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February 1, 2021

Consolidated Financial Results for the First Nine 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: February 8, 2021
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 nine months of the fiscal year ending March 31, 2021 (from April 1, 2020 to December 31, 2020)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
December 31, 2020	64,685	(7.3)	7,240	(3.7)	7,466	(2.7)	5,073	(3.3)
December 31, 2019	69,802	11.1	7,517	7.5	7,670	7.9	5,246	8.3

Note: Comprehensive income
Nine months ended December 31, 2020: ¥5,281 million [1.5%]
Nine months ended December 31, 2019: ¥5,201 million [10.6%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2020	110.52	–
December 31, 2019	113.26	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2020	70,268	56,654	80.4
March 31, 2020	70,598	55,089	78.0

Reference: Equity
As of December 31, 2020: ¥56,526 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	–	25.00	–		
Fiscal year ending March 31, 2021 (Forecasts)				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	92,500	(2.2)	10,000	(6.3)	10,200	(6.0)	6,900	(5.7)	150.37

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

* Notes

(1) Changes in significant subsidiaries during the nine 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 11 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 December 31, 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 December 31, 2020	4,627,441 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)

Nine months ended December 31, 2020	45,908,027 shares
Nine months ended December 31, 2019	46,327,516 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 Nine Months,' on page 6 of the attached materials.

Attached Materials

Contents

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

(1) Information regarding consolidated operating results

In the nine months under review, the Japanese economy remained in a 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, the economy is expected to continue to be on a trend of picking up while gaining support from the effects of various policies and improvements in overseas economies. Nevertheless, the effect of the spread of COVID-19 on social and economic activities poses a downside risk to the Japanese and global economies, which requires suitable attention moving forward.

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."

■ 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
- Systematization of telework and staggered working hours
- Introduction of video conferencing, move toward doing job interviews remotely
- Move toward doing various types of training online
- Recommending that paid vacation be taken over New Year period
- Limit on travel and business trips
- Refraining from social gatherings

■ Strengthening marketing capability and SI capability

In line with the transition to a "New Normal" society, we are promoting a combination of remote and face-to-face sales style using web communication tools. 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.

In September 2020, we were certified as an Advanced Consulting Partner after meeting the knowledge and systems integration performance requirements for Amazon Web Services (AWS). We will continue to promote the expansion of our cloud business.

In addition, DTS's in-house development standards (PMS: Project Management Strategy) have been implemented in Nelito Systems Limited, with the Financial Business Headquarters providing guidance on project status monitoring and risk management.

■ 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 launched internal cross-divisional projects in order to accelerate business proposals utilizing AI. In addition to continuously generating business ideas based on market research and customer needs and engaging in proposal activities such as trial projects, we are promoting the training of engineers through hands-on learning.

■ Strengthening the Group's management foundation

Regarding initiatives for ESG, we appointed an ESG Promotion Member to each organization from the fiscal year 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. In the third quarter under review, we produced the DTS Group REPORT 2020 in the interest of providing a constructive dialogue with stakeholders.

In terms of the environment, we are making progress in reducing CO_2 emissions and paper usage through the spread of telework and web conferencing, and we will review our initial full-year targets and strive for further improvement.

Furthermore, DTS SOFTWARE VIETNAM CO., LTD., Dalian SuperElectronics Co., Ltd. and Japan SuperElectronics Co., Ltd. were made into consolidated subsidiaries in the fiscal year 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 operations of a base system for internal information searching 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 teleworking.

In July 2020, aiming to improve employee satisfaction, the company's internal public relations paper was moved to the web in order to facilitate access to company information.

In October 2020, regarding compliance with the accounting standards for revenue recognition, we are conducting the final confirmation, which also serves as operational training, to ensure a smooth response to the operational changes resulting from the renovation of the internal system.

■ 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 fiscal year under review. We will strive to disseminate it and continue to work on the personnel system reform that values challenges and reforms.

In September 2020, the Company obtained the "Company of Health Excellence Certification (Gold Certification)" (Note 1) as a company that has achieved a certain level of results in its health management initiatives. In the fiscal year under review, we provided guidance on paying attention to safety, which was given by an occupational doctor to people exhibiting high stress based on the results of the stress check, carried out as part of health management promotion. Going forward, we will work with occupational doctors and public health nurses make improvements to the provision of advice for workplace visits and problem solving and other areas.

In addition, based on the situation of telework, which started operating in March 2020, we renewed our telework and staggered work system in October of the same year. We will continue to promote work-life balance initiatives to improve employee satisfaction and corporate value.

■ 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 ¥64,685 million for the nine months under review, a decrease of 7.3% year on year.

In addition to the impact of the change in fiscal year end at DIGITAL TECHNOLOGIES CORPORATION in the previous fiscal year, sales were sluggish in the Finance and Society segment, and sales in the Corporate Solutions segment decreased due to the impact of COVID-19.

Gross profit fell by 6.7% year on year to ¥12,710 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 10.4% year on year to ¥5,470 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 ¥7,240 million (down 3.7% year on year) and ordinary profit of ¥7,466 million (down 2.7% year on year). Profit attributable to owners of parent was ¥5,073 million, down 3.3% year on year, due mainly to a decrease in operating profit.

In the third quarter under review, the Group reported net sales of ¥21,093 million, down 5.9% year on year, and operating profit of ¥2,555 million, up 11.6% year on year.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	64,685	(7.3)	47,717	(4.5)
Operating profit	7,240	(3.7)	5,958	(5.3)
Ordinary profit	7,466	(2.7)	6,581	(4.2)
Profit attributable to owners of parent	5,073	(3.3)	–	–
Profit (Non-consolidated)	–	–	4,652	(4.4)

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	21,150	(8.5)
Corporate Solutions	18,617	(6.4)
Operational Infrastructure BPO	17,379	(8.0)
Regional, Overseas, Etc.	7,539	(4.6)
Total	64,685	(7.3)

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

Finance and Society Segment

Net sales came to ¥21,150 million, down 8.5% year on year due to a decline in investment at megabanks, despite steady growth in public sector system development.

Meanwhile, in terms of projects that have been utilizing new technologies and new development techniques, we have been working to strengthen the DX-related business through development utilizing automated application generation tools such as “GeneXus,” expansion of the installation of RPA and its support, and exhibiting “AMLion” and “DAVinCI LABS” at “FIT2020 online,” a financial information and technology expo.

In addition to implementing Salesforce, we also provide business and system analysis support to promote the use of Salesforce for issues such as sales process management for our customers. We will continue to promote active proposals.

Corporate Solutions Segment

Despite steady growth in solution projects utilizing SAP and cloud environment construction projects, due to various factors such as sluggish performance in the embedding-related businesses and development projects related to residential housing, net sales came to ¥18,617 million, down 6.4% year on year.

As a new solution for the fiscal year 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.

We are also working on projects based on virtualization technology, such as building a network infrastructure utilizing SDN. We aim to expand our business by accumulating this expertise.

Furthermore, in collaboration with solution vendors, we are offering flexible proposals tailored to customers’ needs such as our initiative to provide SI as a one-stop service with a fast delivery time that includes cloud platform architecture.

Operational Infrastructure BPO Segment

In the operational BPO area, although the operation and design of systems for the information and communications industry and the product business in the infrastructure products area performed strongly, 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 ¥17,379 million, down 8.0% 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. In addition, for customers who are considering implementation, we are offering support in the form of trial systems, and for customers who have already implemented the system, we will propose ways to improve their services using the accumulated data.

Regional, Overseas, Etc. Segment

Although the performance of Nelito Systems Limited turned around to record year-on-year increases in the third quarter under review due mainly to a strengthening in project management, the prolongation and downsizing of projects for regional banks, among other factors, resulted in net sales falling by 4.6% year on year to ¥7,539 million.

We aim to expand the number of education solution projects, such as the transition of packaged software to the cloud, automation of inquiry response utilizing "kotosora" (Note 2) and portal site architecture for a historical character database (Note 3).

Note 1: A certification system by the Tokyo Promotion Council for Declaration of Healthy Company, which is consists of members of Tokyo Metropolitan Government's Health Insurance Association and other organizations, to recognize companies that declare their commitment to improving their overall health and achieve a certain level of results.

Note 2: "kotosora" is a solution for FAQs that uses an AI chat engine to enable natural conversations feel like those of a real person.

Note 3: DTS WEST provided the architecture of a portal site that allows single kanji characters to be searched across multiple institutions and displayed using a database of character images that have been mapped to international standards based on historical character data, which is curated and managed by academic research institutes in Japan and overseas.

(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 October 30, 2020.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	38,478,978	40,030,161
Notes and accounts receivable - trade	16,349,995	12,879,189
Securities	17,407	–
Merchandise and finished goods	286,200	1,326,356
Work in process	567,630	1,425,663
Raw materials and supplies	22,203	26,799
Other	1,197,144	1,056,103
Allowance for doubtful accounts	(20,245)	(18,860)
Total current assets	56,899,314	56,725,413
Non-current assets		
Property, plant and equipment	3,890,861	3,805,492
Intangible assets		
Goodwill	127,036	95,277
Other	819,929	798,146
Total intangible assets	946,966	893,423
Investments and other assets		
Other	8,868,536	8,850,653
Allowance for doubtful accounts	(6,817)	(6,817)
Total investments and other assets	8,861,718	8,843,836
Total non-current assets	13,699,546	13,542,752
Total assets	70,598,860	70,268,165

(Thousand yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	5,079,429	5,209,619
Income taxes payable	2,025,489	1,121,443
Provision for bonuses	3,191,854	1,499,934
Provision for bonuses for directors (and other officers)	58,270	71,222
Provision for loss on order received	2,680	7,631
Other	3,928,634	4,402,266
Total current liabilities	14,286,358	12,312,119
Non-current liabilities		
Retirement benefit liability	919,223	1,015,757
Other	304,208	286,019
Total non-current liabilities	1,223,432	1,301,777
Total liabilities	15,509,790	13,613,897
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	48,593,133
Treasury shares	(4,185,444)	(5,185,540)
Total shareholders' equity	54,479,521	55,736,374
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	667,248	880,980
Foreign currency translation adjustment	(37,286)	(61,453)
Remeasurements of defined benefit plans	(25,727)	(29,773)
Total accumulated other comprehensive income	604,234	789,754
Non-controlling interests	5,314	128,139
Total net assets	55,089,070	56,654,268
Total liabilities and net assets	70,598,860	70,268,165

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

Consolidated statements of income (cumulative)

(Thousand yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Net sales	69,802,089	64,685,659
Cost of sales	56,182,263	51,975,001
Gross profit	13,619,826	12,710,658
Selling, general and administrative expenses	6,102,740	5,470,257
Operating profit	7,517,086	7,240,401
Non-operating income		
Interest income	16,611	26,135
Dividend income	77,776	79,819
Gain on investments in investment partnerships	23,581	36,704
Subsidy income	12,853	58,573
Other	46,787	54,035
Total non-operating income	177,610	255,268
Non-operating expenses		
Interest expenses	20,782	20,994
Foreign exchange losses	1,198	2,130
Other	2,493	5,967
Total non-operating expenses	24,474	29,093
Ordinary profit	7,670,222	7,466,576
Extraordinary income		
Gain on step acquisitions	66,731	–
Total extraordinary income	66,731	–
Extraordinary losses		
Loss on retirement of non-current assets	559	3,220
Loss on valuation of golf club membership	8,320	–
Office relocation expenses	–	28,193
Total extraordinary losses	8,880	31,414
Profit before income taxes	7,728,073	7,435,162
Income taxes	2,482,356	2,334,645
Profit	5,245,717	5,100,516
Profit (loss) attributable to non-controlling interests	(1,169)	26,723
Profit attributable to owners of parent	5,246,887	5,073,793

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit	5,245,717	5,100,516
Other comprehensive income		
Valuation difference on available-for-sale securities	4,919	213,732
Foreign currency translation adjustment	(45,930)	(28,450)
Remeasurements of defined benefit plans, net of tax	(3,309)	(4,125)
Total other comprehensive income	(44,320)	181,156
Comprehensive income	5,201,397	5,281,673
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,202,962	5,259,312
Comprehensive income attributable to non-controlling interests	(1,565)	22,360

(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 third 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 nine months under review, order backlog in the Operational Infrastructure BPO business has significantly increased year on year. This was mainly due to an increase in the sales of system information devices, etc.

(1) Production

Production in the nine months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Society	21,150,207	(8.5)
Corporate Solutions	18,617,134	(6.4)
Operational Infrastructure BPO	17,379,264	(8.0)
Regional, Overseas, Etc.	7,539,053	(4.6)
Total	64,685,659	(7.3)

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 nine 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	13,586,307	(8.1)	7,094,366	0.2
Corporate Solutions	16,989,843	(11.1)	5,918,155	(9.1)
Operational Infrastructure BPO	8,477,397	(19.5)	6,493,312	31.3
Regional, Overseas, Etc.	7,493,958	(8.4)	3,003,746	(11.7)
Total	46,547,506	(11.5)	22,509,580	2.6

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 nine months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Society	21,150,207	(8.5)
Corporate Solutions	18,617,134	(6.4)
Operational Infrastructure BPO	17,379,264	(8.0)
Regional, Overseas, Etc.	7,539,053	(4.6)
Total	64,685,659	(7.3)

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