546 | 104.6% | +573 |
| SG&A expenses | 6,740 | 9.0% | 114.5% | +855 | 96.3% | -259 |
| **Operating income** | **6,432** | **8.6%** | **135.7%** | **+1,690** | **114.9%** | **+832** |
| Recurring income | 6,518 | 8.7% | 135.5% | +1,707 | 115.4% | +868 |
| Net income | 3,692 | 4.9% | 139.1% | +1,038 | 115.4% | +492 |

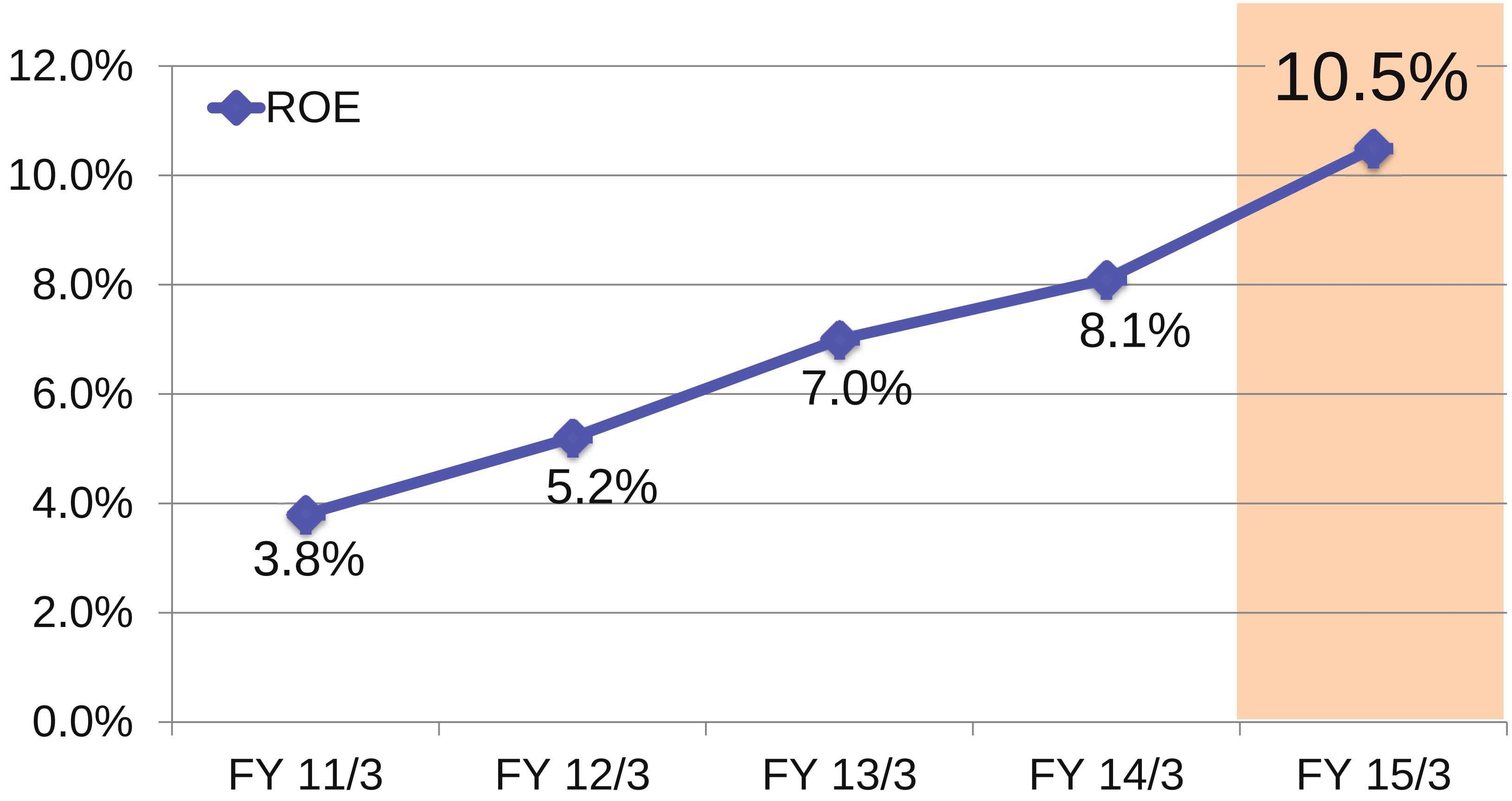
# Change in Net Sales and Operating Income

**Consolidated net sales hit another record high, as in the previous fiscal year.**
**Operating income hit a record high for the first time in the seven years since FY08/3.**



# Change in ROE for the Past Five Years

**ROE continued to improve, reaching 10.5% in FY15/3.**



# Consolidated Net Sales by Segments

**Net sales increased substantially from the previous fiscal year, despite decreases from the previous period in Operation and Human Resources Service, which was covered by increases in System and Products and other.**

| (Units: Million yen, %) | Amount | Ratio to sales (%) | Year on year | | Main factors of change |
|---|---|---|---|---|---|
| Net sales | **74,609** | – | 116.3% | **+10,434** | |
| **System** | **51,159** | 68.6% | 125.0% | **+10,230** | - Sales from developments for banks and securities firms expanded<br>- Sales from the public sector remained strong<br>- New consolidated companies |
| Operation | **13,050** | 17.5% | 98.8% | **-159** | |
| Products and other | **6,851** | 9.2% | 116.4% | **+964** | - Sales for cloud operators increased<br>- Special demand for Windows OS updates |
| Information service | **71,062** | 95.2% | 118.4% | **+11,036** | |
| Human resources service | **3,546** | 4.8% | 85.5% | **-602** | |

# Factors for Increase in Consolidated Net Sales

**In addition to the expansion of existing projects, mainly in the finance, public, services and manufacturing sectors, the increase due to those newly consolidated contributed to the increase in consolidated net sales.**

| | Amount | Year on year | |
|---|---|---|---|
| **Net sales** | **74,609** | **116.3%** | **+10,434** |
| **Net sales other than those newly consolidated** | **70,397** | 109.7% | **+6,222** |

## Year-on-year plus factors

■ **Expansion of existing projects: +6.99 billion**

(System: +6.56 billion; Products: +0.43 billion)

- Expansion in the finance sector +4.92 billion
- Expansion in the public sector +0.74 billion
- Expansion in the services sector +0.53 billion
- Expansion in the manufacturing sector +0.37 billion

■ **Increase due to those newly consolidated: +4.20 billion**

(System: +3.67 billion; Products: +0.53 billion)

- YOKOGAWA DIGITAL COMPUTER +3.12 billion
- ART System +0.95 billion
- DTS America +0.13 billion

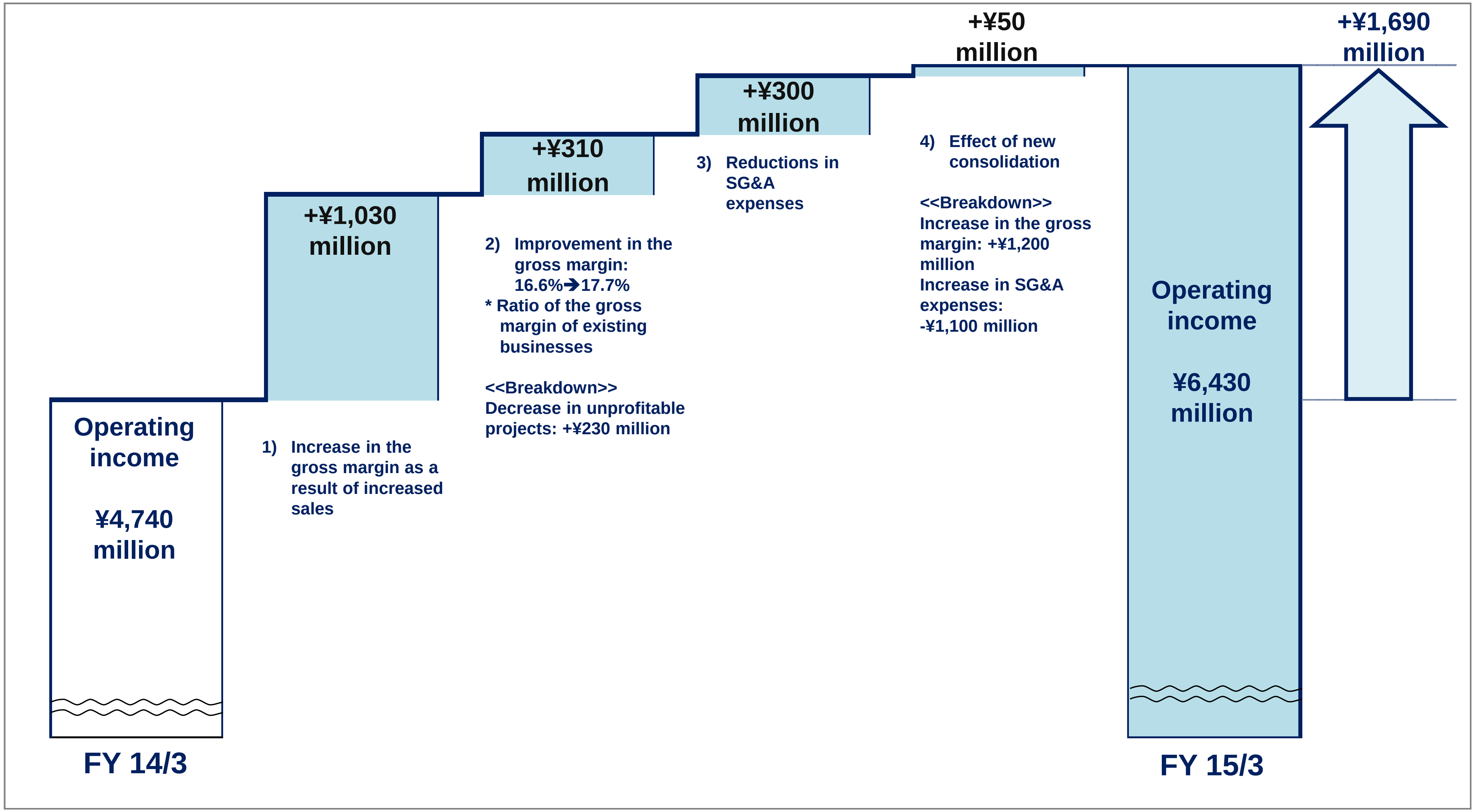
## Year-on-year minus factors

■ **Decrease in Operation: -0.16 billion**

■ **Decrease in Human Resources Service: -0.60 billion**

# Reason for an Increase in Consolidated Operating Income

**Operating income increased, reflecting the increased gross margin on the back of an increase in net sales and a decrease in unprofitable projects, as well as reductions in SG&A expenses.**



# New Contracts on a Consolidated Basis

**New contracts in System and backlogs increased substantially, reflecting an increase in large projects in the finance industry and an increase in development projects in the service/manufacturing industries, as well as those newly consolidated.**

| (Units: Million yen, %) | | New contracts | | | | Backlogs | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Amount | Composition ratio | Year on year | | Amount | Composition ratio | Year on year | |
| **Total** | | **82,660** | - | 125.0% | **+16,529** | **30,293** | - | 136.2% | **+8,051** |
| | System | 58,700 | 71.0% | 142.1% | +17,377 | 19,283 | 63.7% | 164.2% | +7,540 |
| | Operation | 13,708 | 16.6% | 98.2% | -255 | 9,275 | 30.6% | 107.6% | +657 |
| | Products and other | 6,764 | 8.2% | 111.6% | +703 | 124 | 0.4% | 58.7% | -87 |
| | Information service | 79,172 | 95.8% | 129.1% | +17,825 | 28,683 | 94.7% | 139.4% | +8,110 |
| | Human resources service | 3,488 | 4.2% | 72.9% | -1,296 | 1,610 | 5.3% | 96.5% | -58 |

# FY15/3 Results (Non-Consolidated)

**Net sales and operating income rose 26.0% and 49.3% year on year respectively, achieving an increase in both sales and profits.**

| (Units: Million yen, %) | Amount | Ratio to sales (%) | Year on year | | vs. plan (11/5) | |
|---|---|---|---|---|---|---|
| Net sales | **50,489** | - | **126.0%** | **+10,418** | **105.2%** | **+2,489** |
| Gross profit | **9,095** | 18.0% | 128.5% | +2,018 | 106.4% | +545 |
| SG&A expenses | 3,650 | 7.2% | 106.4% | +219 | 96.1% | -149 |
| Operating income | **5,445** | **10.8%** | **149.3%** | **+1,798** | **114.6%** | **+695** |
| Recurring income | 5,611 | 11.1% | 146.5% | +1,781 | 115.7% | +761 |
| Net income | 4,745 | 9.4% | 206.0% | +2,442 | 113.0% | +545 |

# Unconsolidated Net Sales by Segments

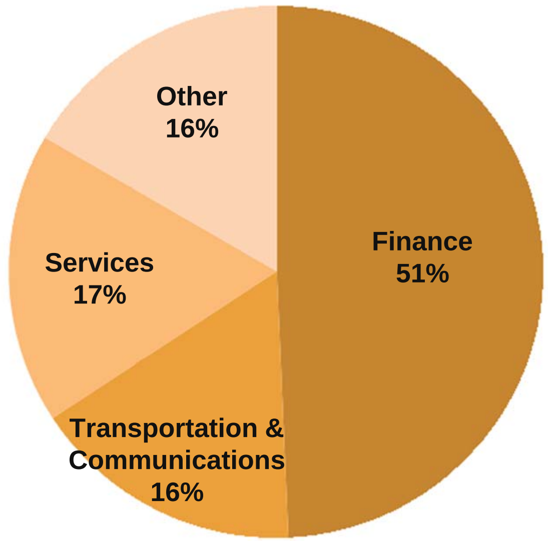
**In addition to the increase in development projects, mainly in the finance sector, sales in System increased substantially with the absorption-type merger of a consolidated subsidiary.**

| (Units: Million yen, %) | Amount | Ratio to sales (%) | Year on year | | Main factors of change |
|---|---|---|---|---|---|
| Net sales | 50,489 | – | 126.0% | +10,418 | |
| **System** | **38,557** | **76.4%** | **136.5%** | **+10,312** | - Sales from development for banks and securities firms expanded.<br>- Sales from public sectors remained strong.<br>- FAITEC was merged into DTS. |
| Operation | 10,695 | 21.2% | 98.1% | -210 | |
| Products and other | 1,236 | 2.4% | 134.4% | +316 | - Special demand for Windows OS updates. |
| **Information service** | 50,489 | 100.0% | 126.0% | +10,418 | |
| **Human resources service** | – | – | – | – | |

# Sales by End User (Non-Consolidated)

**Sales in Finance increased substantially thanks to the expansion of large projects and the absorption-type merger of a consolidated subsidiary.**
**Sales in Transportation & Communications decreased, but sales in the public sector and Services increased.**

| (Units: Million yen, %) | Amount | Composition ratio | Year on year | |
|---|---|---|---|---|
| Finance | 24,928 | 50.6% | 166.0% | +9,912 |
| Transportation & Communications | 7,744 | 15.7% | 92.0% | -671 |
| Services | 8,527 | 17.3% | 103.8% | +314 |
| Other | 8,052 | 16.3% | 107.3% | +546 |
| For the manufacturing sector | 3,411 | 6.9% | 102.5% | +82 |
| For the public sector | 1,859 | 3.8% | 135.8% | +490 |
| For the whole sale and retail sector | 1,269 | 2.6% | 105.4% | +64 |
| Systems and operations | 49,253 | 100.0% | 125.8% | +10,102 |




**Finance:** Demand expanded primarily for integration of banks' large-scale systems. Sales from development projects for securities firms were also strong.

**Transportation & Communications:** Sales in the communications sector declined, reflecting reductions in investments by main customers, while sales in transportation rose due to demand for renewals.

**Services:** Sales were steady owing to the acquisition of new customers, etc.

**Other:** Sales for the public sector rose thanks to new contracts, resulting from the unification of pension plans and system renovations implemented at local governments.

# Group Company Results

**Five group companies achieved increases in both sales and income and contributed to increases in consolidated net sales and operating income.**

| (Units: Million yen, %) | Net sales | | | Operating income | | | |
|---|---|---|---|---|---|---|---|
| Company name | Amount | YoY (%) | vs. plan | Amount | Ratio to sales (%) | YoY (%) | vs. plan |
| DATALINKS CORPORATION | 7,616 | 97.0% | 99.3% | 274 | 3.6% | 100.6% | 105.6% |
| DIGITAL TECHNOLOGIES CORPORATION Sales/ income increase | 6,766 | 103.8% | 99.0% | 94 | 1.4% | 142.1% | 88.9% |
| JAPAN SYSTEMS ENGINEERING CORPORATION | 4,496 | 103.3% | 96.2% | 263 | 5.9% | 93.9% | 85.1% |
| YOKOGAWA DIGITAL COMPUTER CORPORATION* | 3,120 | - | 95.2% | 103 | 3.3% | - | 98.9% |
| KYUSHU DTS CORPORATION Sales/ income increase | 1,539 | 142.1% | 118.4% | 128 | 8.4% | 255.3% | 198.0% |
| SOUGOU SYSTEM SERVICE CORPORATION Sales/ income increase | 1,484 | 121.8% | 109.9% | 155 | 10.5% | 156.0% | 109.3% |
| DTS WEST CORPORATION* | 1,178 | - | 94.3% | 80 | 6.8% | - | 76.3% |
| ART System Co., Ltd.* | 953 | - | 104.8% | 64 | 6.7% | - | 99.2% |
| MIRUCA CORPORATION Sales/ income increase | 419 | 117.8% | 100.5% | 57 | 13.8% | 254.8% | 124.7% |
| DTS (Shanghai) CORPORATION Sales/ income increase | 380 | 119.1% | 111.3% | 102 | 27.0% | [+105] | 219.6% |
| DTS America Corporation* | 137 | - | 86.9% | 23 | 17.0% | - | 83.2% |

* Figures for each company are on a non-consolidated basis, so the total does not equal consolidated figures.
* Figures in brackets represent FY 15/3 amount minus FY 14/3 amount.

* is included for consolidated companies starting from FY 15/3.

# Progress of Improvement in Operating Income Margins of Group Companies

**All group companies substantially improved their operating income margins.**
**The number of companies with a margin of 5% or more increased to eight.**

| Company name | Operating income margin (FY 15/3) | Operating income margin (FY 14/3) | YoY (%) |
|---|---|---|---|
| **DATALINKS CORPORATION** | 3.6% | 3.5% | +0.1pt |
| **DIGITAL TECHNOLOGIES CORPORATION** | 1.4% | 1.0% | +0.4pt |
| **JAPAN SYSTEMS ENGINEERING CORPORATION** | 5.9% | 6.5% | -0.6pt |
| **YOKOGAWA DIGITAL COMPUTER CORPORATION** | 3.3% | 0.9% | (Reference) +2.4pt |
| **SOUGOU SYSTEM SERVICE CORPORATION** | 10.5% | 8.2% | +2.3pt |
| **KYUSHU DTS CORPORATION** | 8.4% | 4.7% | +3.7pt |
| **DTS WEST CORPORATION** | 6.8% | 5.6% | (Reference) +1.2pt |
| **ART System Co., Ltd.** | 6.7% | 4.7% | (Reference) +2.0pt |
| **MIRUCA CORPORATION** | 13.8% | 6.4% | +7.4pt |
| **DTS (Shanghai) CORPORATION** | 27.0% | [-3] | - |
| **DTS America Corporation** | 17.0% | 10.0% | (Reference) +7.0pt |

# II. Progress of Key Initiatives

# Key Initiatives

## 1. Strengthen ability to make proposals

- Stronger sales systems
- Stronger sales capabilities by leveraging collaborations in the Group

## 2. Strengthen business base and reform business model

- Creation of a third pillar in addition to Finance and Communications
- Establishment of a global business base
- Creation of new-planning-type businesses
- Securing profits in projects

## 3. Enhance the Group management base

- Development of high value-added human resources
- Management optimization through the reorganization of the Group

The financial goal under the Medium-Term Management Plan was achieved ahead of the plan. Measures underway will continue for FY16/3.

# 1. Strengthen ability to make proposals

**Measures for stronger sales systems and strengthening collaboration among group companies worked well in terms of increasing contracts.**
**Strongly promote proposals to new customers toward the expansion of customers.**

## Stronger sales systems

- Upon the reform of the sales strategy committee, the account plans were improved and the visualization of customers advanced. KPIs to show the sales personnel's responsibilities numerically were established, leading to an increase in contracts.
- Better customer information is gathered as a result of the enhancement of our customer satisfaction surveys. We are improving the feedback to the sales frontlines.

## Strengthening sales capabilities by leveraging collaboration in the Group

- We facilitate information sharing of customers and sales through collaboration with the two new consolidated companies, in order to develop new markets.

# 2. Strengthen business base and reform business model

DTS

**Promote the use of the base in Vietnam to establish the global business base.**
**Continue to prevent less profitable projects by strengthening project management.**
**Continually create new businesses toward future growth.**

## Creation of a "third pillar"

- In the embedding business, YOKOGAWA DIGITAL COMPUTER and ART System were newly consolidated to expand business, mainly in the healthcare and in-vehicle equipment fields.
- Part of DTS's business related to embedding is to be transferred to Art System in April 2015 to create synergy by consolidating the customer base and know-how, etc.

## Establishment of a global business base

- A local subsidiary was established in Vietnam in April, 2014 for contract offshore development and BPO operations.
- We are strengthening systems development structure and facilitating the development of local businesses in South East Asia.

## Securing profits in projects

- Steady progress was made with measures for strengthening project management, resulting in a decrease in less profitable projects and the securing of profits.
- Measures for automation in development and operation were implemented on a full-scale basis to increase productivity and strengthen competitiveness.
- Nearshore development in Tohoku was launched to secure subcontractors, which contributed to the local economy.

## Creation of new-planning-type businesses

- The "Dr. Cowbell", a solution business for the livestock industry, was launched.
- Steps are being taken to put new plans into practical use in the fields of health care, big data, and social networks.
- Contracts for projects with local governments were secured to acquire new customers.

# 3. Enhance the Group management base

**Promote measures for developing high value-added human resources and management optimization. Proceed further with the reorganization of the Group to improve management efficiency and strengthen competitiveness.**

## Development of high value-added human resources

- We are continuously providing training to develop advanced engineers, role models among salespeople, and global human resources.

## Management optimization through the reorganization of the Group

- We facilitate structural reform to improve the operating income margin of the Group companies.
- The merger between DTS WEST based in Kansai and SOUGOU SYSTEM SERVICE CORPORATION is scheduled for April 2015 in order to expand business in the western part of Japan.
- Part of DTS's business related to embedding is to be transferred to ART System in April 2015 to expand the business related to embedding by consolidating the customer base and know-how.

# III. FY 16/3 Full Year Forecast

# Outlook for Business Environment

**For FY16/3, the business management environment will be challenging, as large projects in finance will peak and investments in communications will be held down.**

| Sector | Outlook for IT Investment | |
|---|---|---|
| **Finance** | Investments at banks will decrease from the second half period to the following period, as large-scale projects will peak.<br>Investments at life and non-life insurance companies will be steady.<br>Demand from securities firms is expected to continue to increase due to improvements in results. | |
| **Transportation & Communications** | In Communications, major carriers will continue to hold down investments. | |
| | In Transportations, there will be continued demand for core system renovation in the air transport sector. | |
| **Services** | With an improvement in corporate earnings, demand is expected to expand in a range of customers. | |
| **Other** | In the public sector, there will be a continued increase in demand in conjunction with the unification of pension plans and national identification numbers. In the manufacturing sector, demand for embedding systems is set to expand in the in-vehicle equipment and health care fields. Customers' investment in new services utilizing primarily big data will likely increase in the wholesale and retail sectors. | |

# Performance Forecasts for First Half of Fiscal Year Ending March 2016

DTS

**Performance forecasts for the first half are an increase in net sales by 8.1% on a consolidated basis and 11.4% on a non-consolidated basis, as large projects are expected to increase.**

| (Units: Million yen, %) | Consolidated | | | | Non-consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio to sales (%) | Year on year | | Amount | Ratio to sales (%) | Year on year | |
| **Net sales** | **38,000** | **-** | **108.1%** | **+2,862** | **25,500** | **-** | **111.4%** | **+2,615** |
| **Gross profit** | 6,700 | 17.6% | 111.1% | +670 | 4,600 | 18.0% | 112.4% | +509 |
| **SG&A expenses** | 3,600 | 9.5% | 107.2% | +240 | 1,950 | 7.6% | 111.6% | +202 |
| **Operating income** | 3,100 | 8.2% | 116.1% | +430 | 2,650 | 10.4% | 113.1% | +306 |
| **Recurring income** | 3,150 | 8.3% | 116.0% | +433 | 2,700 | 10.6% | 111.5% | +277 |
| **Profit attributable to owners of parent** | 2,400 | 6.3% | 159.9% | +898 | 2,250 | 8.8% | 80.4% | -549 |

# Performance Forecasts for the Full Fiscal Year Ending March 2016

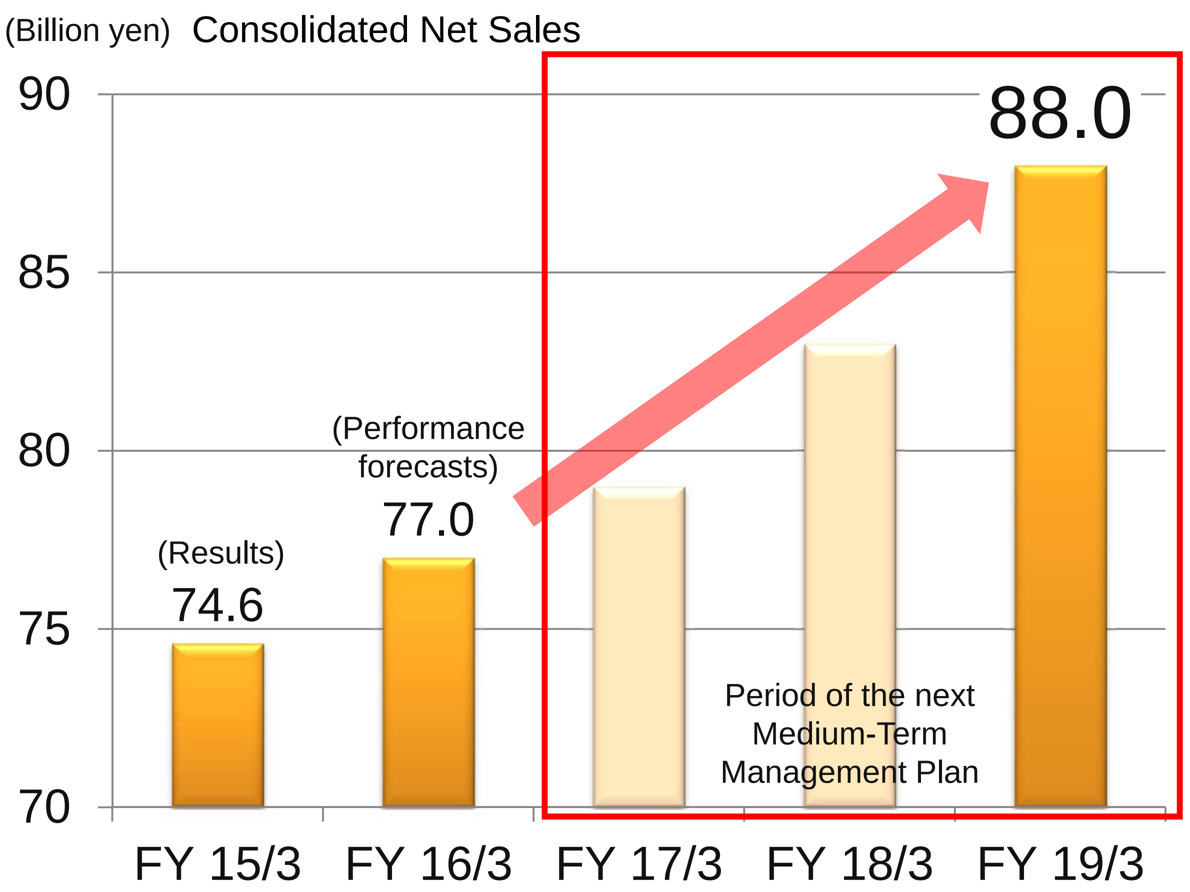
DTS

**The goal for growth is set at 3.2% on a full-year basis through expansion and growth in other areas, as large projects in finance will peak and investments will be held down in communications. Progress will be made with the establishment of the base for the next Medium-Term Management Plan (from April 2016).**

| (Units: Million yen, %) | Consolidated | | | | Non-consolidated | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | Ratio to sales (%) | Year on year | | Amount | Ratio to sales (%) | Year on year | |
| Net sales | **77,000** | **-** | **103.2%** | **+2,390** | 52,000 | - | 103.0% | +1,510 |
| Gross profit | 14,000 | 18.2% | 106.3% | +826 | 9,600 | 18.5% | 105.5% | +504 |
| SG&A expenses | 7,300 | 9.5% | 108.3% | +559 | 4,000 | 7.7% | 109.6% | +349 |
| Operating income | 6,700 | 8.7% | 104.2% | +267 | 5,600 | 10.8% | 102.8% | +154 |
| Recurring income | 6,750 | 8.8% | 103.6% | +231 | 5,650 | 10.9% | 100.7% | +38 |
| Profit attributable to owners of parent | 4,550 | 5.9% | 123.2% | +857 | 4,150 | 8.0% | 87.4% | -595 |

# Toward the Next Medium-Term Management Plan

**The next Medium-Term Management Plan starting from FY17/3 (*) covers the crucial period for the achievement of net sales of 100 billion yen for the 50th anniversary year（FY22/3）.Autonomous growth will be pursued under the plan, as before.**




(*) Specifics of the Medium-Term Management Plan will be announced in November 2015.

**Targets under the next Medium-Term Management Plan**

- **Consolidated Net Sales**
  88.0 billion or more
- **Operating Income**
  7.75 billion or more
- **Operating Income Ratio**
  8.8% or more
- **ROE**
  10% or more
  on a continual basis

# Dividend

With results exceeding the forecast, the Company will pay a year-end dividend for FY15/3 that is ¥10 more than the latest forecast.
In addition, with an increase of ¥5, an annual dividend of ¥55 is planned to be paid in FY16/3. Stable dividends will be paid continuously.

| | End of first half | Year end | Full year | Payout ratio (consolidated) |
|---|---|---|---|---|
| FY 15/3 (Latest forecasts in parentheses) | ¥15 | ¥35 (¥25) | ¥50 (¥40) | 31.9% (29.4%) |
| FY 16/3 (Forecast) | ¥20 | ¥35 | ¥55 | 28.4% |

# FY 15/3
# Results Presentation

## Thank you for your attention.

株式会社 DTS
http://www.dts.co.jp/