July 30, 2021

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending March 31, 2022 <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 10, 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 three months of the fiscal year ending March 31, 2022 (from April 1, 2021 to June 30, 2021)

(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, 2021	21,224	–	2,017	–	2,060	–	1,386	–
June 30, 2020	19,970	(15.2)	1,841	(22.1)	1,908	(21.2)	1,294	(23.3)

Note: Comprehensive income
Three months ended June 30, 2021: ¥1,292 million [–%]
Three months ended June 30, 2020: ¥1,376 million [(6.7)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
June 30, 2021	30.37	–
June 30, 2020	28.09	–

Note: The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the first quarter under review, and each figure for the first three months of the fiscal year ending March 31, 2022, is the figure after applying the accounting standard and relevant revised ASBJ regulations. The percentage of year-on-year change is not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
June 30, 2021	71,198	58,110	81.4
March 31, 2021	75,172	59,409	78.8

Reference: Equity
As of June 30, 2021: ¥57,966 million As of March 31, 2021: ¥59,269 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the first quarter under review, and each figure as of June 30, 2021, is the figure after applying the accounting standard and relevant revised ASBJ regulations.

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, 2021	–	25.00	–	35.00	60.00
Fiscal year ending March 31, 2022	–				
Fiscal year ending March 31, 2022 (Forecasts)		30.00	–	35.00	65.00

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

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(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, 2022	95,000	–	11,000	–	11,200	–	7,650	–	168.17

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

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the first quarter under review, and each figure for the first three months of the fiscal year ending March 31, 2022, is the figure after applying the accounting standard and relevant revised ASBJ regulations. The percentage of year-on-year change is not shown.

* 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: Yes
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

Note: For the details, please refer to '(Changes in accounting policies) 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.

(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, 2021	50,444,532 shares
As of March 31, 2021	50,444,532 shares

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

As of June 30, 2021	5,012,779 shares
As of March 31, 2021	4,627,487 shares

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

Three months ended June 30, 2021	45,666,828 shares
Three months ended June 30, 2020	46,091,883 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

Forward-looking statements in this document are based on our views as of the end of the quarter under review.

In addition, the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the first quarter under review.

Therefore, in the description about the operating results for the three months under review, the amount and percentage of year-on-year change are not included.

Details are as described in ‘(Changes in accounting policies) in (3) Notes to quarterly consolidated financial statements in 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto.’

In the three 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 and vaccination is promoted, 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,” as well as has 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 has 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.”

In the fiscal year under review, we are aiming for net sales of ¥95,000 million (compared to ¥90,493 million in the same period of the previous fiscal year) and operating profit of ¥11,000 million, which would be a record high for the eighth consecutive year.

■ Strengthening marketing capability and SI capability

In order to expand our DX business in line with the development of a digital society, we are working to strengthen our solution sales, including human resource development, promotional activities, and marketing research. In the fiscal year under review, we are promoting proposal activities in response to customer needs, such as the adoption of “ReSM plus,” which is strong in improving the efficiency of cumbersome help desk operations, in the operation of public sector network systems.

In addition, we are strongly promoting a cloud-first approach across the entire company and newly established Digital Solution Sector in April 2021 to expand and develop cloud-based business. We will promote the development of human resources in each process, including integration and maintenance and operation, as well as work to provide new services.

■ Creating 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. In the fiscal year under review, we will continue from the previous fiscal year to surpass the initial medium-term management plan target of achieving a 35% ratio of DX-related sales and training 900 DX employees.

In June 2021, I Net Rely Corporation became a consolidated subsidiary of the Company. We will strengthen our network solution business by combining the know-how of our network engineers with the company’s technical capabilities in infrastructure design, construction, and operation management.

- ■ Strengthening the Group's management foundation and Innovating in-house information systems and administrative processes

Regarding ESG initiatives, we are working to expand SDG sales (approximately ¥16,600 million in the previous fiscal year), which are calculated based on a survey of SDGs contribution details targeting our Group businesses. In terms of the environment, we have set new goals such as further reducing CO2 emissions and paper consumption, and are promoting efforts to reduce the environmental load.

Moreover, MIRUCA CORPORATION, the Group's education specialist, has developed a new training curriculum for new employees that is designed to be used online. In addition, the DX Engineer Advanced Course has been newly established to further enhance training according to individual skill levels. We will continue to focus on human resource development.

- ■ Carrying out work-style reforms

As part of our health management initiatives, we have set up an environment for online medical care, which is effective for the COVID-19 crisis and remote work, and provide consultation on health checkup results, sleep apnea testing, and smoking cessation outpatient services, etc. In addition, we offer online seitai yoga (osteopathic yoga) classes to help our employees get enough exercise and improve their physical and mental health. We will continue our efforts to promote health and safety in the workplace as part of our health management program.

- ■ COVID-19 response

In promoting operations, the Group has continued to work on measures to prevent infection while prioritizing the safety and security of employees, and figuring out customers' intentions. In June 2021, we submitted an application for occupational vaccination of the novel coronavirus vaccine for the Group's employees and temporary workers.

- ■ Introduction of restricted share-based remuneration plan

The Company has introduced a restricted share-based remuneration plan in order to provide incentives for directors (excluding outside directors) and executive officers of the Company to sustainably enhance corporate value and in order to promote further value sharing with shareholders.

- ■ Shareholder returns

In April to June 2021, we acquired 385,200 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 ¥21,224 million for the three months under review, compared to ¥19,970 million in the same period of the previous fiscal year.

Gross profit was ¥4,010 million, compared to ¥3,810 million in the same period of the previous fiscal year, due to the increase in net sales.

Selling, general and administrative expenses were ¥1,993 million (¥1,968 million in the same period of the previous fiscal year). With the increase in gross profit, operating profit came to ¥2,017 million, compared to ¥1,841 million in the same period of the previous fiscal year, and ordinary profit came to ¥2,060 million, compared to ¥1,908 million in the same period of the previous fiscal year. Profit attributable to owners of parent was ¥1,386 million (compared to ¥1,294 million in the same period of the previous fiscal year), mainly due to the increase in ordinary profit.

(Million yen)

	Consolidated	Year-on-year change (%)	Non-consolidated (Reference)	Year-on-year change (%)
Net sales	21,224	–	15,922	–
Operating profit	2,017	–	1,834	–
Ordinary profit	2,060	–	2,290	–
Profit attributable to owners of parent	1,386	–	–	–
Profit (Non-consolidated)	–	–	1,705	–

<Breakdown of net sales>

(Million yen)

	Consolidated	Year-on-year change (%)
Finance and Society	6,692	–
Corporate Solutions	6,186	–
Operational Infrastructure BPO	5,923	–
Regional, Overseas, Etc.	2,422	–
Total	21,224	–

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

Finance and Society Segment
Due to steady growth in development projects for life insurance companies and the telecommunications industry, net sales were ¥6,692 million, compared to ¥6,515 million in the same period of the previous fiscal year.
“AMLion,” a package system that complies with international anti-money laundering standards and supports a wide range of related operations, has been adopted by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. Going forward, we plan to expand our sales to insurance, credit card, and money transfer companies, as well as to provide not only anti-money laundering and anti-terrorist financing measures, but also trading review management systems for securities companies and crypto-asset exchanges.

Corporate Solutions Segment
Net sales came to ¥6,186 million, compared with ¥5,898 million in the same period of the previous fiscal year, due to satisfactory progress in DX-related projects, mainly in the cloud.
In June 2021, we released a construction management application with the ability to manage and report on construction progress, as well as manage drawings and other documents. In order to further improve the operational efficiency of the construction and real estate industries, we will continue to develop sales that meet the needs of our customers by adding functions and customizing flexibly.

Operational Infrastructure BPO Segment
Net sales totaled ¥5,923 million, compared with ¥5,063 million in the same period of the previous fiscal year, due to steady growth in operational design of systems for the telecommunications industry, and the consolidation of I Net Rely Corporation.
We have also worked to expand sales of “ReSM plus,” which is a service to support internal help desk operations through digital technology, acquire SI projects for “ServiceNow,” which is utilized as a platform for ReSM plus, and strengthen network solution businesses.

Regional, Overseas, Etc. Segment

Net sales were ¥2,422 million, compared with ¥2,493 million in the same period of the previous fiscal year, due to sluggish sales of local government-related products in the regional field.

In April 2021, DTS SOFTWARE VIETNAM CO., LTD. participated in the "Sao Khue 2021" organized by Vietnam Software and IT Services Association with "Walk in home," which the company developed under contract from the Company, and won the "Sao Khue Award (Note)" for the best product and service in the field of new software products and solutions.

Note: The Sao Khue Award has been held since 2003 to promote the development of the IT software industry in Vietnam. The award is given to outstanding IT companies and products.

(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 28, 2021.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheets

(Thousand yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	43,705,164	41,433,125
Notes and accounts receivable - trade	16,069,449	–
Notes and accounts receivable - trade, and contract assets	–	13,950,845
Securities	601,377	901,462
Merchandise and finished goods	282,023	276,363
Work in process	415,280	538,397
Raw materials and supplies	23,863	21,775
Other	938,076	1,110,161
Allowance for doubtful accounts	(8,154)	(9,618)
Total current assets	62,027,080	58,222,513
Non-current assets		
Property, plant and equipment	3,773,749	3,767,942
Intangible assets		
Goodwill	84,690	262,251
Other	753,713	743,812
Total intangible assets	838,404	1,006,063
Investments and other assets		
Other	8,540,481	8,208,390
Allowance for doubtful accounts	(6,817)	(6,817)
Total investments and other assets	8,533,664	8,201,573
Total non-current assets	13,145,817	12,975,579
Total assets	75,172,898	71,198,092

(Thousand yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	5,157,861	4,391,515
Income taxes payable	2,370,168	831,476
Provision for bonuses	2,898,131	1,420,274
Provision for bonuses for directors (and other officers)	99,190	21,387
Provision for loss on order received	51,450	142,001
Other	4,051,002	5,116,202
Total current liabilities	14,627,803	11,922,858
Non-current liabilities		
Retirement benefit liability	864,468	894,993
Other	271,272	270,156
Total non-current liabilities	1,135,741	1,165,149
Total liabilities	15,763,545	13,088,007
Net assets		
Shareholders' equity		
Share capital	6,113,000	6,113,000
Capital surplus	6,215,781	6,215,781
Retained earnings	51,112,873	50,907,727
Treasury shares	(5,185,654)	(6,185,764)
Total shareholders' equity	58,256,000	57,050,744
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	960,319	838,208
Foreign currency translation adjustment	(32,605)	(6,376)
Remeasurements of defined benefit plans	85,818	83,422
Total accumulated other comprehensive income	1,013,533	915,255
Non-controlling interests	139,818	144,084
Total net assets	59,409,352	58,110,084
Total liabilities and net assets	75,172,898	71,198,092

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

Consolidated statements of income (cumulative)

(Thousand yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Net sales	19,970,794	21,224,516
Cost of sales	16,160,327	17,214,211
Gross profit	3,810,466	4,010,305
Selling, general and administrative expenses	1,968,550	1,993,224
Operating profit	1,841,916	2,017,080
Non-operating income		
Interest income	11,158	7,767
Dividend income	41,245	39,971
Other	23,277	14,697
Total non-operating income	75,681	62,436
Non-operating expenses		
Interest expenses	6,679	6,649
Foreign exchange losses	–	10,379
Other	2,884	2,260
Total non-operating expenses	9,564	19,289
Ordinary profit	1,908,033	2,060,227
Extraordinary losses		
Office relocation expenses	5,800	–
Loss on cancellation of rental contracts	–	1,850
Total extraordinary losses	5,800	1,850
Profit before income taxes	1,902,233	2,058,376
Income taxes	599,327	672,997
Profit	1,302,906	1,385,379
Profit (loss) attributable to non-controlling interests	8,075	(1,464)
Profit attributable to owners of parent	1,294,831	1,386,843

Consolidated statements of comprehensive income (cumulative)

(Thousand yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit	1,302,906	1,385,379
Other comprehensive income		
Valuation difference on available-for-sale securities	97,657	(122,110)
Foreign currency translation adjustment	(23,143)	31,959
Remeasurements of defined benefit plans, net of tax	(1,403)	(2,396)
Total other comprehensive income	73,110	(92,547)
Comprehensive income	1,376,016	1,292,831
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,373,625	1,288,565
Comprehensive income attributable to non-controlling interests	2,391	4,265

(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.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations effective from the beginning of the first quarter under review, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

The application of the Accounting Standard for Revenue Recognition and relevant revised ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter under review was added to or deducted from the opening balance of retained earnings of the first quarter under review, and thus the new accounting policy was applied from such opening balance; provided, however, that the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the first quarter under review, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result of this change, for the three months under review, net sales increased by ¥347,600 thousand, cost of sales increased by ¥281,946 thousand, while operating profit, ordinary profit and profit before income taxes each increased by ¥65,653 thousand. In addition, the opening balance of retained earnings increased by ¥11,606 thousand.

Due to the application of the Accounting Standard for Revenue Recognition and relevant revised ASBJ regulations, "Notes and accounts receivable - trade" under current assets of the consolidated balance sheet as of the end of the previous fiscal year has been included in "Notes and accounts receivable - trade, and contract assets" under current assets from the quarterly consolidated balance sheet as of the end of the first quarter under review. In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation. Furthermore, the information on disaggregation of revenue from contracts with customers during the first three months of the previous fiscal year has not been disclosed as allowed by the transitional treatment provided for in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations effective from the beginning of the first quarter under review, and it has applied the new accounting policy set forth by the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations prospectively in accordance with the transitional treatment provided for in paragraph 19 of the Accounting Standard for Fair

Value Measurement and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). This change has no impact on the quarterly consolidated financial statements.

3. Others

Results of production, orders and sales

(1) Production

Production in the three months under review is as follows.

Segment	Production (Thousand yen)	Year-on-year change (%)
Finance and Society	6,692,716	–
Corporate Solutions	6,186,310	–
Operational Infrastructure BPO	5,923,325	–
Regional, Overseas, Etc.	2,422,163	–
Total	21,224,516	–

Notes:

1. Inter-segment transactions have been eliminated.
2. The Company has applied the "Accounting Standard for Revenue Recognition" and relevant revised ASBJ regulations from the beginning of the first quarter under review, and it has recognized revenue in accordance with this accounting standard. As a result, the percentage of change from the actual results for the same period of the previous fiscal year prior to applying the accounting standard is not shown.

(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	4,463,434	–	4,067,025	–
Corporate Solutions	6,119,498	–	5,802,758	–
Operational Infrastructure BPO	3,436,134	–	5,144,649	–
Regional, Overseas, Etc.	2,915,485	–	3,318,914	–
Total	16,934,553	–	18,333,348	–

Notes:

1. Inter-segment transactions have been eliminated.
2. The Company has applied the "Accounting Standard for Revenue Recognition" and relevant revised ASBJ regulations from the beginning of the first quarter under review. As a result, the percentage of change from the actual results for the same period of the previous fiscal year prior to applying the accounting standard is not shown.

   Orders received under the previous accounting standards for 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	3,108,972	(22.5)	10,745,124	(11.6)
Corporate Solutions	5,869,957	12.5	7,940,333	15.7
Operational Infrastructure BPO	2,471,570	3.0	12,920,623	1.5
Regional, Overseas, Etc.	2,915,485	20.5	3,341,801	12.3
Total	14,365,986	2.3	34,947,883	0.6

(3) Sales

Sales in the three months under review are as follows.

Segment	Sales (Thousand yen)	Year-on-year change (%)
Finance and Society	6,692,716	–
Corporate Solutions	6,186,310	–
Operational Infrastructure BPO	5,923,325	–
Regional, Overseas, Etc.	2,422,163	–
Total	21,224,516	–

Notes:

1. Inter-segment transactions have been eliminated.
2. The Company has applied the "Accounting Standard for Revenue Recognition" and relevant revised ASBJ regulations from the beginning of the first quarter under review, and it has recognized revenue in accordance with this accounting standard. As a result, the percentage of change from the actual results for the same period of the previous fiscal year prior to applying the accounting standard is not shown.