

FY 16/3 First Half Results Presentation

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 株式会社 **DTS**
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 16/3 First Half Results

Factors of change from FY 15/3

- ✓ Merged with DTS WEST CORPORATION in April 2015, making SOUGOU SYSTEM SERVICE CORPORATION the surviving company and changing the company name to DTS WEST.
- ✓ Transferred part of the business related to DTS embedding to ART System Co.,Ltd. (corporate divestiture) in April 2015, and concentrated the embedding-related businesses in ART System Co.,Ltd.
- ✓ Consolidated the financial results for SOUGOU SYSTEM SERVICE CORPORATION for the three months from January to March 2015 with the results of the fiscal year under review due to the change of the company's fiscal year-end (from December to March).

[Consolidated] FY 16/3 First Half Results



Net sales rose 14.4% and operating income rose 41.4% year on year, recording a significant increase in both sales and profits.
Operating income margin increased to 9.4% (up 1.8 points year on year)

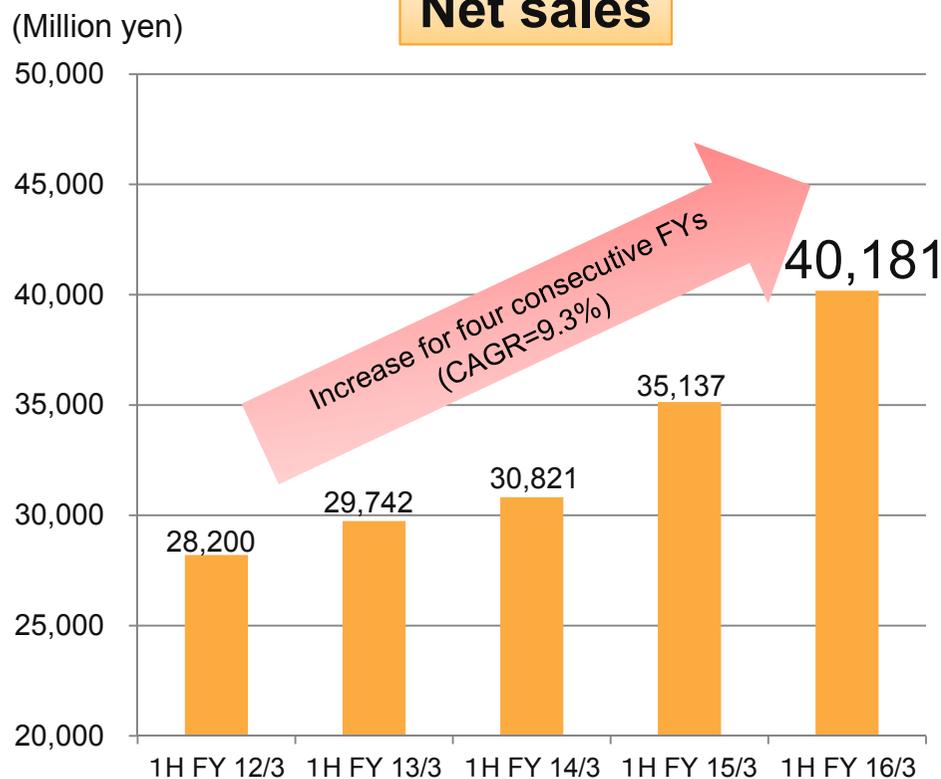
(Units: Million yen, %)	1st half FY 16/3	Ratio to sales (%)	Year on year		Comparison with result forecast	
Net sales	40,181	—	114.4%	+5,044	105.7%	+2,181
Gross profit	7,400	18.4%	122.7%	+1,371	110.5%	+700
SG&A expenses	3,625	9.0%	107.9%	+266	100.7%	+25
Operating income	3,774	9.4%	141.4%	+1,105	121.8%	+674
Recurring income	3,809	9.5%	140.2%	+1,092	120.9%	+659
Profit attributable to owners of parent	2,783	6.9%	185.4%	+1,282	116.0%	+383

[Consolidated] Change in Net Sales and Operating Income

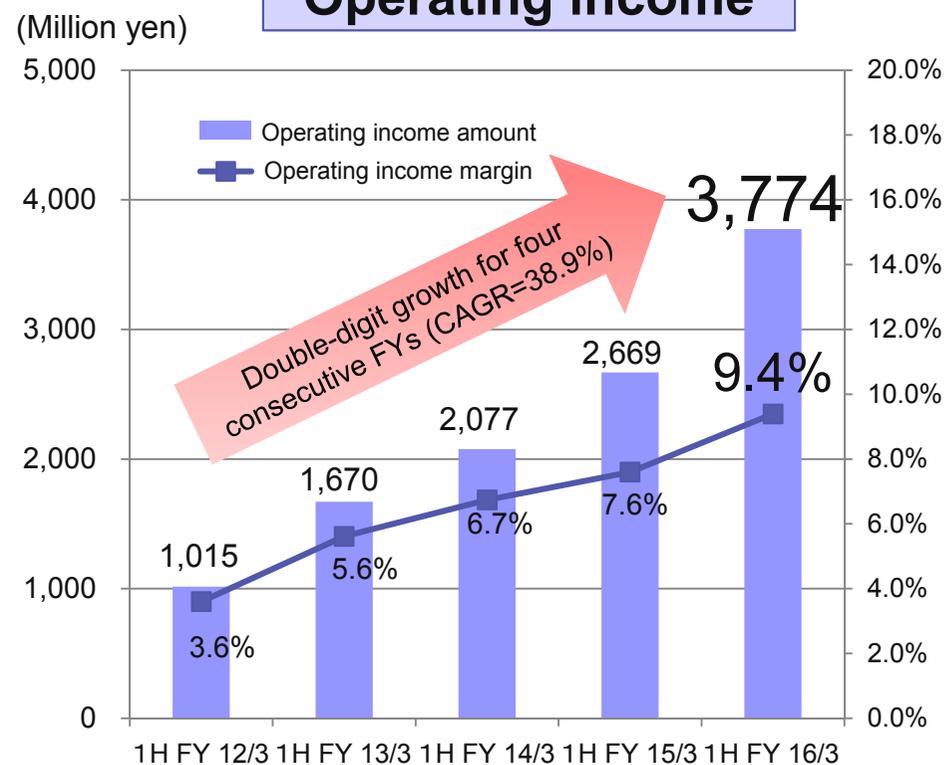


Net sales increased for the fourth consecutive year.
Operating income achieved double-digit growth.
Both net sales and operating income hit a record high, just as was seen in the previous fiscal year.

Net sales



Operating income



[Consolidated] FY 16/3 First Half Net Sales by Segments



Net sales of System increased due to the expansion of demand in finance and a wide range of other businesses.

Net sales of Products decreased, mainly due to a reactionary fall from the special demand in the previous period

and in-house production by customers to cover their supply procurement needs.

(Units: Million yen, %)	1st half FY 16/3	Ratio to sales (%)	Year on year		Main factors of change
Net sales	40,181	-	114.4%	+5,044	
Information service	38,519	95.9%	115.7%	+5,239	
System	28,842	71.8%	125.9%	+5,927	<ul style="list-style-type: none"> - Sales from development for banks and life insurance firms expanded. - Sales remained strong in services, the public sector, and a wide range of other businesses.
Operation	6,820	17.0%	105.2%	+338	<ul style="list-style-type: none"> - Share of existing customers increased.
Products and other	2,856	7.1%	73.6%	-1,026	<ul style="list-style-type: none"> - Demand of Internet companies, etc. for large projects has run its course. - Some customers began in-house production to cover their supply procurement needs.
Human resources service	1,662	4.1%	89.5%	-195	<ul style="list-style-type: none"> - Major clients for the personnel placement business revised the contract conditions, and competition intensified. - Scale of outsourcing operations was reduced.

[Consolidated] FY 16/3 First Half

Factors of Growth in Net Sales



Net sales increased as a result of the expansion of the bank business and an increase in system development projects, particularly for the service, manufacturing, insurance, and public sector businesses.

	Amount	Year on year	
Net sales	40,181	114.4%	+5,044

Year on year positive factors

<p>■ <u>Growth due to the expansion of the bank business:</u> +3.15 billion</p> <p>■ <u>Effect of change in the fiscal year-end for SOUGOU SYSTEM SERVICE CORPORATION:</u> + 0.53 billion</p>	<p>■ <u>Growth due to an increase in other projects:</u> +2.57 billion</p> <ul style="list-style-type: none"> - Expansion of service business +0.77 billion - Expansion of manufacturing business +0.77 billion (incl. healthcare +0.18 billion and in-vehicle+0.11 billion) - Expansion of insurance business +0.61 billion - Expansion of public and other businesses +0.41 billion
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Year on year negative factors

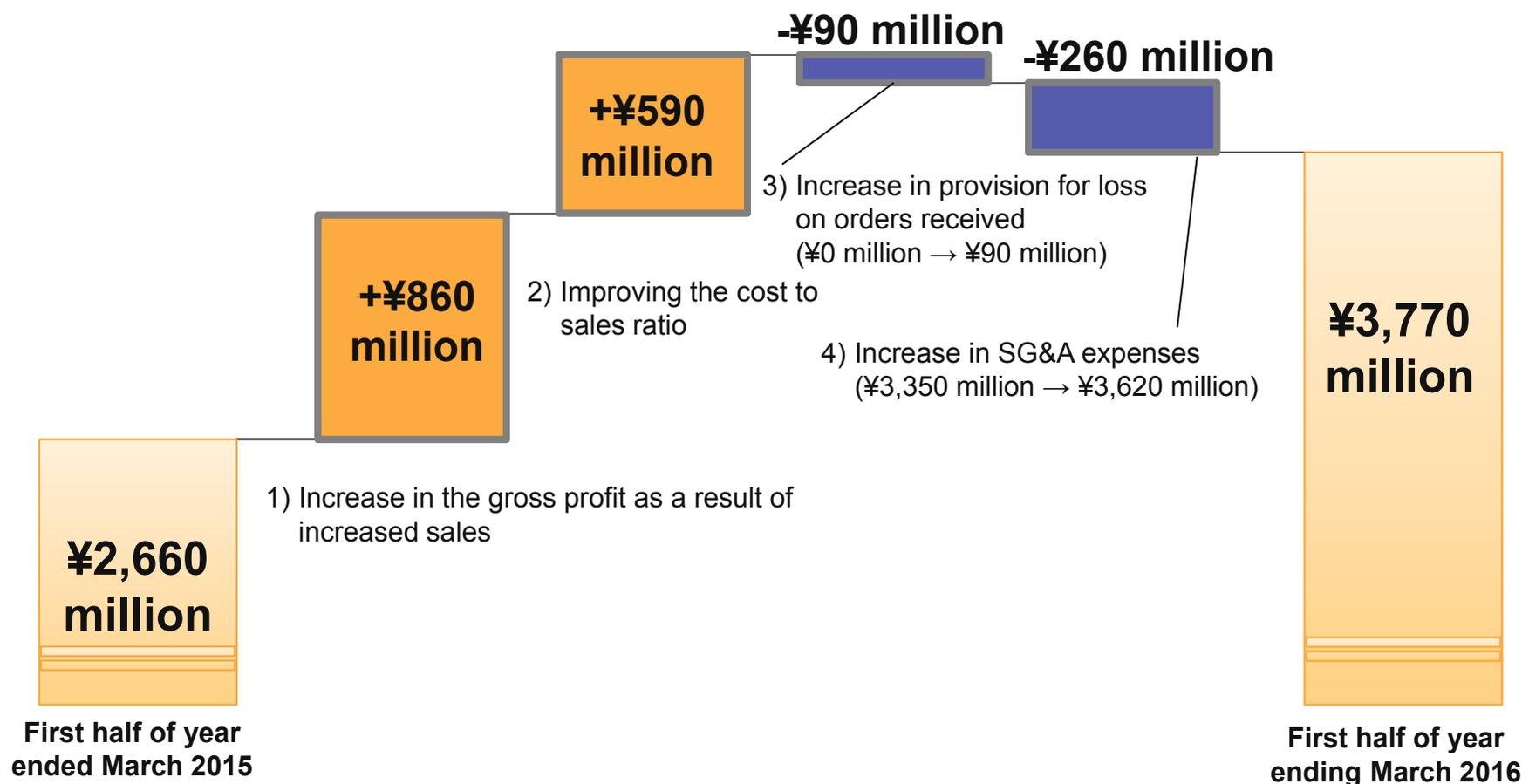
■ <u>Decrease in products, etc.:</u>	-1.02 billion
■ <u>Decrease in human resource services:</u>	-0.19 billion

[Consolidated] FY 16/3 First Half

Reason for an Increase in Operating Income



SG&A expenses increased due to additional strategic investments, etc. to improve the business foundation. These expenses were offset by growth in gross profit, while other profit increased by improving the cost-to-sales ratio of the entire Group, which resulted in a significant increase in operating income.



[Consolidated] FY 16/3 First Half New Contracts



The decrease in new contracts was as a reactionary fall to the special demand for products in the previous fiscal year. Backlogs increased, driven in particular by the finance and service sectors of the System segment.

(Units: Million yen, %)	New contracts				Backlogs			
	1st half FY 16/3	Composition ratio	Year on year		1st half FY 16/3	Composition ratio	Year on year	
Consolidated	31,180	—	96.6%	-1,107	21,292	—	109.8%	+1,900
Information service	30,116	96.6%	97.1%	-901	20,281	95.3%	110.8%	+1,968
System	24,488	78.5%	100.4%	+90	14,930	70.1%	112.9%	+1,702
Operation	2,619	8.4%	103.4%	+86	5,073	23.8%	108.7%	+406
Products and other	3,008	9.6%	73.6%	-1,078	276	1.3%	66.5%	-139
Human resource service	1,063	3.4%	83.8%	-205	1,011	4.7%	93.7%	-68

[Non-Consolidated] FY 16/3 First Half Results



Performance was strong as both net sales and operating income increased (up 19.4% year on year and up 35.8% year on year, respectively). Operating income margin rose by 1.4 points, to 11.6%, contributing significantly to the consolidated results.

(Units: Million yen, %)	1st half FY 16/3	Ratio to sales (%)	Year on year		vs. plan	
Net sales	27,317	—	119.4%	+4,432	107.1%	+1,817
Gross profit	5,107	18.7%	124.9%	+1,016	111.0%	+507
SG&A expenses	1,925	7.0%	110.2%	+177	98.7%	-24
Operating income	3,182	11.6%	135.8%	+839	120.1%	+532
Recurring income	3,270	12.0%	135.0%	+848	121.1%	+570
Net income	2,603	9.5%	93.0%	-196	115.7%	+353

[Non-consolidated] FY 16/3 First Half Net Sales by Segments



System sales increased substantially, rising 24.3% year on year. Operation sales were strong, up 7.6% year on year. The decrease in net sales of products was as a reactionary fall to the special demand in the previous period.

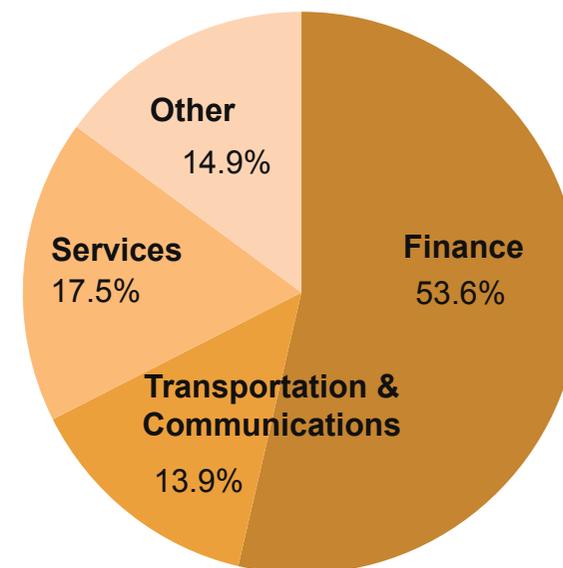
(Units: Million yen, %)	1st half FY 16/3	Ratio to sales (%)	Year on year		Main factors of change
Net sales	27,317	—	119.4%	+4,432	
Information service	27,317	—	119.4%	+4,432	
System	21,209	77.6%	124.3%	+4,140	<ul style="list-style-type: none"> - Sales from development for banks and life insurance firms expanded. - Sales remained strong in services, the public sector, and a wide range of other sectors.
Operation	5,676	20.8%	107.6%	+401	- Share of existing customers increased.
Products and other	431	1.6%	79.9%	-108	- Reactionary fall from the special demand for Windows OS renewal
Human resources service	—	—	—	—	

[Non-consolidated] FY 16/3 First Half Sales by End User



Business in the financial sector grew significantly due to an increase in bank, life insurance, and other projects. Other businesses, such as those in the services and public sector, also remained strong and contributed to the increase in sales.

(Units: Million yen, %)	Amount	Composition ratio	Year on year	
Finance	14,422	53.6%	130.9%	+3,405
Transportation & Communications	3,738	13.9%	101.7%	+63
Services	4,706	17.5%	119.8%	+777
Other	4,018	14.9%	107.9%	+294
For the manufacturing sector	1,532	5.7%	99.2%	-12
For the public sector	1,167	4.3%	128.8%	+260
For the wholesale and retail sector	718	2.7%	119.2%	+115
Systems and operations	26,886	100.0%	120.3%	+4,541



Finance: Demand expanded primarily for the integration of large-scale systems at banks. Sales from development projects for life insurance firms also increased.

Transportation & Communications: Sales in the communications sector declined, reflecting a continued decline in investments by main customers, while sales in transportation increased due to demand for renewal.

Services: Sales were strong, driven by the acquisition of new customers, etc.

Other: Sales for the public sector increased thanks to the consolidation of pension plans, etc. Actual sales from manufacturing increased by ¥0.25 billion due to the transfer of ¥0.26 billion to a group company in the embedding business.

For reference) [Group Company] FY 16/3 First Half Results



(Units: Million yen, %)	Net sales			Operating income			
	Company name	Amount	YoY (%)	Amount	Ratio to sales (%)	YoY (%)	
DATALINKS CORPORATION	3,906	102.0%	+77	150	3.9%	122.1%	+27
DIGITAL TECHNOLOGIES CORPORATION	3,110	81.2%	-719	86	2.8%	147.3%	+27
JAPAN SYSTEMS ENGINEERING CORPORATION	2,314	110.5%	+219	136	5.9%	290.0%	+89
YOKOGAWA DIGITAL COMPUTER CORPORATION	1,494	100.2%	+2	22	1.5%	80.0%	-5
DTS WEST CORPORATION *	1,222	97.1%	-36	10	0.8%	8.5%	-111
ART System Co.,Ltd. *	1,104	282.2%	+713	143	13.0%	–	+143
KYUSHU DTS CORPORATION	980	174.2%	+417	118	12.1%	544.7%	+96
MIRUCA CORPORATION	229	91.8%	-20	20	9.0%	38.8%	-32
DTS America Corporation	149	263.8%	+92	25	16.9%	329.7%	+17
DTS (Shanghai) CORPORATION	137	109.9%	+12	-1	–	–	-18
SOUGOU SYSTEM SERVICE CORPORATION * (For January to March)	549	–	–	71	13.0%	–	–

- Figures for each company are on a non-consolidated basis, so the total does not equal consolidated figures.
- DTS WEST CORPORATION merged with SOUGOU SYSTEM SERVICE CORPORATION in April 2015. The year-on-year comparison represents the differences from the simple combination of SOUGOU SYSTEM SERVICE CORPORATION and DTS WEST CORPORATION. ART System Co.,Ltd. took over some of the embedding-related businesses of DTS in April 2015.

II. Progress of Key Initiatives

1. Strengthen ability to make proposals

- Stronger sales systems
- Promotion of new project development

2. Strengthen business base and reform business model

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

3. Enhance the Group management base

- Development of high value-added human resources
- Reform of group structure and the optimization of management

1. Strengthen ability to make proposals

Conduct reform of sales meetings to promote the visualization of customer information. Strengthen and promote proposal activities for acquiring new customers.

■ Stronger sales systems

- Reform the sales strategy meetings and hold them for each account (key customers). Visualize customer information and needs, and strengthen information alliances to allow for sales activities better adapted to customer needs.
- Increase the number of customers that participate in customer satisfaction surveys. Further build and maintain customer trust by promptly making improvements at workplaces and addressing the issues that exist in projects.

■ Promotion of new project development

- Establish new targets for proposal activities at business headquarters. Implement proposal activities for new customers and new projects, and focus on acquiring new customers to achieve further growth.

2. Strengthen business base and reform business model



Promote activities to expand embedding-related businesses and overseas businesses.

Continuously work on the planning and development of new technologies and solutions for the next growth stage.

Creation of a “third pillar”

- Transferred some of the embedding-related businesses of DTS to ART System Co.,Ltd. in April 2015, and strengthened the alliance with YOKOGAWA DIGITAL COMPUTER CORPORATION.
Aim to expand businesses, particularly in healthcare and in-vehicle equipment, two areas that are expected to grow in the future.

Establishment of a global business base

- Employed sales consultants for overseas business expansion. Strengthen the management of overseas offices and focus on developing the foundation for office operation.
- Seek to win more orders in offshore development, particularly in China and Vietnam. Improve the structure of system development and increase cost competitiveness, aiming for further growth.

Securing profits in projects

- We are steadily facilitating initiatives that strengthen project management.
Minimized unprofitable projects to ensure profit.
- In light of the trend of automated development, we will continue working in the future on expanding automated development and operation to further increase productivity and competitiveness.

Creation of new-planning-type businesses

- Efforts for new technologies target areas in which future business development is expected, such as big data, FinTech, IoT, and robotics.
- Jointly develop a system that supports the treatment of joint rheumatism with universities, and transform it into a product. Continuously invest in the development of multiple new solutions to achieve future growth.

3. Enhance the Group management base

Implement various HR development measures, such as building an internal certification system to promote the development of high value-added human resources. Together with the SI capacity improvement measures of the group companies, aim to increase the group's collective strengths in preparation of the next medium term.

■ Development of high value-added human resources

- Partially revise the engineer certification system that was introduced seven years ago. Encourage young employees to learn advanced technologies, and aim to increase the number of employees with high-level certification.
- Use various e-learning programs throughout the company to further strengthen project management. Provide project managers and leaders with project management training, etc. to reduce or eliminate problematic projects.
- Continuously develop global human resources to strengthen and expand overseas businesses. Promote the development of core human resources who will engage in overseas businesses by sending trainees to overseas group companies and overseas training programs.

■ Enhancing the Group's collective strengths

- Ongoing activities to apply PMS (development standards) to group companies. Facilitate the continued establishment and penetration of the standards in the future to strengthen alliances between group companies and improve group quality.

III. FY 16/3 Full Year Forecast

Outlook for the Group's business environment



Demand for IT is expected to continuously grow in many businesses, including the bank, life insurance, securities, service, public sector, and manufacturing businesses. We predict that large financial projects will gradually decrease and that the control of investment in communications will continue.

Sector	Outlook for IT Investment	
Finance	<p>The scale of large bank projects is expected to gradually decrease from the second half of the current fiscal year to the next fiscal year as these projects progress. Demand for system development, particularly for overseas projects and new product development projects, will continue to increase.</p> <p>We expect major customers in life insurance and securities businesses will invest more.</p>	 
Transportation & Communications	<p>In the communications sector, we expect the trend of major carriers' controlling investment to continue.</p>	
	<p>In the transportation sector, we expect sustained demand for the renewal of the main systems in air transportation.</p>	
Services	<p>Increased demand from a wide range of customers is expected as corporate performance improves.</p>	
Other	<p>In the public sector, demand associated with the Individual Number System, etc. will continue to grow.</p> <p>In manufacturing, we expect growing demand in in-vehicle equipment, healthcare, and other areas in the embedding-related businesses.</p> <p>In wholesale and retail, we expect to see investment in new services that use big data, etc.</p>	

Performance Forecasts for the Full Fiscal Year Ending March 2016



Aim for steady achievement of performance forecasts made at the beginning of the fiscal year, and make sure thorough preparations are made for the next Medium-Term Management Plan that will start next year.

(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

FY 16/3 Dividend



The Company paid a dividend of ¥20 per share at the end of the first half, as initially planned.

The annual dividend is expected to be ¥55 per share, an increase of ¥5 from the previous fiscal year.

	End of first half	Year end	Full year	Payout ratio (consolidated)
FY 16/3	¥20	(Forecast) ¥35	(Forecast) ¥55	(Forecast) 28.4%
FY 15/3 (Reference)	¥15	¥35	¥50	31.9%

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Thank you for your attention.

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