

# Summary of Financial Results for 3Q FY March 2019

February 1, 2019

**DTS CORPORATION**

## 1. Absorption-type merger of DATALINKS

Executed an absorption-type merger of DATALINKS CORPORATION on October 1, 2018 with the aim of improving management efficiency and speeding up decision-making by expanding business synergies and making more efficient use of resources.

## 2. Treasury stock acquisition

Acquired treasury shares in May and June 2018 to improve capital efficiency and raise the return to shareholders (approx. 134 thousand shares, approx. 600 million yen).

# Consolidated Results

Net sales increased ¥2,220 million yen year on year. The expansion of projects in the information services business and strength of embedded business (in-vehicle) covered the decline in integration projects.

Operating income increased ¥1,190 million year on year after the improvement of the cost ratio, despite an increase in negative results due to unprofitable projects. Both net sales and operating income set new record highs.

(Units: 100 million yen)	Results	Ratio to sales (%)/ YoY		Year on year		Progress for initial forecast
Net sales	628.0	—		+22.2	103.7%	72.2%
Gross profit	127.3	20.3%	(+0.8pt)	+9.6	108.2%	74.0%
SG&A expenses	57.4	9.1%	(-0.7pt)	-2.3	96.1%	67.6%
Operating income	69.9	11.1%	(+1.6pt)	+11.9	120.7%	80.4%
Recurring income	71.0	11.3%	(+1.7pt)	+12.7	121.9%	81.3%
Profit attributable to owners of parent	48.4	7.7%	(+1.3pt)	+9.8	125.4%	82.8%

# Non-Consolidated Results

Net sales increased ¥960 million year on year. Brisk performance in the corporate communication solutions segment and in the operation BPO segment covered the decline in integration projects.

Operating income turned around, surging ¥240 million year on year. While expenses grew related to strengthening the system of the Sales Sector, spent on the head office relocation in the previous period.

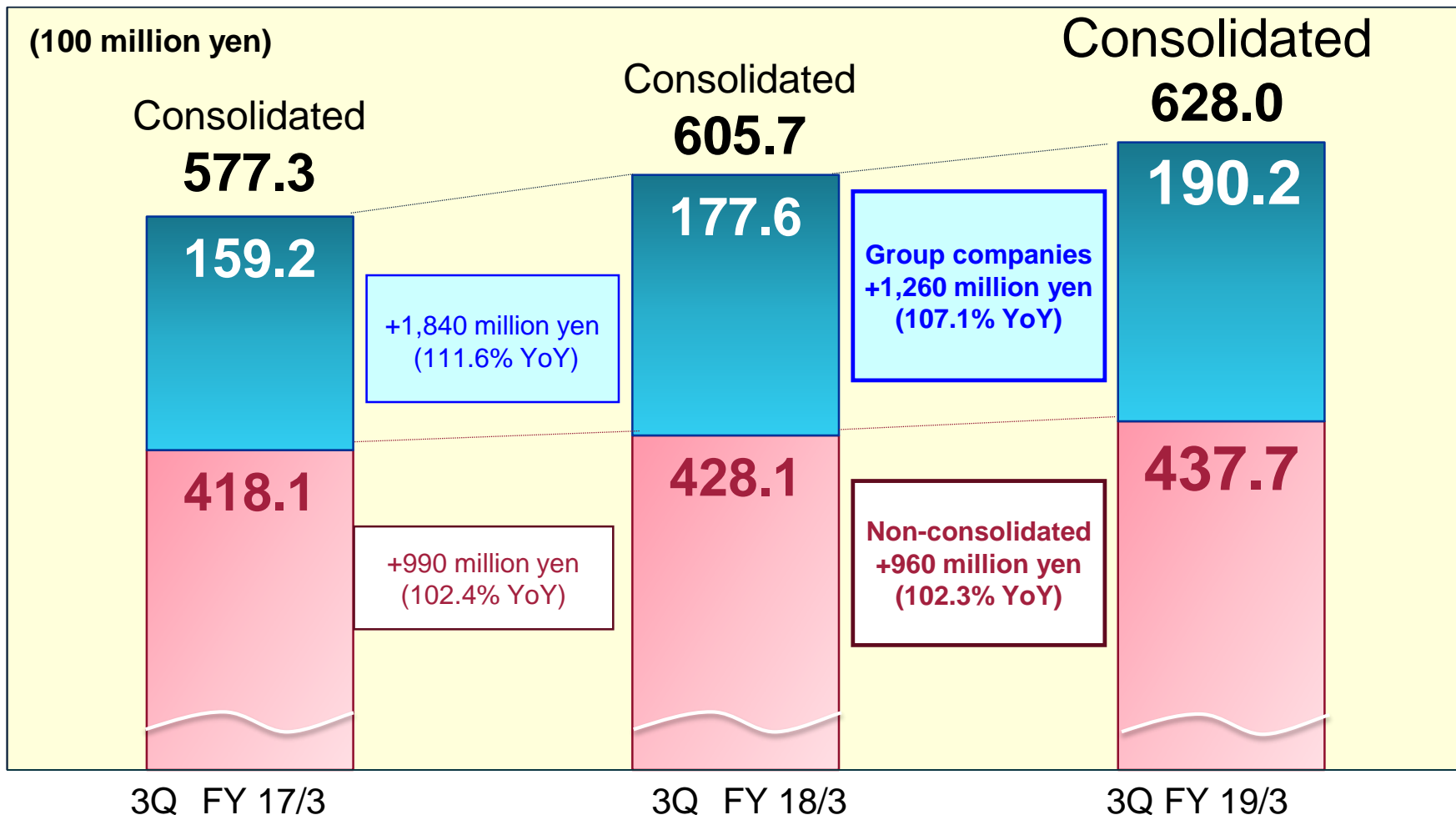
(Units: 100 million yen)	Results	Ratio to sales (%) / YoY		Year on year		Compared to previous 3Q
Net sales	437.7	—		+9.6 <+21.3>	102.3% <105.1%>	+7.1
Gross profit	87.4	20.0%	(+0.0pt)	+2.1 <+4.3>	102.5% <105.3%>	+2.4
SG&A expenses	34.2	7.8%	(-0.2pt)	-0.3 <+0.9>	99.0% <102.7%>	-1.4
Operating income	53.2	12.2%	(+0.2pt)	+2.4 <+3.4>	104.9% <107.0%>	+3.8
Recurring income	57.2	13.1%	(+0.4pt)	+3.3 <+4.3>	106.2% <108.3%>	+3.8
Net income	41.3	9.5%	(+0.7pt)	+4.0 <+4.7>	110.8% <112.9%>	+4.0

\* Year on year figures reflect corrections made in view of impacts of the absorption-type merger with DATALINKS Corporation. Figures in angle brackets < > are identical to those in the financial statement.

# Changes in Net Sales [Non-Consolidated/Group Companies]

Due to the strong performance of projects of embedded business, etc., net sales of the entire group companies increased ¥1,260 million, or 7.1%, year on year, exceeding the non-consolidated growth (DTS) for the second consecutive year.

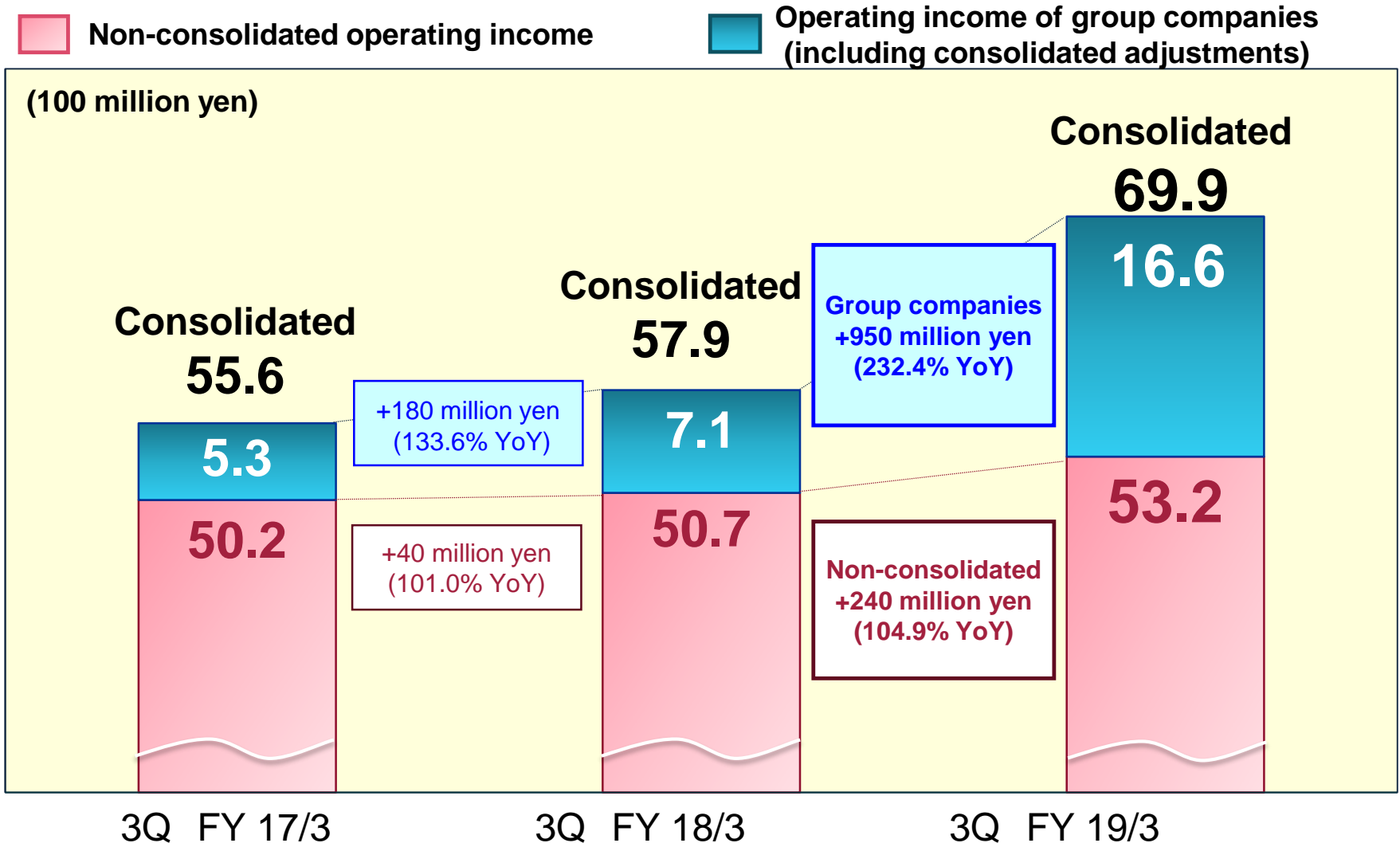
■ Non-consolidated net sales    
 ■ Net sales of group companies (including consolidated adjustments)



\* Non-consolidated figures for 3Q of FY17/3 and 3Q of FY18/3 include DATALINKS' results for the respective periods. The group companies' figure for 3Q of FY 17/3 includes results of DTS' embedded business.

# Change in Operating Income [Non-Consolidated/Group Companies]

Operating income of the group companies grew ¥950 million year on year, driving the increase in consolidated operating income.



\* Non-consolidated figures for 3Q of FY17/3 and 3Q of FY18/3 include DATALINKS' results for the respective periods. The group companies' figure for 3Q of FY 17/3 includes results of DTS' embedded business.

# Net Sales by Segments

- Sales in the finance and public segment decreased. Expansion in projects for life insurance companies and mutual aid failed to cover the fall in integrated projects.
- Sales rose in the corporate communication solutions segment after expansion of projects in the information and communication business and bullish performance of the in-vehicle embedded business, broadcasting and other software.
- Sales in the operation BPO segment increased as operation projects expanded in the life insurance business and in the information and communication business.
- Sales rose in the regional, overseas, etc. segment due to the strong performance of development projects for the financial sector.

(Units: 100 million yen)		Results (*)	Ratio to sales (%)/ YoY		Year on year		Progress for initial forecast
Net sales		628.0	—		+22.2	103.7%	72.2%
	Finance and public	186.2	29.7%	(-3.3pt)	-13.0	93.4%	66.8%
	Corporate communication solutions	190.3	30.3%	(+2.5pt)	+22.0	113.1%	75.2%
	Operation BPO	98.8	15.7%	(+0.7pt)	+7.9	108.7%	78.5%
	Regional, overseas, etc	152.6	24.3%	(-0.0pt)	+5.3	103.6%	72.0%

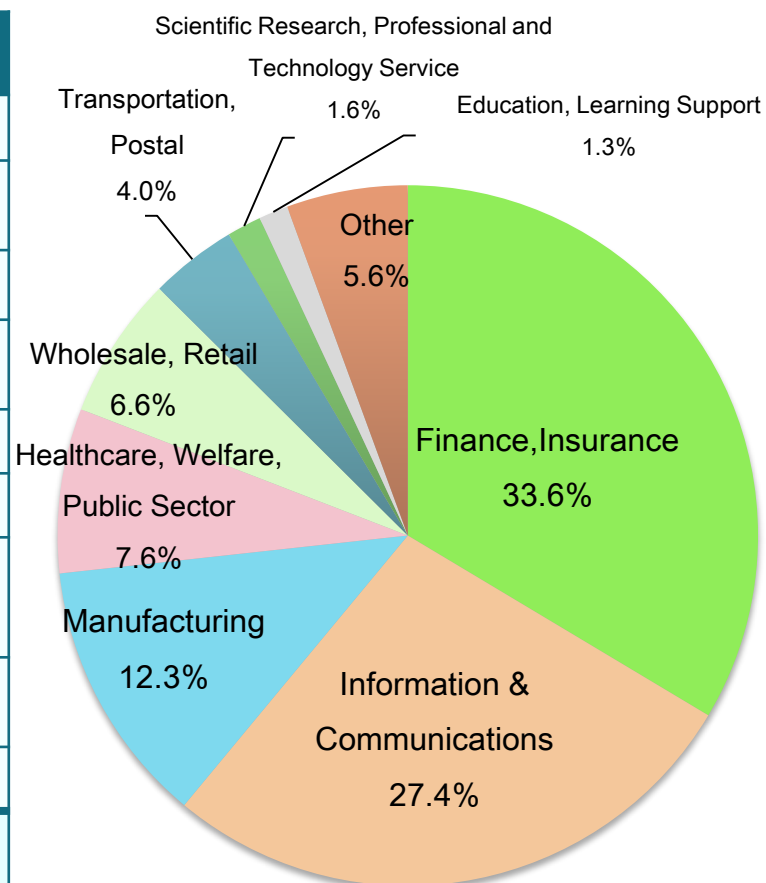
\* The results are sales to the outside of the Group.

# Consolidated Sales by End User

- Sales in the finance and insurance business declined due to the effect of integration projects. However, sales from life insurance and other users increased steadily.
- Sales rose in the information and communications business, due to the expansion of projects for information services.
- Sales in the manufacturing business increased due to the expansion of the embedded business (in-vehicle).
- Sales in healthcare, welfare and the public sector rose due to the growth of projects for pensions and mutual aid.

## Industrial Classification of METI

(Units: 100 million yen)	Amount	Composition ratio	Year on year	
Finance, Insurance	210.9	33.6%	-5.8	97.3%
Information & Communications	172.3	27.4%	+7.9	104.8%
Manufacturing	76.9	12.3%	+6.3	109.0%
Healthcare, Welfare, Public Sector	47.7	7.6%	+5.2	112.3%
Wholesale, Retail	41.3	6.6%	+2.4	106.3%
Transportation, Postal	25.2	4.0%	+3.4	115.7%
Scientific Research, Professional and Technology Service	9.9	1.6%	+2.2	129.5%
Education, Learning Support	8.4	1.3%	-4.6	64.4%
Other	35.1	5.6%	+5.1	117.2%
<b>Total</b>	<b>628.0</b>	<b>100.0%</b>	<b>+22.2</b>	<b>103.7%</b>



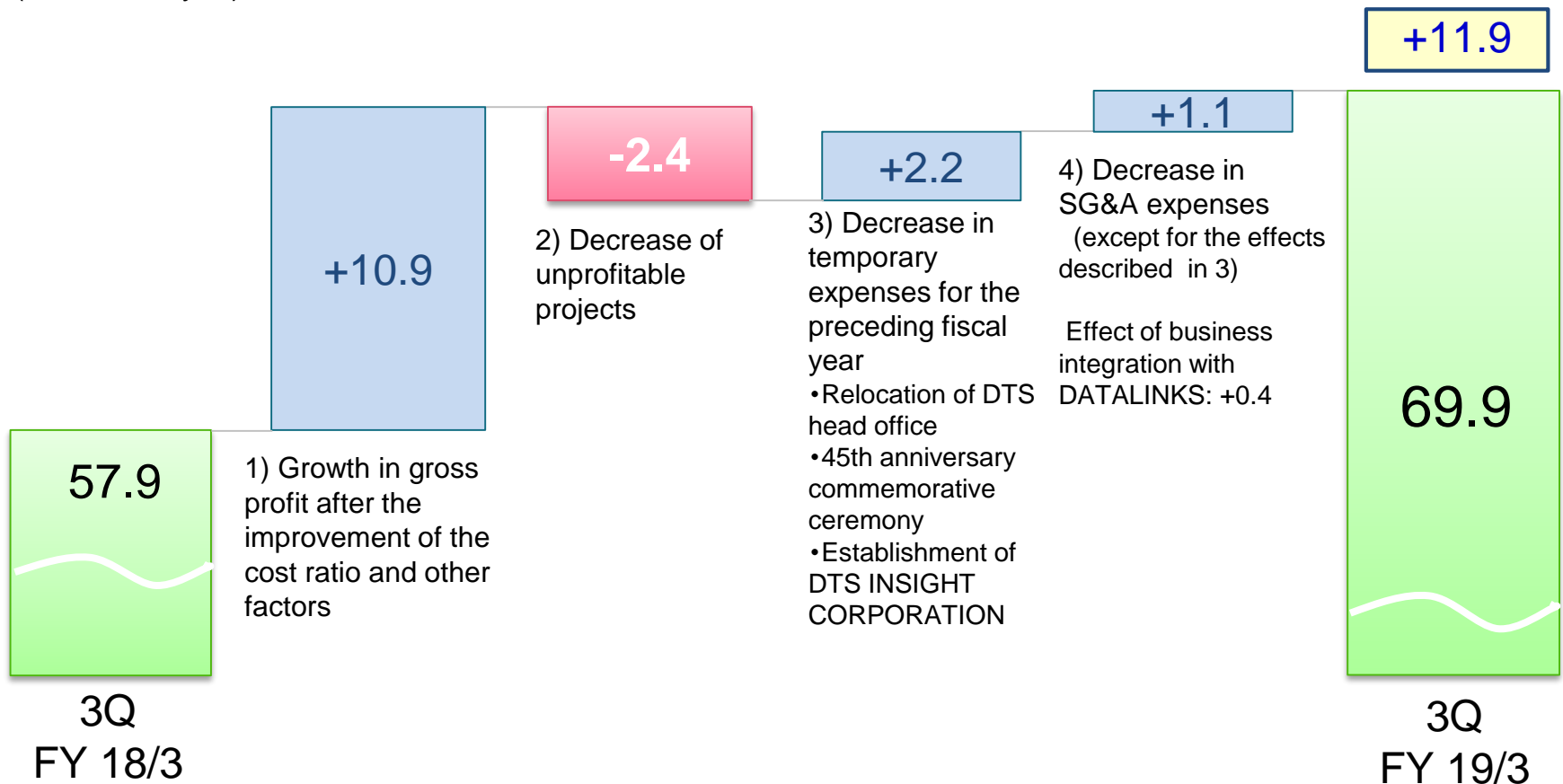


# Reason for an Increase in Consolidated Operating Income

Higher productivity improved the cost ratio, which cancelled the negative impact of the increase in unprofitable projects.

Operating income surged ¥1,190 million, or 20.7% year on year, to hit a record high.

(100 million yen)



# Order Volume and Order Backlog by Segments

## [Order Backlogs]

- The order backlog in the finance and public segment increased due to the acquisition of large-scale projects for securities companies and the expansion of projects for life insurance and mutual aid businesses, which covered the decrease in integrated projects.
- The order backlog in the corporate communication solutions segment grew in the information and communication business and the embedded business.
- The order backlog in the operation BPO segment increased due to the expansion of insurance-related projects and existing projects in the information and communication business.
- The order backlog in the regional, overseas, etc. segment decreased, following contraction of the product business.

(Units: 100 Million yen, %)	Order Volume				Order Backlog			
	Results	Composition ratio	Year on year		Results	Composition ratio	Year on year	
Total	484.1	—	+28.6	106.3%	209.8	—	+19.8	110.4%
Finance and public	123.2	25.4%	+3.0	102.6%	75.6	36.0%	+13.0	120.9%
Corporate communication solutions	185.8	38.4%	+29.6	119.0%	62.8	30.0%	+7.1	112.9%
Operation BPO	23.2	4.8%	+0.7	103.2%	31.4	15.0%	+1.9	106.6%
Regional, overseas, etc	151.8	31.4%	-4.7	97.0%	39.8	19.0%	-2.3	94.4%

# (Reference) Major Press Releases (1)

Date of Release	Company	Title, brief description
2018		
August 3	DTS	<p>Notice concerning the absorption-type merger of DATALINKS CORPORATION as a consolidated subsidiary (simplified and short-form merger)</p> <p>* It was determined that the absorption-type merger of DATALINKS CORPORATION into DTS would take place on October 1, 2018.</p>
September 21	DTS	<p>Long-expected renewal of the living space presentation CAD software "Walk in home"</p> <p>* "Walk in home," which underwent a refresh involving significant functionality updates, went on sale.</p>
October 4	Digital Technology	<p>Conclusion of the distributorship agreement with TidalScale</p> <p>* Digital Technology became Japan's first distributor of TidalScale to sell, install and maintain the products. With the servers of Dell and Software-Defined Server solution of TidalScale, the Company will develop new markets mainly among private companies, research institutions and DC/cloud business bases.</p>
November 27	DTS	<p>Release of the AMLion, ready for legal and virtual currencies</p> <p>* The AMLion anti-money laundering solution was released on November 27, 2018. With an advanced AI-powered KYC function, it provides strict customer management and detects suspicious transactions of individual customers based on past transactions and original rules accumulated from individual financial institutions.</p>
2019		
January 15	DTS WEST	<p>Start of free offer of multilingual voice synthesis solution kotosora voice</p> <p>* The free offer of the <i>kotosora voice</i> multilingual voice synthesis solution commenced for public institutions and private businesses in Japan in mid-January 2019. Users simply enter text on the website, and <i>kotosora voice</i> creates sound files from them.</p>

# (Reference) Major Press Releases (2)

Date of Release	Company	Title, brief description
January 16	DTS INSIGHT	<p>Start of sales of and technical support for Arm Development Studio, the latest suite of embedded software development tools from Arm®</p> <p>* As an official dealer for Arm Limited in Japan, DTS INSIGHT started sales of and technical support for a new product, Arm Development Studio, on January 7, 2019.</p> <p>Arm Development Studio is a suite of tools that supports the development of robust and effective embedded software. It comprehensively integrates all features required for the development of embedded software for Arm processes.</p>
January 28	DTS	<p>Japan's first release of DAVinCI LABS, a data analysis platform powered by AI</p> <p>* A partnership was formed with DAYLI Intelligence Inc. under the control of DAYLI Financial Group Inc., a large FinTech firm based in South Korea, to release DAVinCI LABS of Solidware Co., Ltd., a DAYLI subsidiary, for the first time in Japan. It helps on-site personnel with knowledge about operations to easily perform AI-assisted data analysis and encourages company-wide AI application.</p>
January 28	DTS INSIGHT	<p>Release of NETIMPRESS avant, a new flash onboard programmer, featuring a massively shortened time for writing on flash microcomputers</p> <p>* A new model in the NETIMPRESS Series of flash onboard programmers broadly used in in-vehicle ECU manufacturing lines, NETIMPRESS <i>avant</i> was released on January 29, 2019.</p> <p>NETIMPRESS <i>avant</i> boasts a communication baud rate that is four times greater than existing models to exhibit a maximum write speed of 40 Mbps, for a larger volume of microcomputers with flash memories. Equipped with two-channel probe connectors, it performs sequential writing on multi-device ECUs without switching between probe cables.</p>

## **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.