July 30, 2020

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2021 <under Japanese GAAP>

Company name: **DTS CORPORATION**
Stock listing: Tokyo Stock Exchange, First Section
Stock code: 9682
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Scheduled date to file quarterly securities report: August 6, 2020
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Million yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2021 (from April 1, 2020 to June 30, 2020)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Three months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
June 30, 2020	19,970	(15.2)	1,841	(22.1)	1,908	(21.2)	1,294	(23.3)
June 30, 2019	23,557	16.0	2,365	25.3	2,420	24.9	1,688	28.5

Note: Comprehensive income
Three months ended June 30, 2020: ¥1,376 million [(6.7)%]
Three months ended June 30, 2019: ¥1,475 million [7.5%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2020	28.09	–
June 30, 2019	36.33	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
June 30, 2020	66,622	53,894	80.7
March 31, 2020	70,598	55,089	78.0

Reference: Equity
As of June 30, 2020: ¥53,785 million As of March 31, 2020: ¥55,083 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	–	20.00	–	35.00	55.00
Fiscal year ending March 31, 2021	–				
Fiscal year ending March 31, 2021 (Forecasts)		25.00	–	30.00	55.00

Note: Revisions to the forecasts of dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2021	95,000	0.4	10,700	0.2	10,850	0.0	7,400	1.1	161.27

Note: Revisions to the earnings forecasts most recently announced: None

Note: The earnings forecast may change if the novel coronavirus outbreak takes long to bring under control.

* Notes

(1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing quarterly consolidated financial statements: Yes

Note: For the details, please refer to '(Application of specific accounting for preparing quarterly consolidated financial statements) in (3) Notes to quarterly consolidated financial statements in 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto' on page 10 of the attached materials.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
b. Changes in accounting policies due to other reasons: None
c. Changes in accounting estimates: None
d. Restatement of prior period financial statements after error corrections: None

(4) Number of issued shares (common stock)

a. Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2020	50,444,532 shares
As of March 31, 2020	50,444,532 shares

b. Number of treasury shares at the end of the period

As of June 30, 2020	4,627,396 shares
As of March 31, 2020	4,183,214 shares

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2020	46,091,883 shares
Three months ended June 30, 2019	46,461,365 shares

* **Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

* **Proper use of earnings forecasts, and other special matters**
  The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors.
  For matters regarding the above earnings forecasts, please refer to '(2) Information regarding consolidated earnings forecasts and other forward-looking statements' in '1. Qualitative Information Regarding Settlement of Accounts for the First Three Months,' on page 5 of the attached materials.

Attached Materials

Contents

1. Qualitative Information Regarding Settlement of Accounts for the First Three Months

(1) Information regarding consolidated operating results

In the three months under review, the Japanese economy was in an extremely difficult situation due to the impact of the novel coronavirus disease (COVID-19). However, as measures to prevent the spread of infection are being taken and the level of socio-economic activity has gradually been increasing, the economy is expected to continue picking up while gaining support from the effects of various policies. Nevertheless, it is necessary to continue to closely observe the spread of infection, etc. in Japan and overseas.

In this environment, the DTS Group has established a vision for its medium-term management plan (April 2019 to March 2022) of becoming a "Next Value Creator, providing new value to the society of tomorrow," and has set financial targets of consolidated net sales of ¥100.0 billion or higher, overseas net sales of ¥5.0 billion or higher, a consolidated operating margin of 10% or higher, ROE of 12% or higher, and a total return ratio of 45% or higher.

In order to achieve the above targets, we have drawn up the three basic policies of "realization of a sustainable society," "evolution into a new system integrator," and "transformation into self-driven employees," and have continued related initiatives. The Group has been promoting the five key activities of "strengthening marketing capability and SI capability," "creating new business," "strengthening the Group's management foundation," "innovating in-house information systems and administrative processes," and "carrying out work-style reforms."

Taking into account the impact of the restraint of new IT investment and the postponement of projects, etc. for companies whose results have deteriorated due to the impact of COVID-19 in the three months under review, sales for the first half of the year are expected to decrease year on year. Under the assumption that COVID-19 will be under control and economic activity will steadily be recovering from the second quarter, the DTS Group is aiming for targets in line with the previous fiscal year with net sales of ¥95.0 billion and operating profit of ¥10.7 billion for the full year.

Earnings forecasts may change in the event that the period of time until COVID-19 is under control is lengthened.

■ COVID-19 Response

In promoting operations, the Group has been working on the following countermeasures while prioritizing the safety and security of employees, and figuring out customers' intentions.

- Daily observation of employees, business partners and customer information by establishing the Countermeasure Division
- Promotion of telework and staggered working hours
- Introduction of video conferencing, move toward doing job interviews remotely
- Move toward doing various types of training, including for new employees, online
- Fully equipped with disinfectant, provision of masks
- Limit on travel and business trips
- Refraining from social gatherings

■ Strengthening marketing capability and SI capability

We are promoting remote sales using communication tools amid limits on face-to-face sales with customers. Furthermore, in order to enhance the value that we propose, we have begun initiatives aimed at a systematic strengthening of the sales activities.

Specifically, we have been sharing information, gathered through the use of the SFA system, regarding customer trends and sales activities, including the impact of the spread of COVID-19, with those related, including management, in a timely manner. Going forward, we will devise a strategy using this data to respond to the business situation and improve business efficiency.

Furthermore, we will launch internal cross-divisional projects in order to accelerate business proposals utilizing AI, as well as promote the holding of ideathons, where ideas are considered through the collection of customers' needs and market research, and the training of engineers through hands-on learning.

■ Carrying out initiatives for new business

As the state of society is changing due to the spread of COVID-19, we will accelerate and strengthen measures to adapt to this new generation known as the NEW NORMAL that is shifting toward digital, online, remote, touchless and labor economization. Specifically, we have brought forward by one year our medium-term management plan targets of reaching a proportion of net sales accounted for with DX-related sales of 25% and the training of 500 DX employees, and our efforts to achieve those goals as targets for the fiscal year ending March 31, 2021 are satisfactorily progressing.

Furthermore, we are actively promoting the creation of new solutions such as risk management services, which are necessary for the modification of the behavior of society.

■ Strengthening the Group's management foundation

Regarding initiatives for ESG, we appointed an ESG Promotion Member to each organization from the three months under review, and are strengthening that promotion system. Additionally, the scope of surveys for the contribution to SDGs, which were implemented for all of the Company's projects, has been expanded to the entire Group. Using the results of these surveys, we will work to strengthen group-wide activities.

Furthermore, DTS SOFTWARE VIETNAM CO., LTD., Dalian SuperElectronics Co., Ltd. and Japan SuperElectronics Co., Ltd. were made into consolidated subsidiaries in the three months under review, and all business companies became consolidated. We will unite the Group and expand our business in Japanese and overseas markets.

Furthermore, in June 2020, we started consolidating the Shiba Development Center and the Daimon Development Center, and established the Monzen-Nakacho Development Center with the aim of strengthening links between organizations and improving productivity.

■ Innovating in-house information systems and administrative processes

In preparation for work-style reforms and improvements to business efficiency, we have been working on rationalization through the reviewing of work processes, as well as the rebuilding of in-house systems.

As a first step, we have commenced trial operations of a base system for internal information sharing to integrate internal information and improve the effectiveness of searching for information by utilizing BI. Going forward, we will continuously add and improve functions as well as adopt DX-related technology and new development methods, and utilize this as a chance for employees to gain practical experience.

Furthermore, we expanded the operation and application of the internal thin client environment, and created an environment where it is possible to carry out development that responds to customers' needs even when working remotely.

■ Work-style reforms

In order to promote the transformation into self-driven employees and cultivate a company culture where employees can proactively take on new challenges, we reviewed the target management system and introduced a new system from the three months under review. We will strive to disseminate it and continue to work on the personnel system reform that values challenges and reforms.

Furthermore, in addition to realizing our "new normal" to adapt to the modified behavior of our new society by aiming to have 50% or more of our employees who are engaged in internal operations working remotely and maintaining that level, we will work to improve productivity by utilizing that environment.

■ Other, including shareholder returns

In May to June 2020, we acquired 444,100 treasury shares in order to improve capital efficiency and to further improve returns for our shareholders.

As a result of the above, the Group reported net sales of ¥19,970 million for the three months under review, a decrease of 15.2% year on year. In addition to the lack of growth and recovery for orders in the financial sector, which had been favorable in the same period in the previous year, the product business was sluggish. There had also been the impact of the change in fiscal-year end date for DIGITAL TECHNOLOGIES CORPORATION in the previous fiscal year, which resulted in a substantial decline in sales.

Gross profit fell by 15.5% year on year to ¥3,810 million. The decline was attributed to the fall in net sales, which could not cover the deterioration in the cost of sales ratio in the Corporate Solutions segment. Selling, general and administrative expenses fell by 8.2% year on year to ¥1,968 million due to the end of the impact of the change in fiscal-year end date in the previous fiscal year as well as the decline in travel and transportation expenses and exhibition expenses because of the impact of COVID-19. Even though selling, general and administrative expenses declined, the drop in gross profit had a large impact, resulting in operating profit of ¥1,841 million (down 22.1% year on year) and ordinary profit of ¥1,908 million (down 21.2% year on year). Profit attributable to owners of parent was ¥1,294 million, down 23.3% year on year, due mainly to a decrease in operating profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	19,970	(15.2)	14,996	(6.0)
Operating profit	1,841	(22.1)	1,597	(15.4)
Ordinary profit	1,908	(21.2)	2,111	(10.3)
Profit attributable to owners of parent	1,294	(23.3)	–	–
Profit (Non-consolidated)	–	–	1,591	(9.3)

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	6,515	(12.4)
Corporate Solutions	5,898	(4.3)
Operational Infrastructure BPO	5,063	(31.7)
Regional, Overseas, Etc.	2,493	(1.9)
Total	19,970	(15.2)

Summaries of the operational conditions of each segment are as follows.

Finance and Society Segment

Due to having finished the renewal project of a securities company's intranet in the previous fiscal year and other factors, net sales came to ¥6,515 million, down 12.4% year on year.
However, DX-related projects utilizing new technologies and new development methods increased by about 18% year on year due to development utilizing automated application generation tools such as "GeneXus" as well as the installation of RPA and its support.

Corporate Solutions Segment

Sales of products in the embedding-related businesses was sluggish due to the constraints on economic activities because of the spread of COVID-19 and net sales came to ¥5,898 million, down 4.3% year on year.
As a new solution for the three months under review, sales of the IoT Platform "Pasteriot," which supports digitization of manufacturing sites, commenced in April 2020. This enables visualization of the entire factory in real time, and productivity is improved, and management costs reduced by constraining with rules and AI.

Operational Infrastructure BPO Segment

Although the operational BPO area performed well mainly due to the operation and design of systems for the information and communications industry, the product business in the infrastructure products area was sluggish, and the impact of the change in fiscal-year end date for DIGITAL TECHNOLOGIES CORPORATION in the previous fiscal year ceased to be an issue, so net sales came to ¥5,063 million, down 31.7% year on year.
We have also worked to expand sales of "ReSM plus," which is a service to support internal help desk operations through digital technology, and acquire SI projects for "ServiceNow," which is utilized as a platform for ReSM plus.

Regional, Overseas, Etc. Segment

Although there was expansion in regional segment for projects such as responding to the shift to cloud services for package software, there was prolongation and downsizing of projects for regional banks. In the overseas area, performance of Nelito Systems Limited was sluggish due to the impact of lockdown, resulting in net sales of ¥2,493 million, down 1.9% year on year.

(2) Information regarding consolidated earnings forecasts and other forward-looking statements

With respect to the full-year consolidated earnings forecasts, there is no change from the earnings forecasts announced on April 30, 2020.

Earnings forecasts may change in the event that the period of time until COVID-19 is under control is lengthened.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	38,478,978	36,895,835
Notes and accounts receivable - trade	16,349,995	13,151,559
Securities	17,407	17,639
Merchandise and finished goods	286,200	358,543
Work in process	567,630	1,476,489
Raw materials and supplies	22,203	28,205
Other	1,197,144	1,167,584
Allowance for doubtful accounts	(20,245)	(18,559)
Total current assets	56,899,314	53,077,296
Non-current assets		
Property, plant and equipment	3,890,861	3,873,354
Intangible assets		
Goodwill	127,036	116,449
Other	819,929	795,288
Total intangible assets	946,966	911,738
Investments and other assets		
Other	8,868,536	8,767,396
Allowance for doubtful accounts	(6,817)	(6,817)
Total investments and other assets	8,861,718	8,760,579
Total non-current assets	13,699,546	13,545,672
Total assets	70,598,860	66,622,969

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	5,079,429	4,440,168
Income taxes payable	2,025,489	724,605
Provision for bonuses	3,191,854	1,557,724
Provision for bonuses for directors (and other officers)	58,270	26,228
Provision for loss on order received	2,680	18,455
Other	3,928,634	4,716,624
Total current liabilities	14,286,358	11,483,806
Non-current liabilities		
Retirement benefit liability	919,223	945,887
Other	304,208	299,128
Total non-current liabilities	1,223,432	1,245,015
Total liabilities	15,509,790	12,728,822
Net assets		
Shareholders’ equity		
Share capital	6,113,000	6,113,000
Capital surplus	6,215,781	6,215,781
Retained earnings	46,336,183	45,959,598
Treasury shares	(4,185,444)	(5,185,432)
Total shareholders’ equity	54,479,521	53,102,947
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	667,248	764,905
Foreign currency translation adjustment	(37,286)	(54,772)
Remeasurements of defined benefit plans	(25,727)	(27,104)
Total accumulated other comprehensive income	604,234	683,029
Non-controlling interests	5,314	108,170
Total net assets	55,089,070	53,894,146
Total liabilities and net assets	70,598,860	66,622,969

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income (cumulative)

(Thousand yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	23,557,456	19,970,794
Cost of sales	19,048,183	16,160,327
Gross profit	4,509,272	3,810,466
Selling, general and administrative expenses	2,144,017	1,968,550
Operating profit	2,365,255	1,841,916
Non-operating income		
Interest income	5,077	11,158
Dividend income	39,687	41,245
Other	19,394	23,277
Total non-operating income	64,159	75,681
Non-operating expenses		
Interest expenses	4,749	6,679
Foreign exchange losses	2,179	–
Other	1,946	2,884
Total non-operating expenses	8,876	9,564
Ordinary profit	2,420,538	1,908,033
Extraordinary income		
Gain on step acquisitions	66,731	–
Total extraordinary income	66,731	–
Extraordinary losses		
Loss on valuation of golf club membership	2,808	–
Office relocation expenses	–	5,800
Total extraordinary losses	2,808	5,800
Profit before income taxes	2,484,461	1,902,233
Income taxes	794,829	599,327
Profit	1,689,632	1,302,906
Profit attributable to non-controlling interests	1,494	8,075
Profit attributable to owners of parent	1,688,137	1,294,831

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit	1,689,632	1,302,906
Other comprehensive income		
Valuation difference on available-for-sale securities	(197,054)	97,657
Foreign currency translation adjustment	(16,531)	(23,143)
Remeasurements of defined benefit plans, net of tax	(715)	(1,403)
Total other comprehensive income	(214,301)	73,110
Comprehensive income	1,475,330	1,376,016
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,479,873	1,373,625
Comprehensive income attributable to non-controlling interests	(4,543)	2,391

(3) Notes to quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Notes on substantial changes in the amount of shareholders' equity)

No items to report.

(Application of specific accounting for preparing quarterly consolidated financial statements)

(Calculation of taxes)

Taxes are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the first quarter under review, and next by multiplying the quarterly profit before income taxes by such estimated effective tax rate.

3. Others

Results of production, orders and sales

In the three months under review, production, order volume and sales in the Operational Infrastructure BPO business have significantly decreased year on year. The main factor was that in the previous fiscal year, the six months from January 1, 2019 to June 30, 2019 were consolidated as the first quarter for DIGITAL TECHNOLOGIES CORPORATION, a consolidated subsidiary of the Company, following the change of their balance sheet date from December 31 to March 31.

(1) Production

Production in the three months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Society	6,515,675	(12.4)
Corporate Solutions	5,898,384	(4.3)
Operational Infrastructure BPO	5,063,547	(31.7)
Regional, Overseas, Etc.	2,493,186	(1.9)
Total	19,970,794	(15.2)

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(2) Orders

Orders in the three months under review are as follows.

Segment	Order volume (Thousand yen)	Year-on-year change (%)	Order backlog (Thousand yen)	Year-on-year change (%)
Finance and Society	4,009,639	(5.2)	12,152,229	(0.5)
Corporate Solutions	5,217,080	(10.8)	6,864,141	(1.7)
Operational Infrastructure BPO	2,400,408	(47.9)	12,732,040	21.3
Regional, Overseas, Etc.	2,419,404	(8.5)	2,975,059	(7.9)
Total	14,046,532	(18.9)	34,723,471	5.5

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.

(3) Sales

Sales in the three months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Society	6,515,675	(12.4)
Corporate Solutions	5,898,384	(4.3)
Operational Infrastructure BPO	5,063,547	(31.7)
Regional, Overseas, Etc.	2,493,186	(1.9)
Total	19,970,794	(15.2)

Note: The amounts presented above are selling prices, and do not include consumption taxes. Inter-segment transactions have been eliminated.