FY 17/3 First Half Results Presentation

November 4, 2016

株式会社 DTS

http://www.dts.co.jp/

DTS Corporation

Contents

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.

1. FY 17/3 First Half Results

Factors of change from FY 16/3

- Posted an extraordinary profit of ¥160 million (in the first quarter) in association with the transfer of part of the staffing business of DATALINKS CORPORATION in April 2016. Sales in the staffing business are expected to decline ¥2.1 billion year on year (in the full year).

- Results at SOUGOU SYSTEM SERVICE CORPORATION for three months from January to March 2015 were included in the consolidated results in the previous consolidated fiscal year due to a change in the company's fiscal year-end in the fiscal year ended March 31, 2016 (from December to March). Given the change, net sales in the first quarter declined approximately ¥0.5 billion.

- Extraordinary profits of ¥1.1 billion and extraordinary losses of ¥0.5 billion were posted in the first quarter of the fiscal year ended March 31, 2016 due to sales of land and buildings, including headquarters.

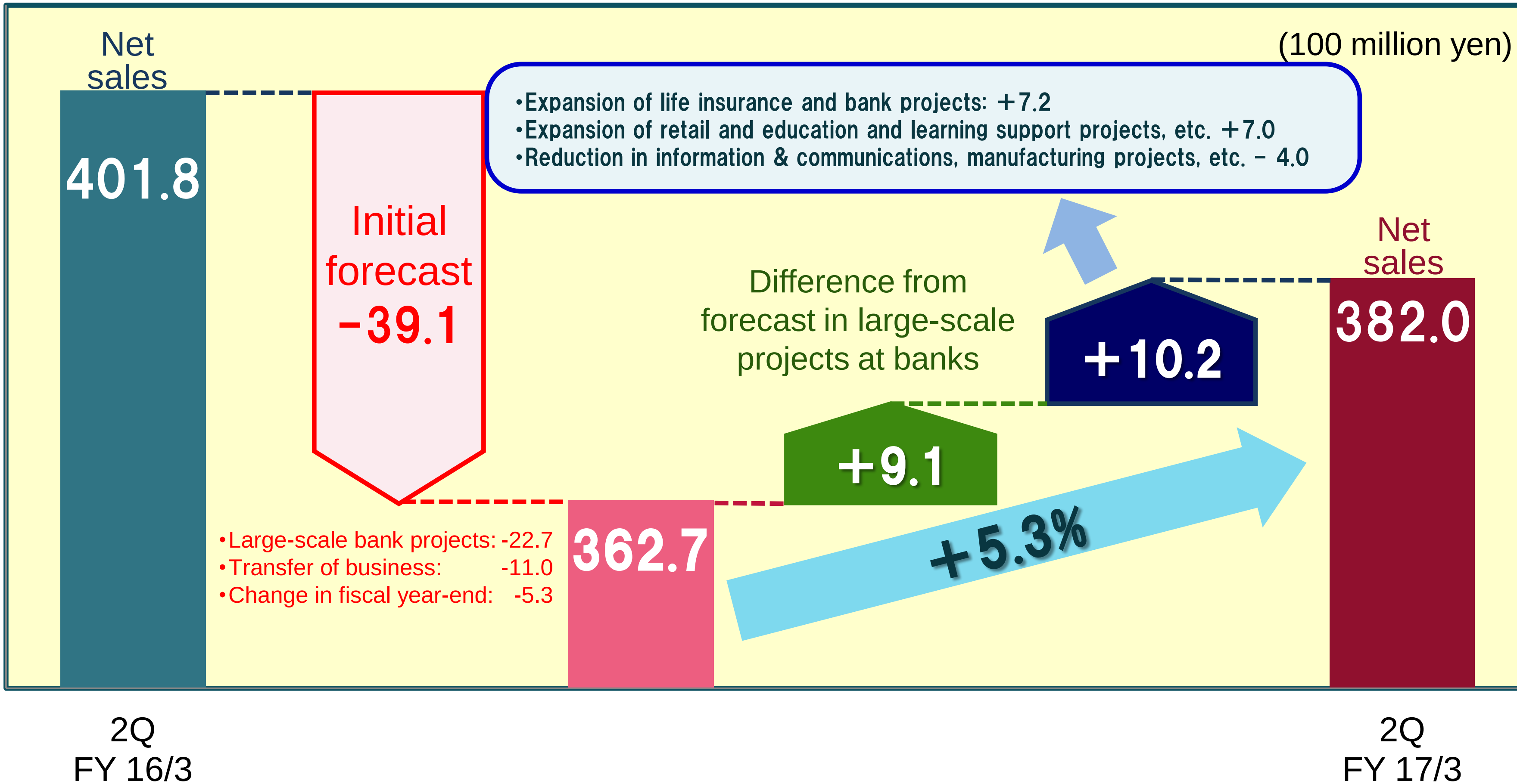
Consolidated Results

Despite a strong performance in life insurance and solution businesses, net sales declined ¥1,970 million year on year, chiefly reflecting the peaking of large-scale integration projects at banks, the transfer of part of the staffing business, and a change in the fiscal year-end of SOUGOU SYSTEM SERVICECORPORATION.

(Units: 100 million yen, %)	Results	Ratio to sales (%)	Year on year		Progress vis-à-vis forecast
Net sales	382.0	–	-19.7	95.1%	49.0%
Gross profit	74.7	19.6%	+0.7	101.0%	49.5%
SG&A expenses	39.3	10.3%	+3.0	108.5%	48.6%
Operating income	35.3	9.3%	-2.3	93.8%	50.6%
Recurring income	36.0	9.4%	-1.9	94.8%	50.8%
Profit attributable to owners of parent	24.3	6.4%	-3.5	87.4%	54.1%

Reasons for Increase in Consolidated Net Sales

- Factors such as the peaking of large-scale integration projects were expected to have a combined adverse effect of ¥3.9 billion on net sales.
- Except for the adverse effect, net sales grew 5.3% effectively, chiefly reflecting a difference from the forecast in large-scale integration projects and the expansion of life insurance, bank, and retail projects.



Net Sales by Segments

- Sales in the finance and public segment declined due to the adverse effect of large-scale integration projects at banks.
- Sales declined in the corporate communication solutions segment mainly due to the end of existing projects.
- Sales increased in the operation BPO segment due to the acquisition of new projects and the growth of existing projects.
- Sales in the regional, overseas, etc. segment fell due to the transfer of business and the change in the fiscal year-end.

(Units: 100 million yen, %)	Results*1	Ratio to sales (%)	Year on year*2		Progress vis-à-vis forecast
Net sales	382.0	-	-19.7	95.1%	49.0%
Finance and public	142.4	37.3%	-3.0 *3 (+9.3)	97.9% (107.0%)	53.8%
Corporate communication solutions	93.2	24.4%	-0.3	99.6%	45.1%
Operation BPO	60.1	15.7%	+1.2	102.1%	49.7%
Regional, overseas, etc	86.1	22.6%	-17.6 *3 (-0.0)	83.0% (100.0%)	46.1%

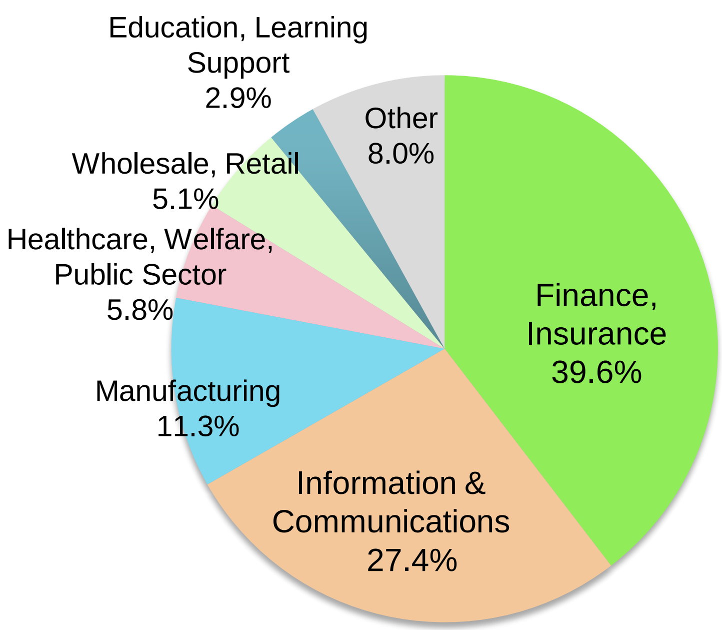
*1 The results are sales to the outside of the Group.
*2 The year-on-year changes are estimates.
*3 The figures in parentheses are figures excluding the effects of the peaking out of large-scale bank projects, the transfer of business, and the change of the fiscal year-end.

Consolidated Sales by End User

- Sales in Information & Communications decreased year on year, reflecting the effect of business transfer and decline in projects and the sale of goods at carriers.
- Sales in Wholesale. Retail increased due to expansion in ERP projects, etc.

Industrial Classification of METI

(Units: 100 million yen, %)	Amount	Composition Ratio	Year on year	
Finance, Insurance	151.2	39.6%	96.0%	-6.2
Information & Communications	104.5	27.4%	91.7%	-9.4
Manufacturing	42.9	11.3%	92.6%	-3.4
Healthcare, Welfare, Public Sector	22.1	5.8%	91.7%	-2.0
Wholesale, Retail	19.3	5.1%	115.3%	+2.5
Education, Learning Support	11.2	2.9%	152.1%	+3.8
Other	30.6	8.0%	86.0%	-4.9
Total	382.0	100.0%	95.1%	-19.7



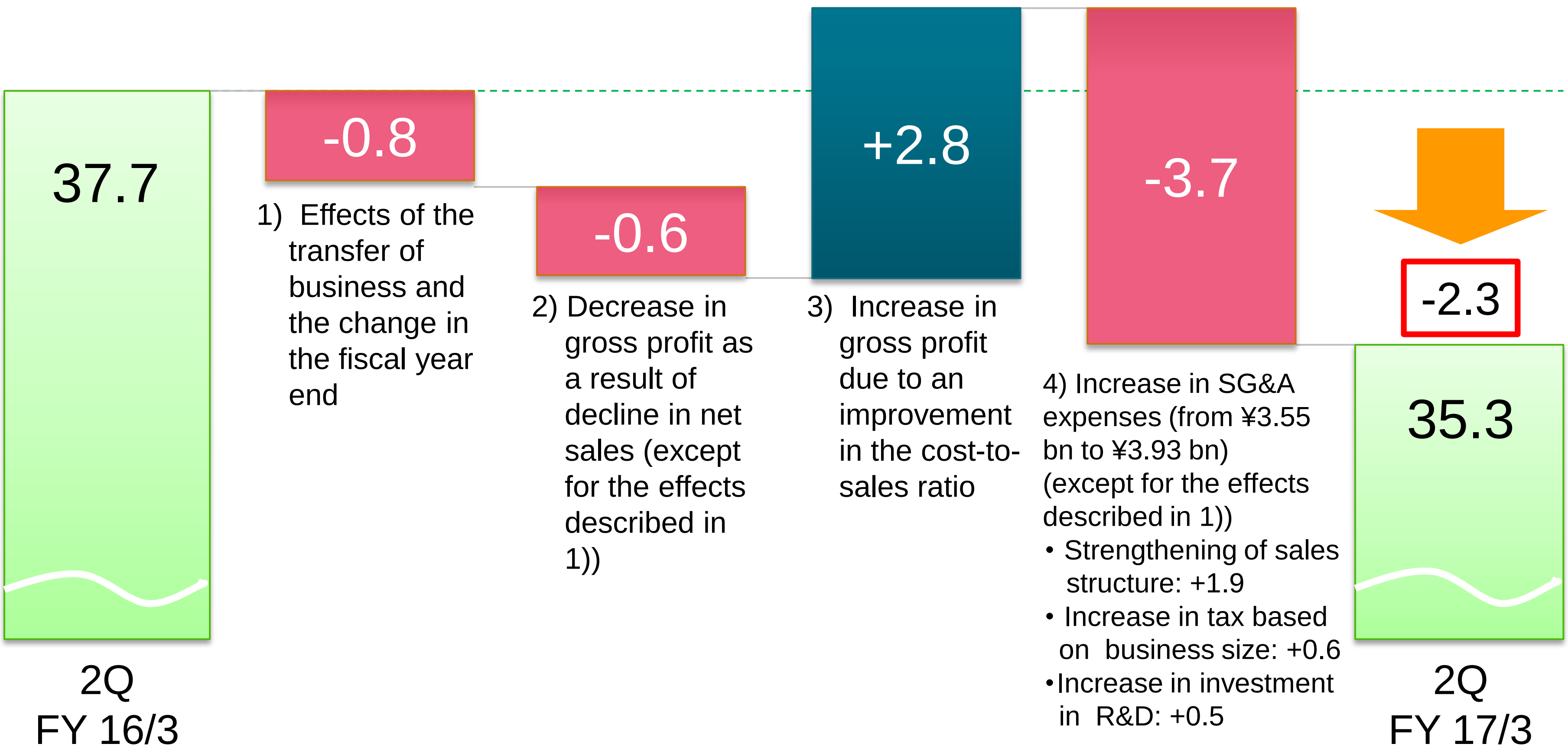
Except for the effect of large-scale integration projects and business transfer, sales rose from a year ago in the two categories below.

Finance, Insurance:	Sales from projects at life insurers, trusts, securities firms, etc. expanded. (+7.2)
Healthcare, Welfare, Public Sector:	Sales from projects at local governments and pension and health insurance projects expanded (+1.7)

Reason for an Increase in Consolidated Operating Income

- Gross profit decreased due to the transfer of business, the change in the fiscal year end and decline in net sales.
- Gross profit increased due to an improvement in the cost-to-sales ratio. However, the increase in SG&A expenses exceeded the increase in gross profit, and operating income declined.

(100 million yen)



New Contracts by Segment in 1H

Backlogs
- Backlogs in the finance and public segment increased with an expansion in projects associated with life insurance and projects in the public sector.
- In the corporate communication solutions segment, backlogs increased due to expansion in-vehicle and ERP projects, despite the effect of decline due to the end of existing projects
- In the Operation BPO segment, backlogs increased due to expansion in upstream process projects in areas such as operation design and construction.
- Backlogs in the regional, overseas, etc. segment rose, except for the effect of factors such as the transfer of business.

(Units: 100 Million yen, %)	New contracts				Backlogs			
	2Q FY 17/3 *1	Composition Ratio	Year on year *2		2Q FY 17/3 *1	Composition Ratio	Year on year *2	
Total	315.6	–	+3.8	101.2%	237.4	–	+24.5	111.5%
Finance and public	120.3	38.1%	+10.6	109.8%	104.2	43.9%	+21.4	126.0%
Corporate communication solutions	90.6	28.7%	+0.5	100.6%	50.3	21.2%	+1.9	104.0%
Operation BPO	19.6	6.2%	+1.7	109.6%	52.1	22.0%	+4.4	109.4%
Regional, overseas, etc	85.0	26.9%	-9.1 *3 (+1.9)	90.3% (102.2%)	30.6	12.9%	-3.3 (+0.5)	90.1% (101.6%)

*1 The results are sales to the outside of the Group.
*2 The year-on-year changes are estimates.
*3 The figures in parentheses are figures excluding the effects of, the transfer of business, and the change of the fiscal year-end.

Non-Consolidated Results

- Sales fell from a year ago (down 0.1% year on year), with increased sales in projects for life insurance, trusts, and local governments, and ERP projects offset by the effect of decline in large-scale integration projects.
- Operating income increased from a year ago (up 2.2% year on year) mainly due to improvement in the cost-to-sales ratio as a result of tighter project management, despite an increase in SG&A expenses associated with the strengthening of the sales structure and a tax revision.

(Units: 100 million yen, %)	Results	Ratio to sales (%)	Year on year		Progress vis-à-vis forecast
Net sales	270.7	–	-2.4	99.1%	50.1%
Gross profit	53.2	19.7%	+2.2	104.3%	50.5%
SG&A expenses	20.7	7.7%	+1.5	107.8%	44.2%
Operating income	32.5	12.0%	+0.7	102.2%	55.6%
Recurring income	34.4	12.7%	+1.7	105.3%	57.9%
Profit attributable to owners of parent	24.7	9.1%	-1.3	94.9%	61.8%

(Reference 1) Sales by Old Segment in 1H

- In the system segment, finance and public sector projects for life insurance, trusts, and local governments were firm.
- In the operation segment, upstream process projects in areas such as operation design and construction were solid.
- In the product segment, sales fell due to a sluggish performance in the communications industry despite expansion in sales at educational institutions.

(Units: 100 million yen, %)	Results	Composition Ratio	Year on year		Main factors of change
Net sales	382.0	-	-19.7	95.1%	
Information service	376.2	98.5%	-8.9	97.7%	
System	279.1	73.1%	-9.2	96.8%	•Except for the effect of decline in large-scale integration projects, etc., projects for life insurance, trusts, and local governments, and ERP and in-vehicle projects were firm.
Operation	69.6	18.2%	+1.4	102.1%	•Upstream process projects in areas such as operation design and construction were solid.
Products and other	27.5	7.2%	-1.0	96.3%	•Sales of equipment to educational institutions were strong. •Equipment sales in the communications industry were sluggish.
Human resources service	5.8	1.5%	-10.8	34.9%	•Sales declined due to the transfer of business.

(Reference 2) New Contracts by Old Segment in 1H

Both new contracts and backlogs increased from a year ago, with a decrease due to the transfer of business and the change in the fiscal year-end more than offset by strong performances, especially in the fields of life insurance, trusts and ERP projects.

(Units: 100 million yen, %)	New contracts				Backlogs				Main factors of change (Backlogs)
	Results	Composition Ratio	Year on year		Results	Composition Ratio	Year on year		
New contracts and backlogs	315.6	-	+3.8	101.2%	237.4	-	+24.5	111.5%	
Information service	312.3	99.0%	+11.2	103.7%	232.9	98.1%	+30.0	114.8%	
System	257.6	81.6%	+12.7	105.2%	177.7	74.8%	+28.4	119.0%	•Strong performance in fields such as life insurance, trusts and ERP projects.
Operation	27.4	8.7%	+1.2	104.9%	54.2	22.8%	+3.5	106.9%	•BPO and operation design projects, etc. were firm.
Products and other	27.2	8.6%	-2.8	90.7%	0.9	0.4%	-1.8	34.3%	•Decline mainly due to sluggish equipment sales in the communications industry
Human resources service	3.2	1.0%	-7.4	30.3%	4.5	1.9%	-5.5	45.1%	•Sales declined due to the transfer of business.

2. Progress of Key Initiatives

Key Activities in the Fiscal Year Ending March 2017

In the fiscal year ending March 2017, we are focusing on the following five key activities to achieve further growth in the future, in accordance with the medium-term management plan.

Update on Key Activities (1)

1. Strengthen marketing capability	
Strengthening of cooperation between Sales Sector and Business Sectors	•We shifted from the unified system of manufacturing and sales to a separated system of manufacturing and sales. We established the Marketing Division and sought to enhance marketing resources and implement cross-sectional account plans.

2. Strengthen system integration capability	
Expansion in use of offshore companies to strengthen competitiveness	•We strengthened cost competitiveness and development capability through the promotion of offshore and nearshore operations by overseas Group companies (Shanghai and Vietnam) and regional companies (Kyushu and Kansai)
Initiatives to reduce unprofitable projects	•We established DTS Group development standards (PMS) to promote improvement in quality across the entire Group. •We proceeded steadily with risk quantification and visualization activities for the early identification of problem projects.

Update on Key Activities (2)

3. Focus on new businesses	
Development of new businesses	•Leveraging cooperation within the group and market characteristics, we launched the sales management solution Xsi:d+ and the BI dashboard GalleriaSolo, which we co-developed with Group companies. We concentrated on developing solutions that meets customer needs, such as the development of a healthcare system smartphone application for local authorities by a regional company. •We promoted strategic investment and R&D in new business domains such as FinTech and IoT, including making preparations for demonstration experiments with local financial institutions and industrial equipment-related companies.

Update on Key Activities (3)

4. Enhance management base	
Group structural reform and management optimization	•Development of the systems of DTS in connection with the amendment of the Worker Dispatching Act was completed. We continued sharing knowhow with group companies and supporting them. •We pushed ahead with preparations for the relocation of head office and the consolidation of facilities aiming to increase productivity by strengthening cooperation between organizations. •With the environment surrounding pension plans changing dramatically, as a company that motivates its employees, we launched our own unique corporate pension plan in October 2016.

5. Increase Group's all-round strength	
Group reorganization	•We made preparations for the merger of Yokogawa Digital Computer Corporation and ART System Co., Ltd. on April 1, 2017. Our aim is to create efficient business systems , expand the customer base in the medical and automotive markets, and strengthen competitiveness.

(Reference 3) Group Reorganization

- In April 2017, we will integrate Yodogawa Digital Computer Corporation and ART System Co., Ltd. with the aim of strengthening the business base of embedding-related business. We will ensure the maximization of synergies and energization of organizations through the movement of human resources.
- We will switch/integrate the company formed through integration into the DTS brand and will therefore change its name to DTS Insight, and will focus on its further expansion and growth.

アートシステム株式会社
ART system

◆High-level of technical expertise in relation to embedding
◆Health-care related customer base

YOKOGAWA
横河ディジタルコンピュータ株式会社

◆Top-class track record in the area of verification equipment
◆Capability to develop products with top share in the Japanese market

DTS インサイト

Will aim to furthe expand embedding-related business in the healthcare and in-vehicle fields.

アートシステム株式会社
ART system

YOKOGAWA
横河ディジタルコンピュータ株式会社

×

3. FY 17/3 Full Year Forecast

Outlook for the Group's business environment

Finance, Insurance will face some difficulties mainly due to the effect of negative interest rates, but solid performance is expected for securities, trusts and insurance. In other sectors, the environment does not allow for optimism. However, the Group is receiving a fair number of inquiries and will steadily translate these into orders in the future.

Sector	Outlook for IT Investment	
Finance, Insurance	•Finance generally is expected to remain firm, despite signs of moves to curb investment at certain banks mainly due to the effect of negative interest rates.	
	•Life insurance is expected to remain firm.	
Information & Communications	•Information services are expected to remain firm. •Communications show signs of picking up despite continued investment restraint among major carriers.	
Manufacturing	•Manufacturing is in a downward trend, but expansion in demand in areas such as in-vehicle and healthcare is expected in the embedding business.	
Other	•Healthcare and welfare and public services are expected to remain firm, mainly in connection with social insurance. •In wholesale and retail, investment aimed at improving productivity and efficiency is expected.	

Performance Forecasts for the Full Fiscal Year Ending March 2017

We aim to ensure achievement of the initial performance forecasts and further increase both sales and profits for sustainable growth from the next fiscal year.

(Units: 100 million yen, %)	Consolidated				Non-consolidated			
	Results	Ratio to sales (%)	Year on year		Results	Ratio to sales (%)	Year on year	
Net sales	780.0	–	94.5%	-45.3	540.0	–	96.3%	-20.7
Gross profit	151.0	19.4%	101.3%	+1.9	105.5	19.5%	103.2%	+3.2
SG&A expenses	81.0	10.4%	110.9%	+7.9	47.0	8.7%	118.1%	+7.2
Operating income	70.0	9.0%	92.1%	-5.9	58.5	10.8%	93.6%	-3.9
Recurring income	71.0	9.1%	92.1%	-6.0	59.5	11.0%	93.3%	-4.2
Profit attributable to owners of parent	45.0	5.8%	103.7%	+1.5	40.0	7.4%	105.0%	+1.8

FY 17/3 Dividend

- The Company paid a dividend of ¥25 per share at the end of the first half, as initially planned.
- For the full year, the Company plans to pay a dividend of ¥60 per share, matching the year-end dividend in the previous year, and forecasts a total return ratio above 40% and payout ratio above 30%.

	End of first half	Year end	Full year	Payout ratio (consolidated)	Total return ratio (consolidated)
FY 17/3	¥25	(Forecast) ¥35	(Forecast) ¥60	30.6%	42.9%
FY 16/3 (Reference)	¥20	¥40	¥60	32.1%	48.8%

Other References

Major Press Releases in the Second Quarter

Date of release	Company	Title, brief description
July 11	DTS	**GalleriaSolo, a BI dashboard, launched** *GalleriaSolo is launched. It easily and graphically visualizes management indices and analysis data that are necessary in the age of the IoT and omnichannel.
July 26	Yokogawa Digital Computer	**Release of microTRACER Ver. 2.4, a traceability management tool** *Traceability management tool microTRACER Ver. 2.4 is launched. It visualizes software development processes, including requirements, design, implementation, and testing, using existing
August 29	Yokogawa Digital Computer	**Launch of TMPM3A Software Development Kit** *Sales of TMPM3A Software Development Kit will start from September 1. It enables immediate development and evaluation of products using M370 Group. M370 Group are ideal microcontrollers for home appliances with motor control that require low power consumption, silent operation and low mechanical vibration.
September 16	DTS	**Notice Concerning Conclusion of Merger Agreement Between Wholly Owned Subsidiaries** *A resolution on the merger of Yokogawa Digital Computer Corporation and ART System Co., Ltd. with an effective date April 1, 2017, was passed in accordance with the strategy for the embedding field, which is a priority under the Medium-term Management Plan.

FY 17/3 First Half
Results Presentation

Thank you for your attention.

株式会社 DTS

http://www.dts.co.jp/