

Densan System Co., Ltd.

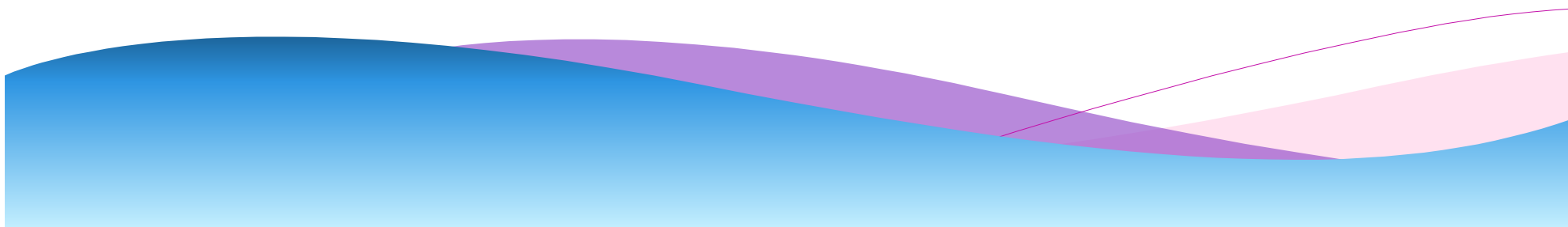
**Presentation Materials for
the FY2016 Results Briefing**

Securities Code: 3630

Tokyo Stock Exchange, First Section

Nagoya Stock Exchange, First Section





I . FY2016 Summary of Results

* Figures in tables and graphs are expressed in units of one million yen, with amounts less than one million yen rounded down

* Values expressed as a per cent are rounded off to two decimal places

Unit: million yen (Amounts less than one million yen are rounded down)

Consolidated	FY2015	FY2016		Year-over-year (YoY) change		Compared to plan	
	Actual	Plan	Actual				
Sales	28,956	31,500	30,369	1,412	4.9%	-1,130	-3.6%
Operating income	1,042	1,270	1,125	83	8.0%	-144	-11.4%
Operating profit margin	3.6%	4.0%	3.7%	0.1		-0.3	
Ordinary income	1,071	1,278	1,157	85	7.9%	-120	-9.5%
Ordinary profit margin	3.7%	4.1%	3.8%	0.1		-0.2	
Net income	660	810	732	71	10.9%	-77	-9.6%

<FY2016 Full-year Earnings Highlights>

Sales

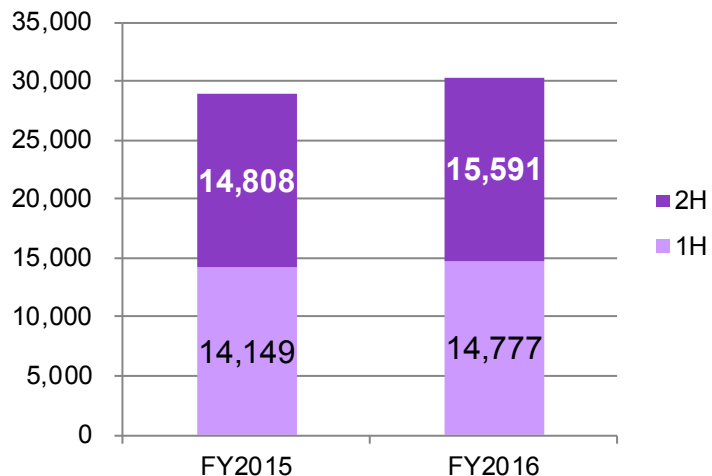
Sales rose around 5% from the previous FY but missed plan by somewhat over 3% due to weakness in 2H.

Operating income

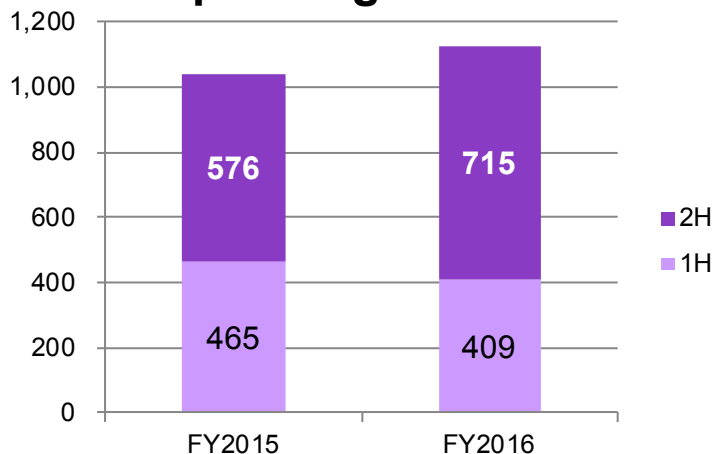
Favorable operating income in 2H compared with the previous FY covered for 1H but failed to attain plan.

Year-over-year change

Sales

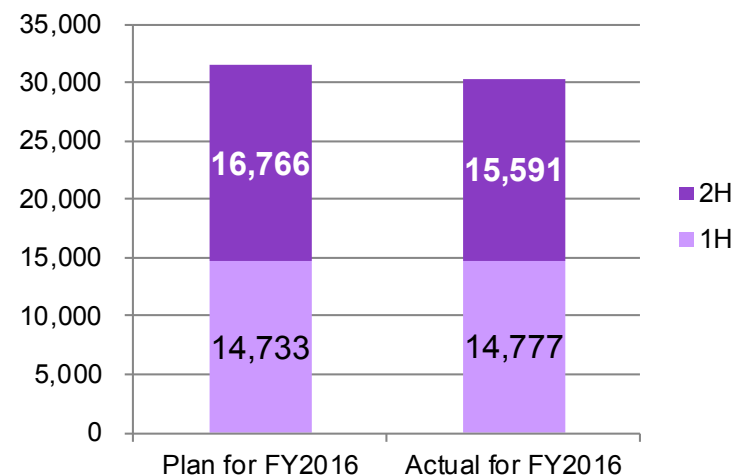


Operating income

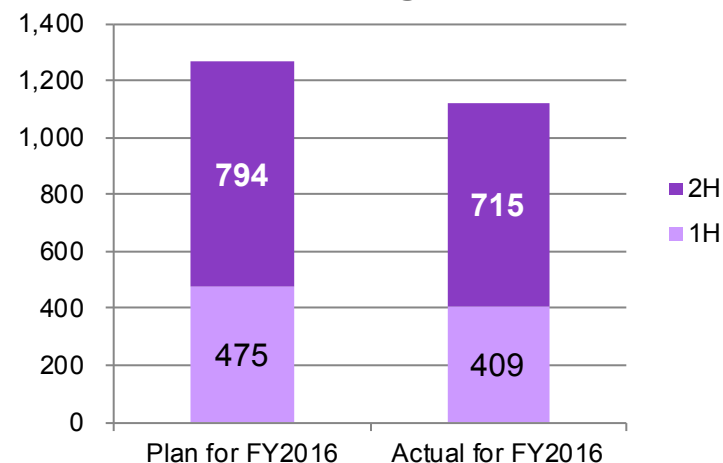


Compared to plan

Sales



Operating income



Unit: million yen

Segment	FY2015	FY2016		Year-over-year change		Compared to plan	
	Actual	Plan	Actual	Change	%	Change	%
Information services							
Sales	15,122	16,500	15,320	197	1.3%	-1,179	-7.2%
Operating income	484	700	516	32	6.6%	-183	-26.2%
Profit margin	3.2%	4.2%	3.4%	0.2	-	-0.9	-
Payment agency services							
Sales	13,834	15,000	15,049	1,214	8.8%	49	0.3%
Operating income	543	600	643	99	18.3%	43	7.2%
Profit margin	3.9%	4.0%	4.3%	0.3	-	0.3	-
	FY2015 1H actuals	FY2016					
		Plan	Actual				
Adjustments for segment income	-52	-30	-34				

Sales

Sales of information services were almost flat compared with the previous FY, missing plan. However, sales of payment agency services developed to plan, contributing to the increase in consolidated sales.

Operating income

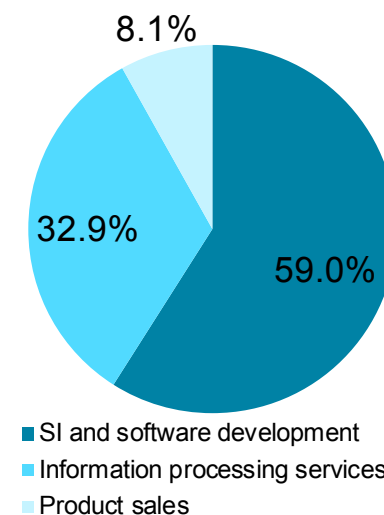
While operating income from information services missed plan, payment agency services posted favorable growth in operating income both compared with the previous FY and relative to plan, contributing to consolidated earnings. The reason was a rising number of transactions due to the Company's strength in paper invoices.

Unit: million yen (Amounts less than one million yen are rounded down)

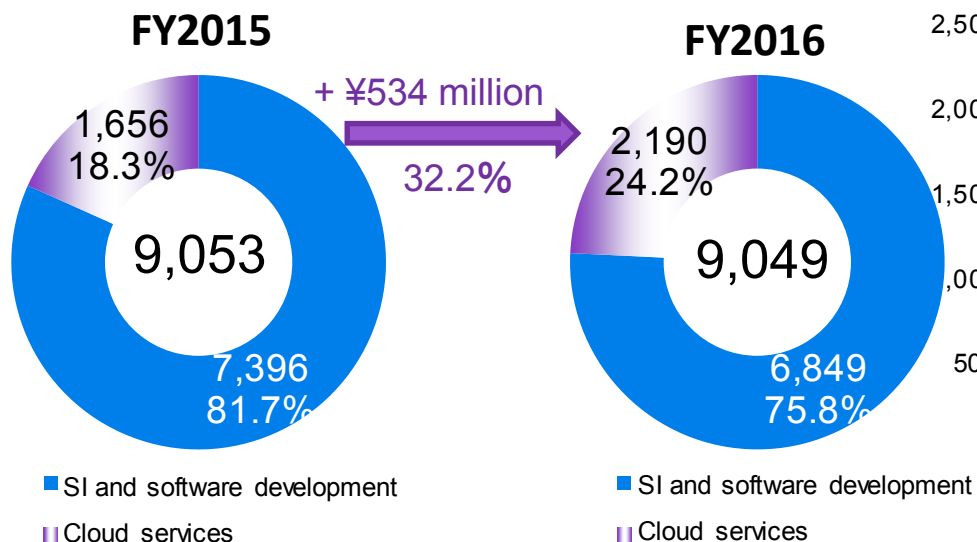
Information services business	FY2015	FY2016		Year-over-year change		Compared to plan	
	Actual	Plan	Actual				
Net sales	15,122	16,500	15,320	197	1.3%	-1,179	-7.2%
(breakdown by service)							
SI and software development	9,053	9,823	9,040	-12	-0.1%	-782	-8.0%
Information processing services	4,553	5,560	5,034	481	10.6%	-525	-9.5%
Product sales	1,515	1,116	1,245	-270	-17.9%	128	11.5%
Operating income	484	700	516	32	6.6%	-183	-26.2%

- 1 In information processing services, sales rose steadily in agency services for issuing invoices and processing for local public organizations, etc., additionally aided by newly started gift processing services.
- 2 In SI and software development, cloud related services such as G Suite (the previous Google Apps for Work), as well as projects such as automatic auction systems and ERP packages performed well. Even so, however, sales declined mainly due to the absence of the large-scale equipment sales to local public organizations booked on consolidated accounts in the previous fiscal year.
- 3 Earnings rose thanks to high-margin projects in SI and software development, covering for pressure on income at information processing services affected by cost increases from the newly launched gift processing services as well as price competition surrounding pre-existing services.

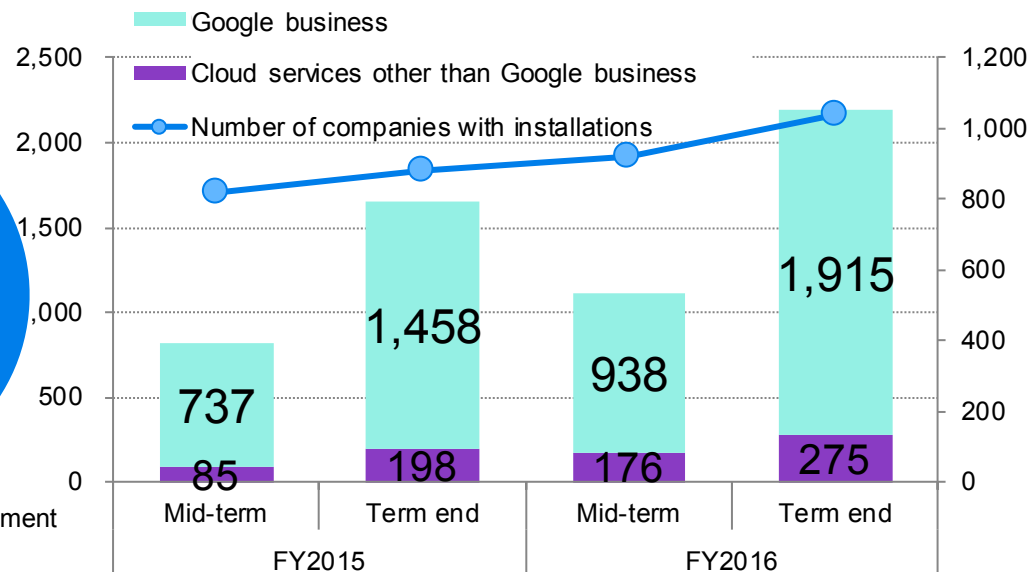
FY2016 Sales by Type of Service



Cloud services for system integration and software development



Cloud services sales breakdown



Cloud Services

- Net sales: ¥534 million, +32.2% YoY
- In SI and software development:

Year	Percentage
2014	15.1%
2015	18.3%
2016	24.2%

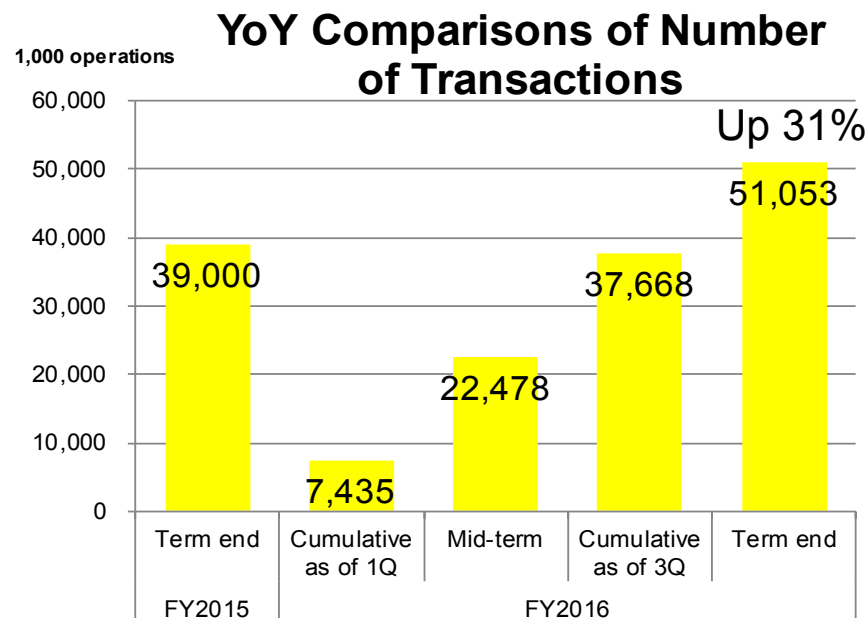
Cloud services are growing steadily.

Google Business

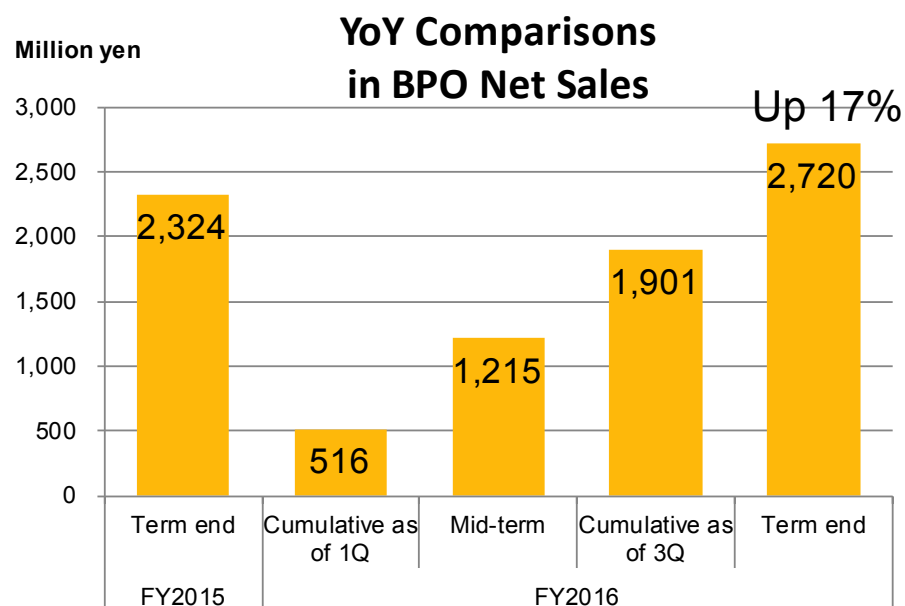
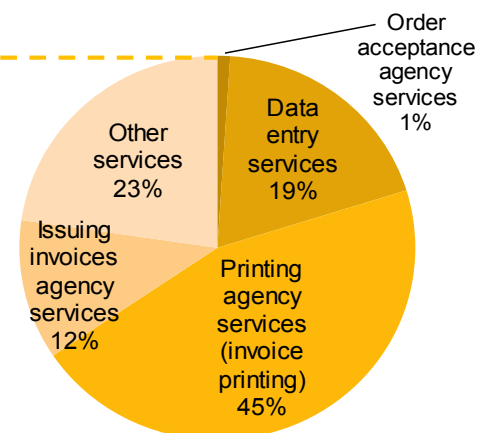
- Companies with installations: 1,040 companies, +18% YoY
- Net sales: ¥457 million, +31.3% YoY

Effects from the collaboration with Google further strengthened.

Likewise, trade inquiries and introductions of large-sale projects in cloud-driven signage systems have been expanding to leisure facilities and traffic advertisement, with growth expectations for the current FY.



Percentage of processed items by service type



- Gift processing for large-lot customers launched in 4Q of the previous FY contributed to sales and the number of transactions on a full-year basis with higher growth rates. However, partly due to start-up cost rising above budget, earnings declined relative to plan.

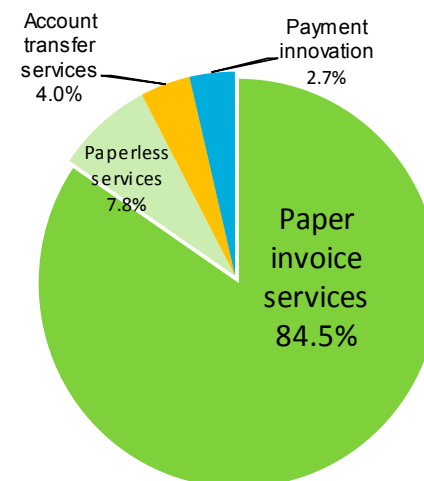
Unit: million yen (Amounts less than one million yen are rounded down)

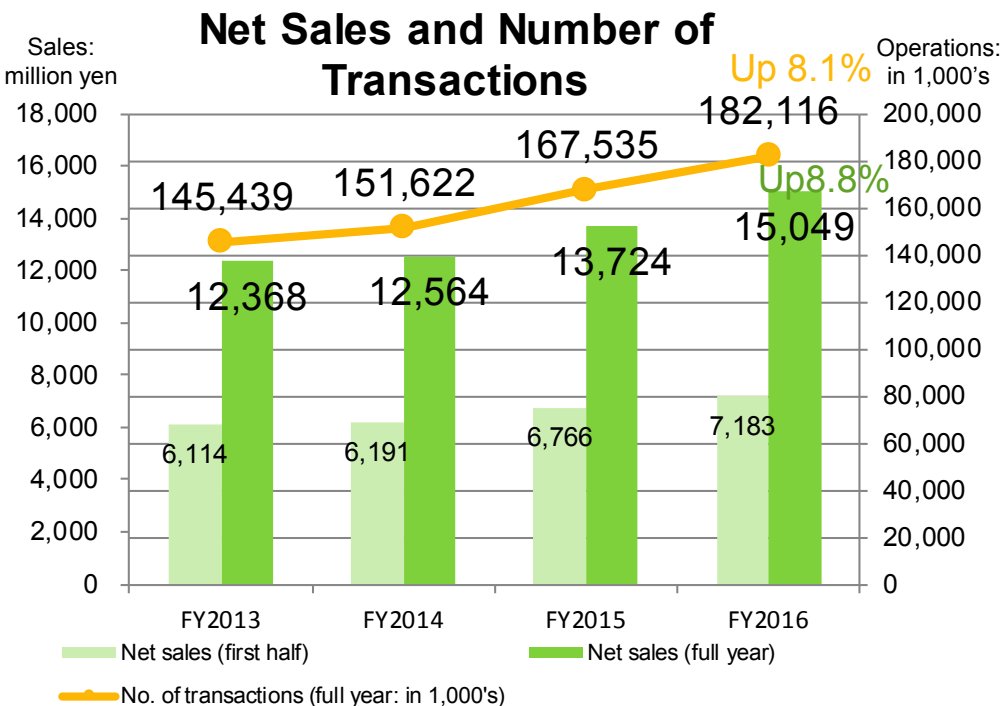
Payment agency services business	FY2015	FY2016		Year-over-year change		Compared to plan	
	Actual	Plan	Actual				
Net sales	13,834	15,000	15,049	1,214	8.8%	49	0.3%
(breakdown by service)							
Payment services sales	13,461	14,332	14,499	1,038	7.7%	166	1.2%
Paper invoice services	11,843	12,486	12,718	874	7.4%	232	1.9%
Paperless services	1,063	1,256	1,173	110	10.4%	-82	-6.6%
Account transfer services	554	590	607	53	9.6%	16	2.9%
Payment innovation sales*	373	667	550	176	47.3%	-117	-17.5%
Operating income	543	600	643	99	18.3%	43	7.2%

* Payment innovation comprises smart remittances, international remittances, and at-the-counter remittance services.

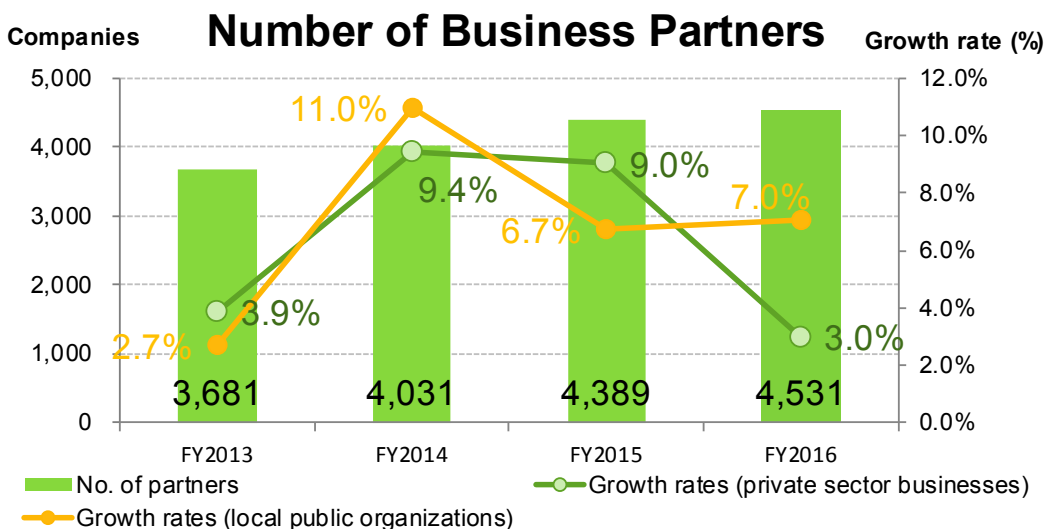
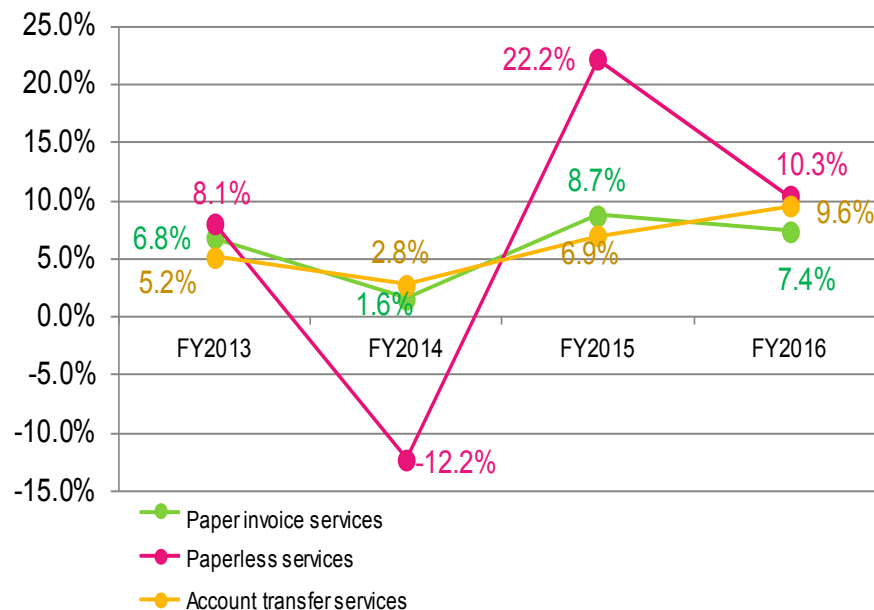
1. The acquisition of new customers including local governments developed successfully. Despite fluctuations in monthly growth rates unseen in a normal year caused by factors such as the earthquake in Kumamoto and the sequence of public holidays, results throughout the FY were generally favorable.
2. Moreover, the number of stores adopting at-the-counter remittance services for supermarkets and drugstore chain stores increased almost to plan.

FY2016 Sales by Type of Service



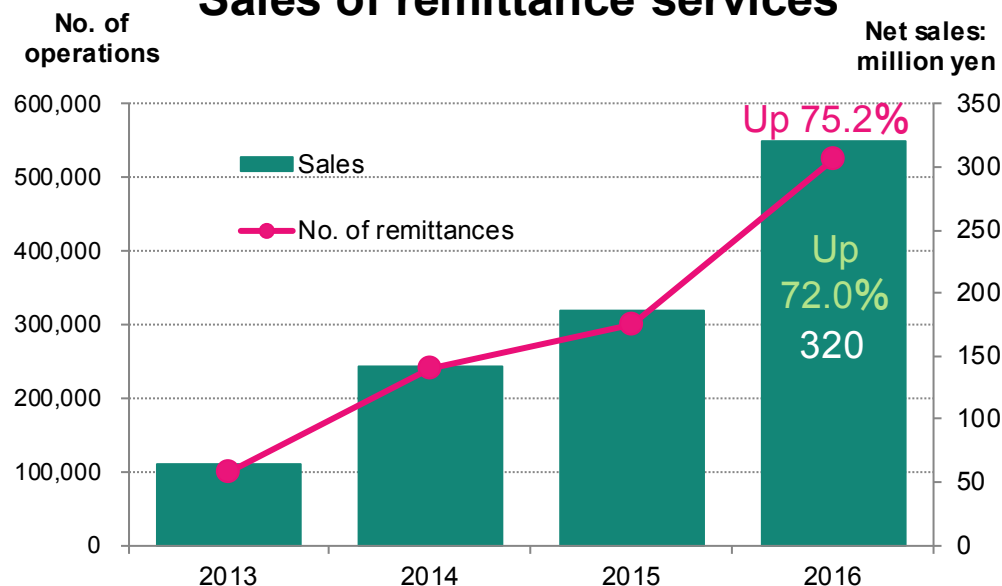


YoY Comparison of Net Sales by Service

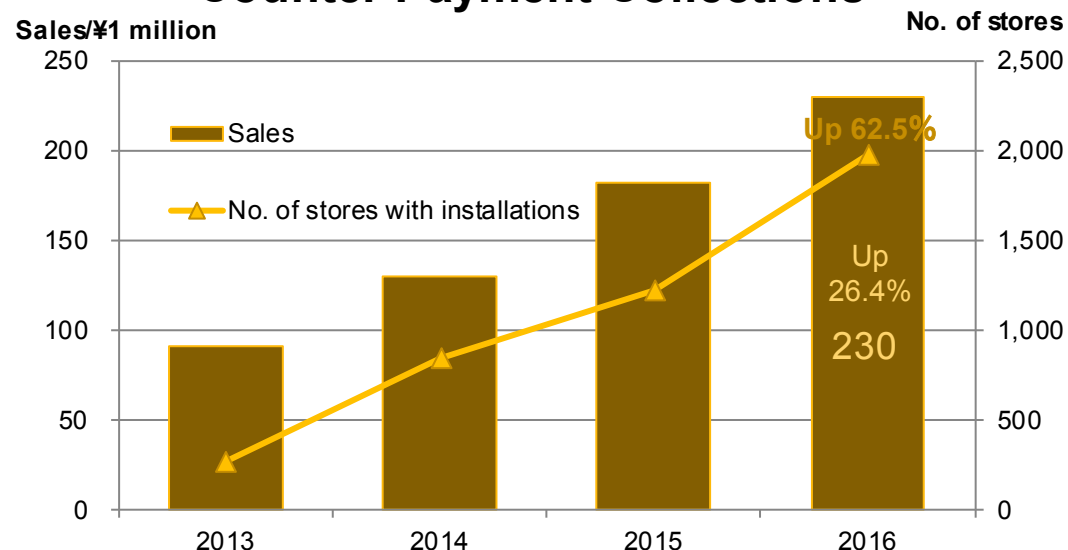


- Payment services overall posted growth in excess of 8% both for sales and the number of transactions.
- Among the individual services, the high income-margin business in account transfer services posted gains.
- The decline in the growth rate for the number of business partners (contrasting with the year-over-year increase in the number of newly acquired customers) reflects the elimination of inactive accounts (termination).

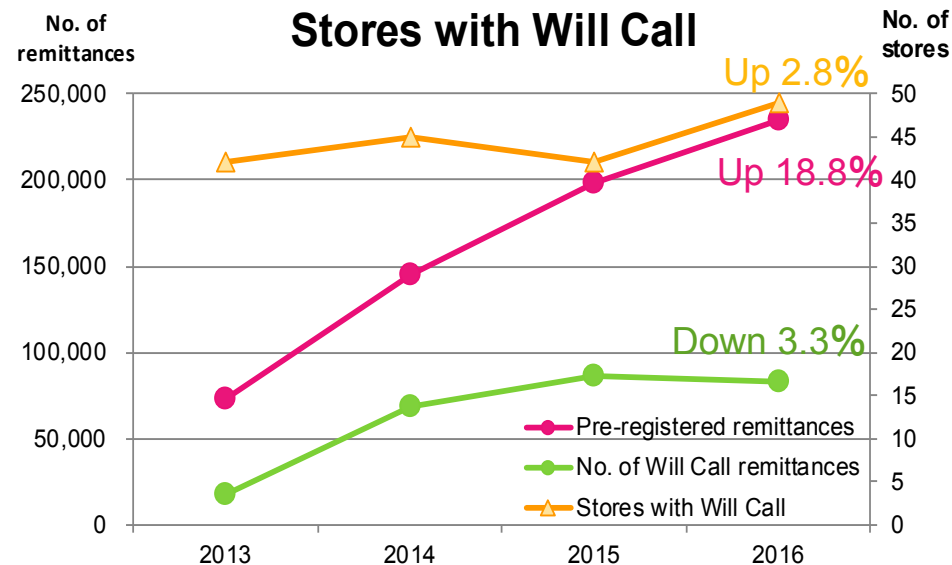
Sales of remittance services



Counter Payment Collections

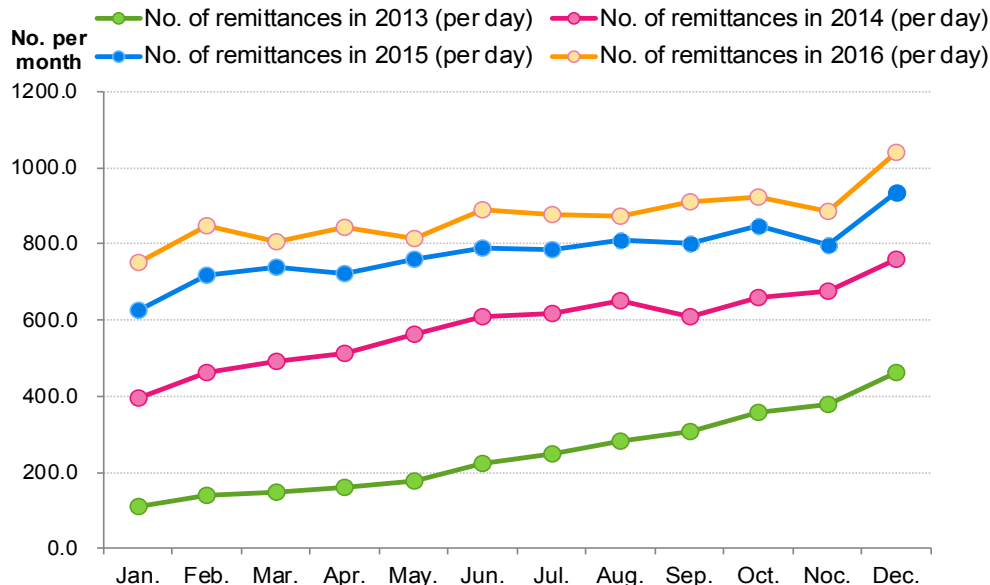


Number of Remittances and Stores with Will Call

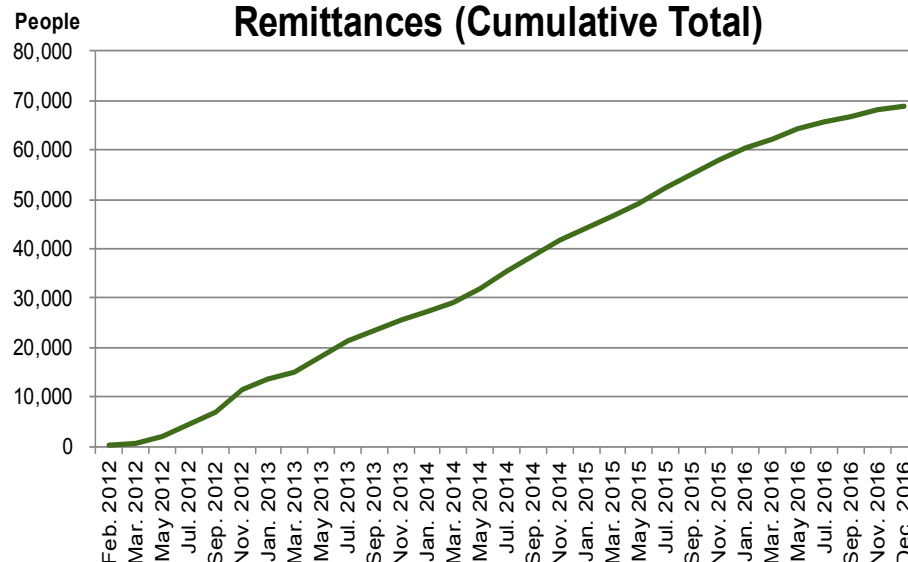


- In remittance services, contributions came from growth in smart remittances (domestic remittance services). (The higher number of account transfer transactions and growth in remittance services both significantly contributed to the attainment of operating income targets.)
- In at-the-counter remittance services, sales and store numbers increased strongly from introductions at large drugstore chains.

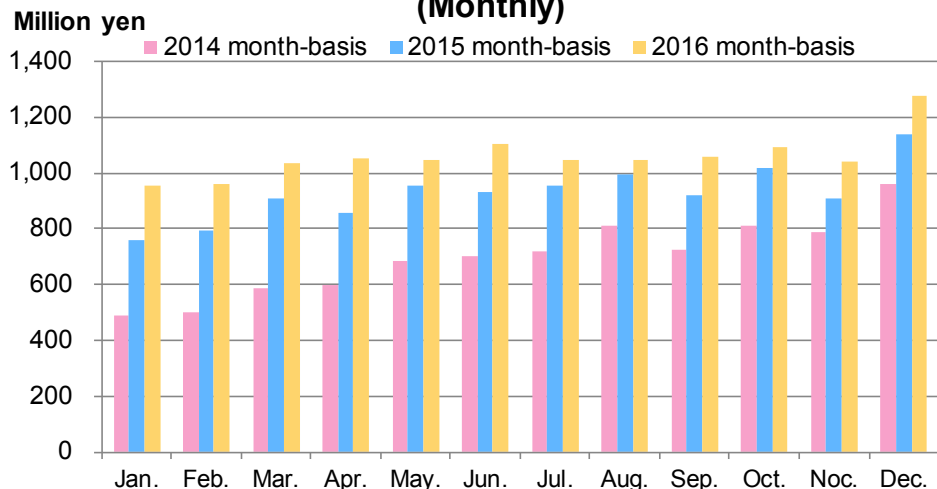
Number of Remittances



Registered Users for International Remittances (Cumulative Total)



Value of Remittances (Monthly)



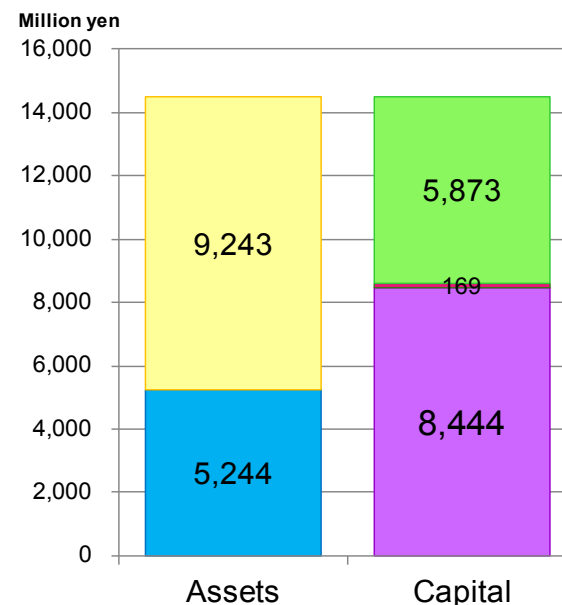
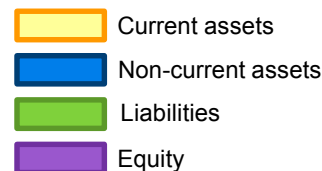
- Growth slowed in the number of pre-registered users due to the introduction of the personal tax number system, with a decline in the number of remittance transactions at stores offering Will Call.
- Lower growth rates in the number of transactions due to remittances put on hold owing to yen depreciation.
- Intensified market competition from competitors.

As a result of the above factors, growth in international remittances posted a mild decline.

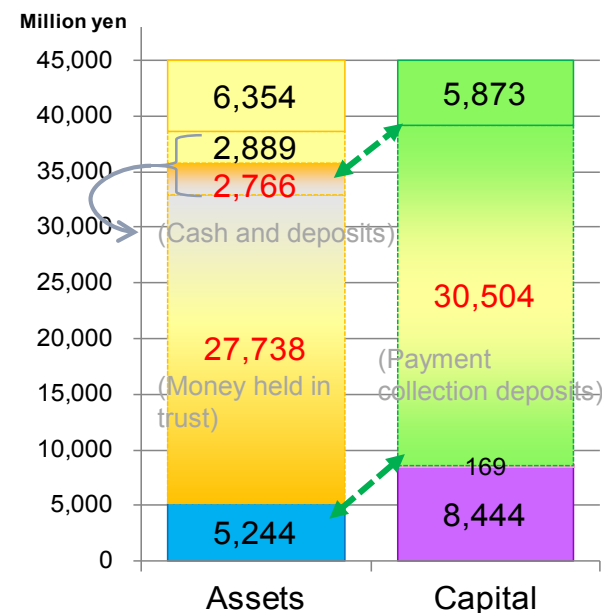
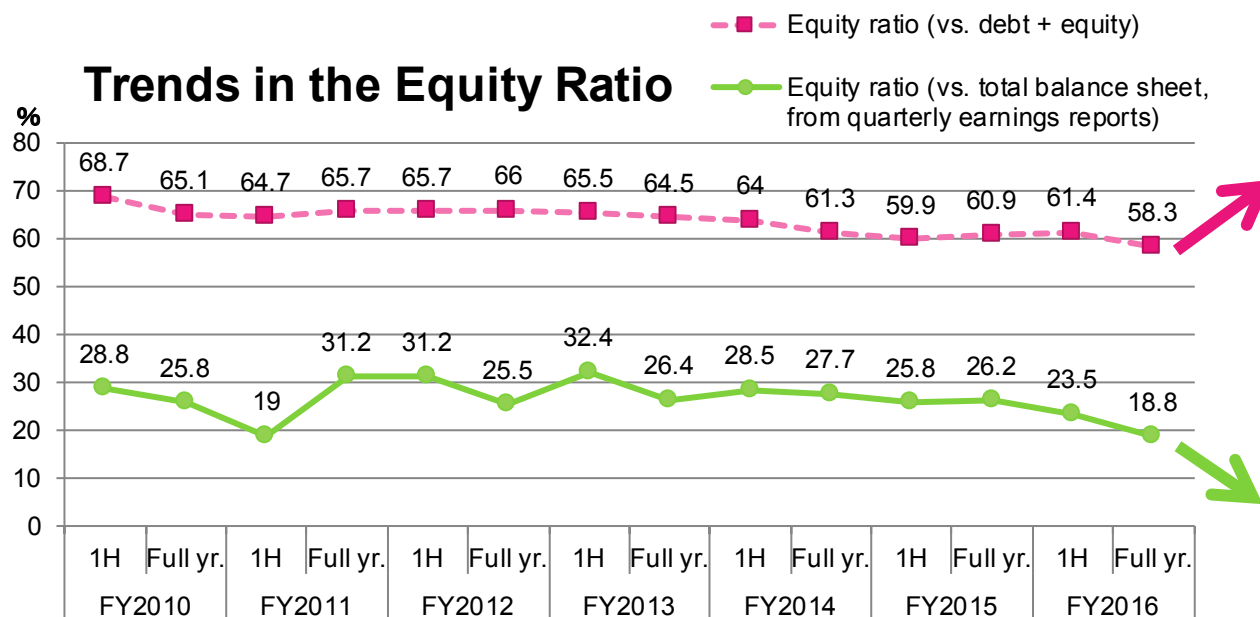
Unit: million yen

Consolidated balance sheet		FY2015 Year-end	FY2016 Year-end	Change	Main reasons for change
	Current assets	25,509	39,746	14,236	[Reason for increase] Money held in trust 12,908 million yen Cash and deposits 703 million yen Goodwill 429 million yen Notes and accounts receivable-trade 336 million yen
	Non-current assets	4,555	5,244	689	
	Total assets	30,064	44,991	14,926	
	Current liabilities	21,230	35,012	13,782	[Reason for decrease] Short-term loans payable 212 million yen [Reason for increase] Payment collection deposits 13,356 million yen Long-term loans payable, including current portion 560 million yen Other currently liabilities 274 million yen
	Non-current liabilities	859	1,365	505	
	Total liabilities	22,090	36,377	14,287	
	Shareholders' equity	7,657	8,284	626	[Reason for increase] Retained earnings 497 million yen [Reasons for decrease] Treasury shares 125 million yen
	Accumulated other comprehensive income	209	159	-209	
	Equity of non-controlling shareholders	107	169	62	
Net assets		7,974	8,613	638	
Total liabilities and net assets		30,064	44,991	14,926	

The equity ratio (after excluding any payment collection deposits) has been running at an average of 60% or higher.



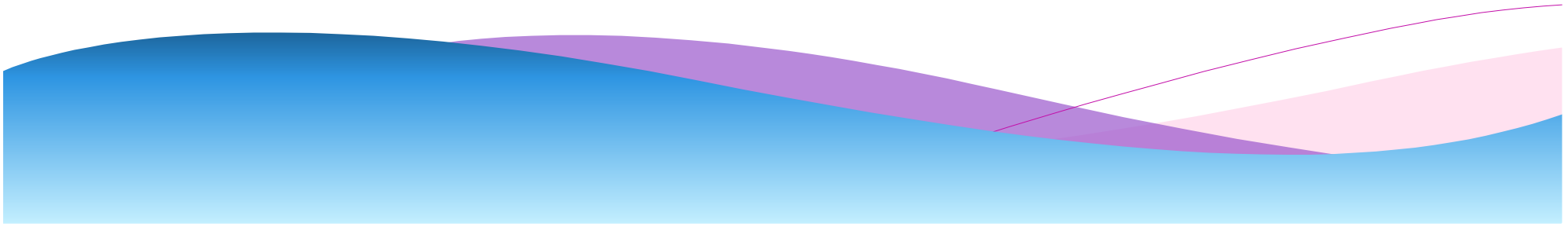
Trends in the Equity Ratio



* The decline is magnified by the unusually large portion of payment collection deposits in FY2016.

	FY2015 year-end	FY2016 year-end	
Cash flows from operating activities	806	1,354	[Increased funds] Income before income taxes 1,169 million yen Depreciation 492 million yen Increase in other current liabilities 194 million yen [Decreased funds] Income taxes paid 336 million yen Increase in notes and accounts receivable-trade 189 million yen
Cash flows from investing activities	-685	-1,118	[Increased funds] Sale of investment securities 52 million yen [Decreased funds] Expenditures for the acquisition of shares in subsidiaries associated with changes in the scope of consolidation 382 million yen Purchase of property, plant and equipment 373 million yen Purchase of intangible assets 325 million yen
Cash flows from financing activities	-335	18	[Increased funds] Proceeds from long-term loans payable 820 million yen [Decreased funds] Repayment of long-term loans payable 439 million yen Payment of cash dividends 234 million yen Net decrease in short-term loans 212 million yen
Increase (decrease) in cash and cash equivalents	205	255	
Cash and cash equivalents at the start of the period	2,746	2,531	
Cash and cash equivalents at the end of the period	2,531	2,787	

Unit: million yen



II . FY2017 Earnings Forecast

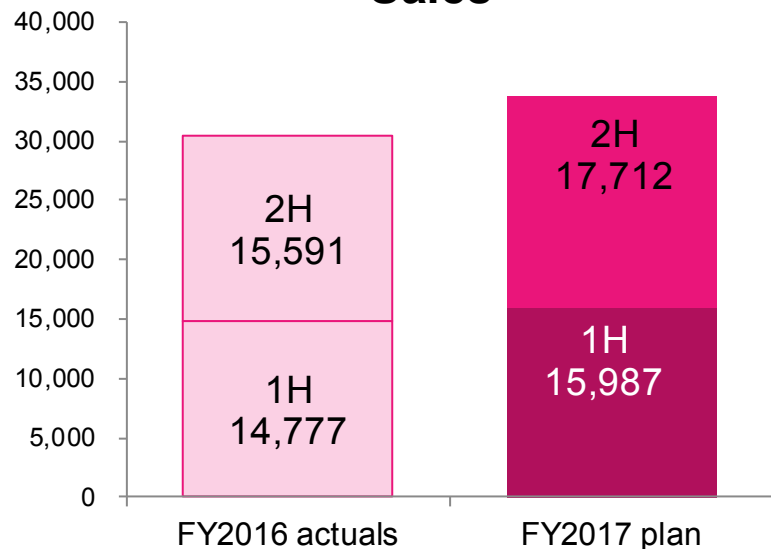
Unit: million yen (Amounts less than one million yen are rounded down)

Consolidated	FY2016	FY2017		
	Full-year actuals	Full-year plan	Variance	Growth rate
Sales	30,369	33,700	3,330	11.0%
Operating income	1,125	1,170	44	3.9%
Ordinary income	1,157	1,180	22	2.0%
Net income	732	675	-56	-7.7%

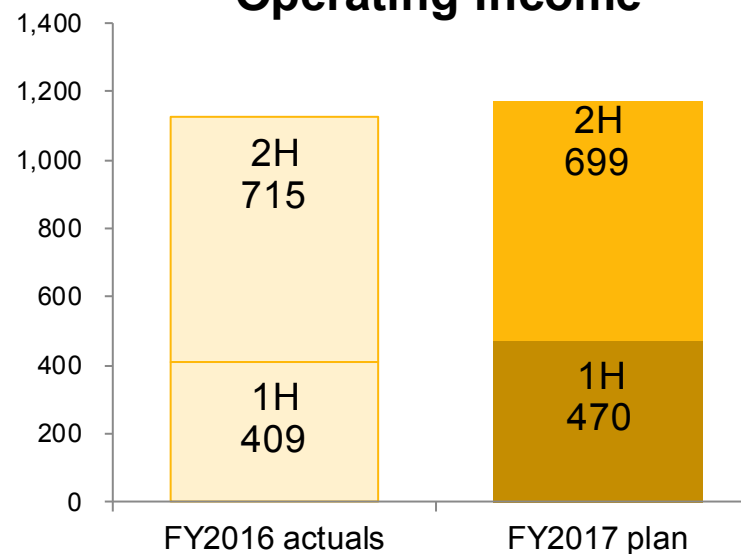
<Highlights of the FY2017 Full-year Earnings Forecast>

The reasons for the lower growth in income relative to sales growth are mainly proactive budgeting for M&A starting with the current FY as well as anticipated special costs. Moreover, the lower net income compared with the previous FY is due to extraordinary gains recognized in the previous FY and effects from the equity percentage held in share of subsidiaries.

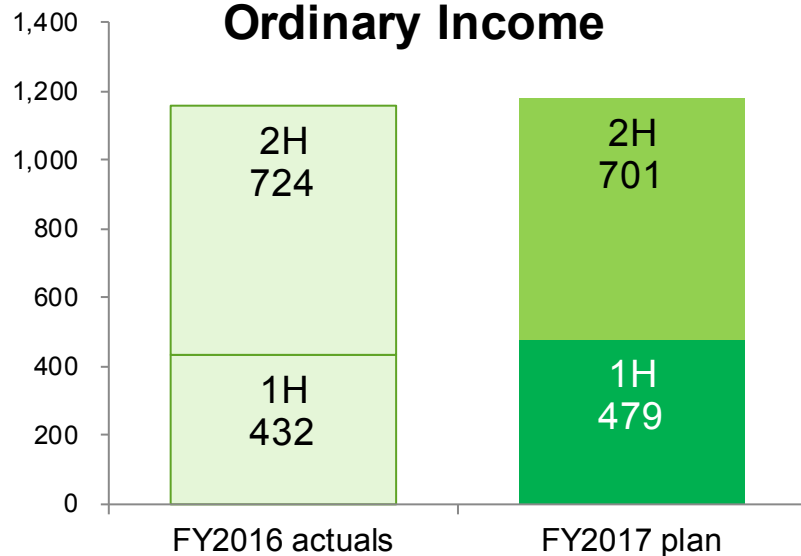
Sales



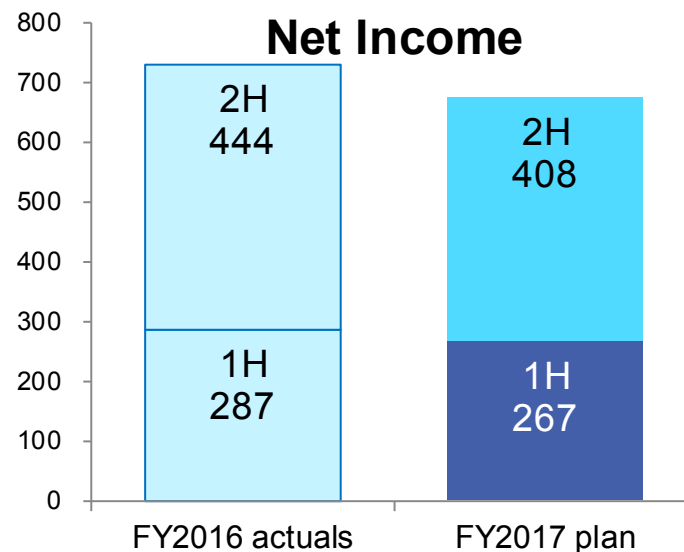
Operating Income



Ordinary Income



Net Income

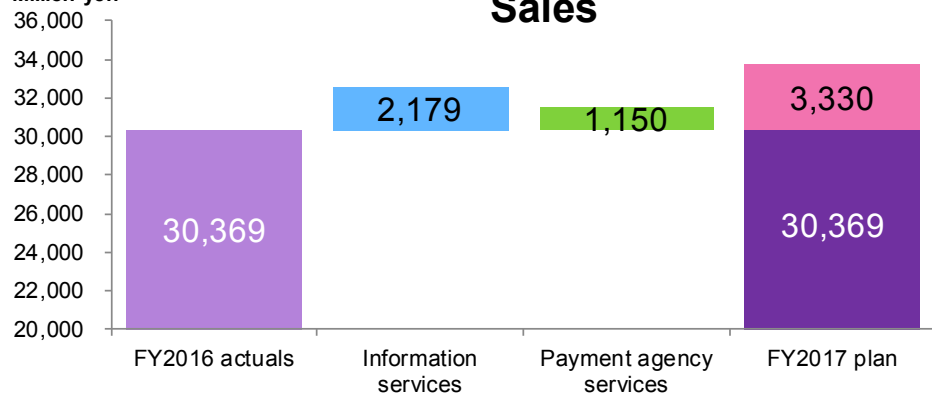


Unit: million yen (Amounts less than one million yen are rounded down)

Segment	FY2016			FY2017			Year-over-year		Year-over-year			
	1H actuals	2H actuals	Full-year actuals	1H plan	2H plan	Full-year plan	Full year		1H		2H	
Information services												
Sales	7,362	7,957	15,320	7,980	9,519	17,500	2,179	14.2%	617	8.4%	1,562	19.6%
Operating income	106	410	516	183	436	620	103	20.1%	77	73.2%	26	6.3%
Payment agency services												
Sales	7,414	7,634	15,049	8,006	8,193	16,200	1,150	7.6%	591	8.0%	559	7.3%
Operating income	306	336	643	257	292	550	-93	-14.5%	-49	-16.1%	-44	-13.1%
Adjustments for segment income	-2	-31	-34	29	-29	0						

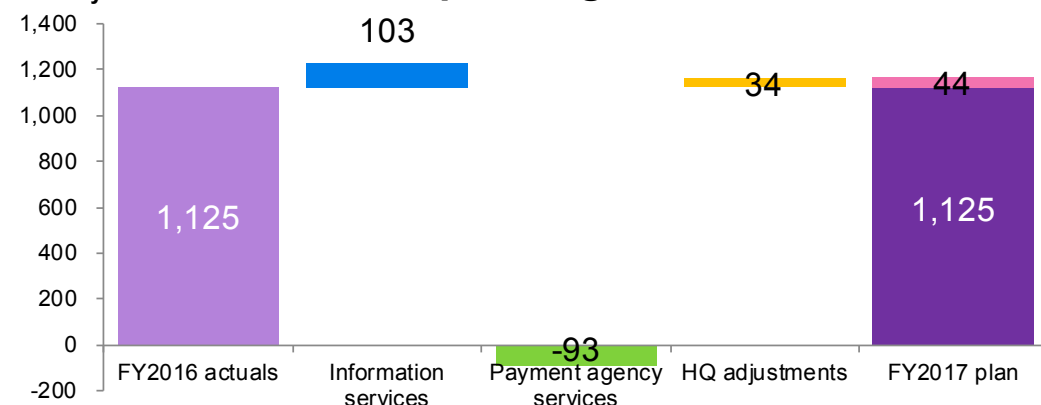
Million yen

Sales

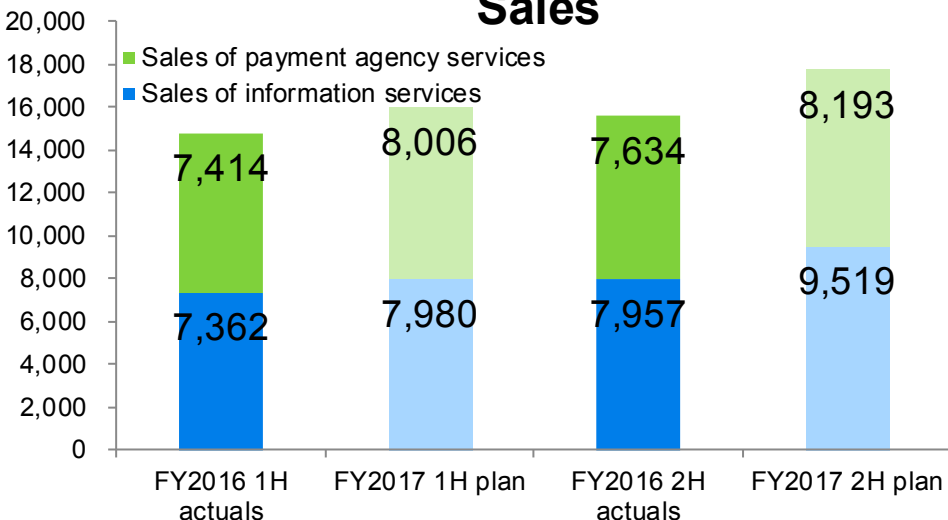


Operating Income

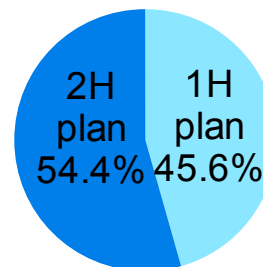
Million yen



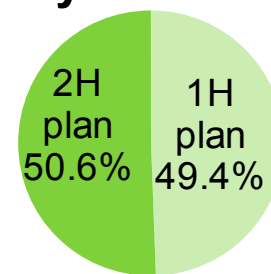
Sales



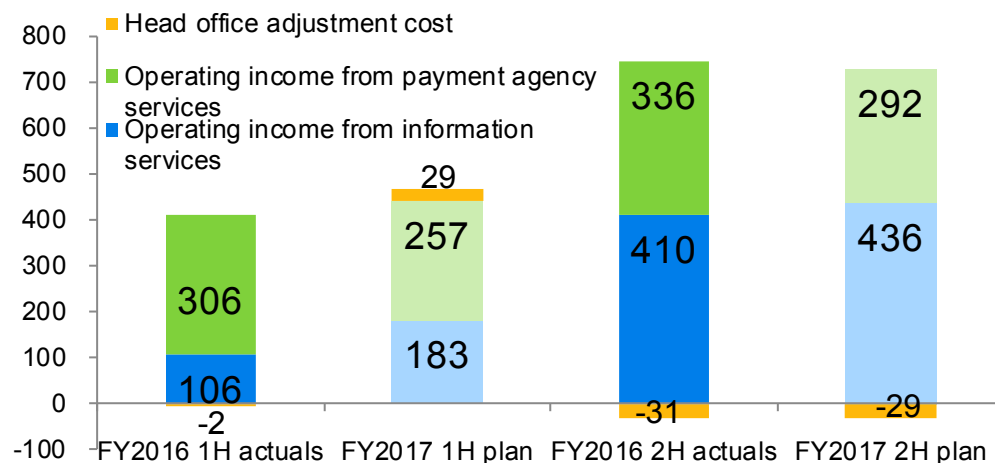
Info. Sales



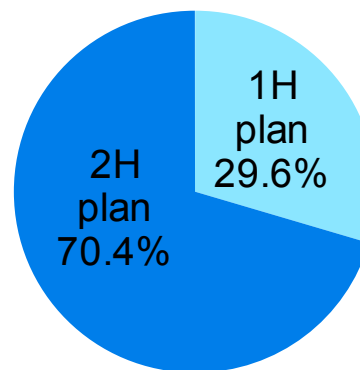
Pymt. Sales



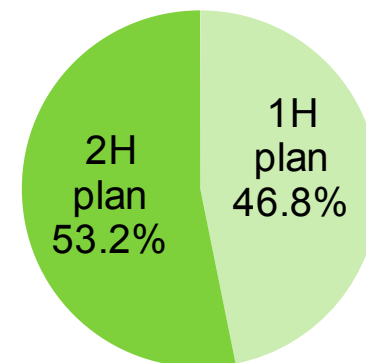
Operating Income



Info. Op. Income



Pymt. Op. Income



Unit: million yen (Amounts less than one million yen are rounded down)

Information services business	FY2016			FY2017			Year-over-year (full year)	
	1H actual	2H actual	Full-year actual	1H plan	2H plan	Full-year plan	Change	%
Net sales	7,362	7,957	15,320	7,980	9,519	17,500	2,179	14.2%
(breakdown by service)								
SI and software development	4,368	4,671	9,040	5,137	6,087	11,225	2,185	24.2%
Information processing	2,379	2,655	5,034	2,270	2,821	5,092	57	1.1%
Product sales	614	630	1,245	572	609	1,182	-63	-5.1%
Operating income	106	410	516	183	436	620	103	20.1%
Operating profit margin	1.4%	5.2%	3.4%	2.3%	4.6%	3.5%	0.2	-

<Highlights of the FY2017 Full-year Earnings Forecast>

Sales

In SI and software development, expectations are for contributions to full-year sales from newly consolidated GOGA, Inc., whose synergy effects should lead to a higher growth rate in the Google business handled thus far. Moreover, given strong demand surrounding development as well as active order inflow for digital signage, caught in a lull last FY, estimates call for 14% growth in sales.

Operating income

Without the red figures from maintenance projects posted last FY and given the shift to projects with high income margins since 2H of last FY, as well as strong demand for development services curbing unused human resources, projections are for a 20% earnings expansion.

Unit: million yen (Amounts less than one million yen are rounded down)

Payment agency services	FY2016			FY2017			Year-over-year (full year)	
	1H actuals	2H actuals	Full-year actuals	1H plan	2H plan	Full-year plan	Change	%
Sales	7,414	7,634	15,049	8,006	8,193	16,200	1,150	7.6%
Payment services	7,183	7,315	14,499	7,721	7,855	15,577	1,078	7.4%
(breakdown by payment service)								
Paper invoice services	6,289	6,428	12,718	6,795	6,938	13,734	1,016	8.0%
Paperless services	596	577	1,173	604	589	1,194	21	1.8%
Account transfer services	298	309	607	321	327	648	40	6.7%
Payment innovation	230	319	550	284	337	622	72	13.1%
Operating income	306	336	643	257	292	550	-93	-14.5%
Operating profit margin	4.1%	4.4%	4.3%	3.2%	3.6%	3.4%	-0.9%	-

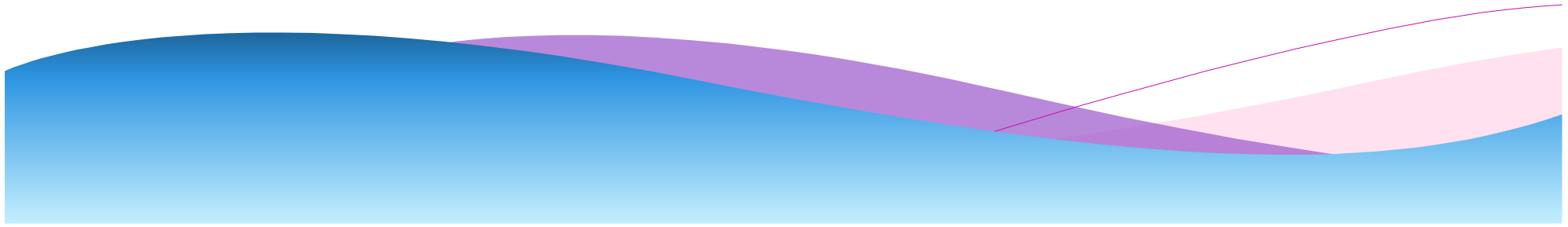
<Highlights of the FY2017 Full-year Earnings Forecast>

Sales

For payment innovation, plans take into account constraints on international remittances due to the continuing effects of the personal tax number. However, set targets anticipate coverage coming from growth in domestic remittances and at-the-counter payment agency services. Growth assumptions take into account the effects from special factors in paperless payment services.

Operating income

The outlook is for significant improvements in the red figures from international remittances. However, the virtual platform creation and transition work in payment agency system scheduled for the current FY, and plans for full-scale overseas initiatives and M&A budgeting, will have significant impact on income going forward, with an expected decline in segment earnings.



III. Progress status of the Medium-Term Management Plan (2017 - 2019) and PLAN 2020

Unit: million yen

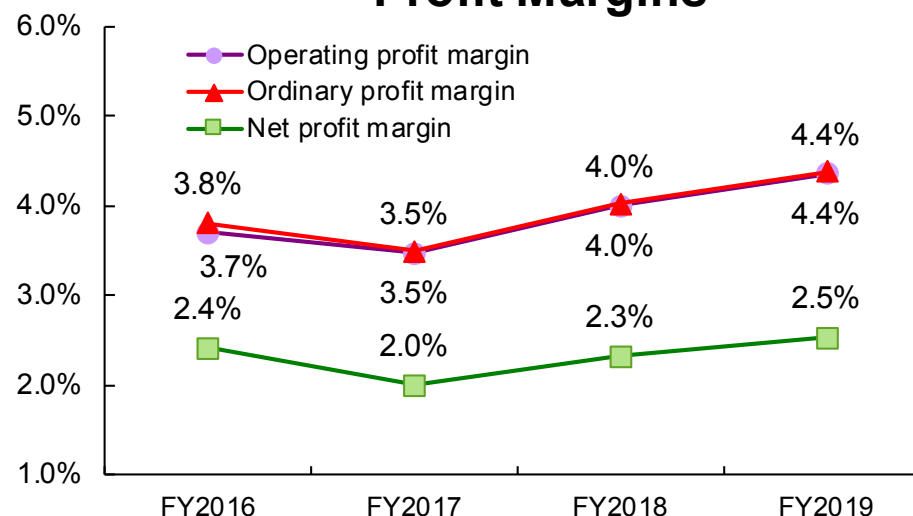
Consolidated	Medium-term plan (FY2017 to FY2019)				Growth rate (YoY)
	FY2016	FY2017	FY2018	FY2019	(Average rate)
	Actual	Plan	Plan	Plan	
Sales	30,369	33,700	37,500	41,300	10.8%
Operating income	1,125	1,170	1,500	1,800	17.4%
Ordinary income	1,157	1,180	1,510	1,810	16.6%
Net income	732	675	872	1,047	13.8%

Highlights of the FY2017–FY2019 3-year Plan

Driving structural transformation

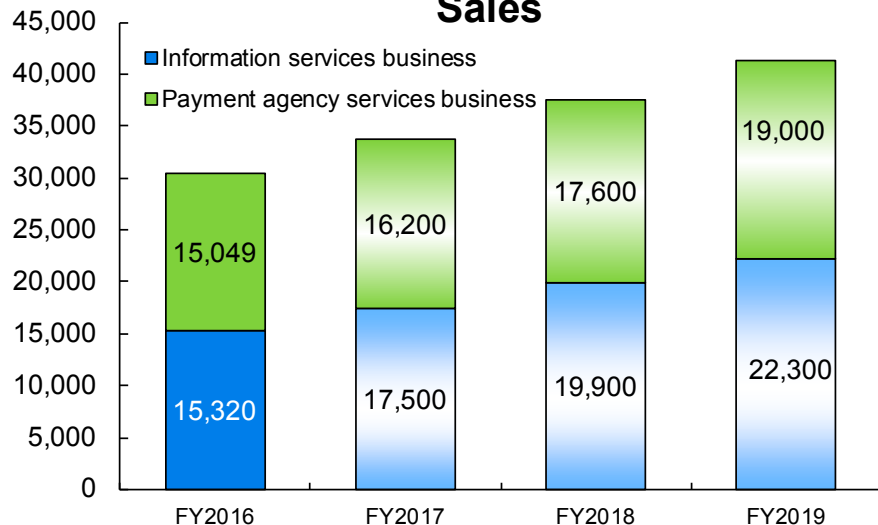
- Primary actions
 - Overseas development
 - From a "flow business" to a "stock business"
 - Proactive M&A

Profit Margins

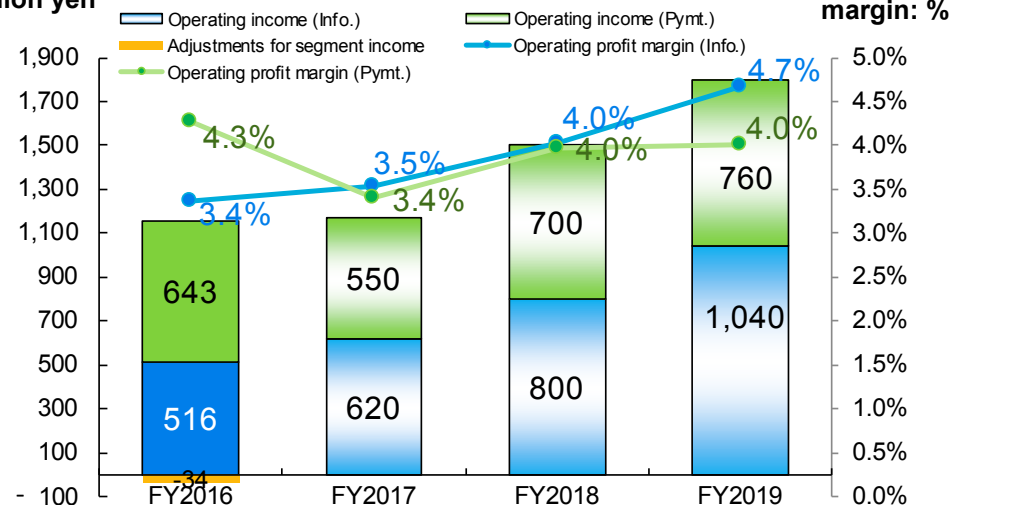


Unit: million yen

Sales


Operating income:
million yen

Operating Income



<Highlights of 3-year Earnings Outlook (FY2017–FY2019)>

Information services

- Expanding the BPO business.
- Expanding the cloud services business.
- Increasing the relative weight of our stock businesses.

Payment agency services

- Promoting overseas business development.
- Increasing the convenience of our offerings through growth in at-the-counter services for payments and remittances.
- Enhancing our initiatives towards new payment collection methods (FinTech).

PLAN 2020
3 strategic fields
with 8 businesses
Stock-type
business 80%
realized

● Payment field

- (1) Payment agency services business
- (2) Remittance services business
- (3) New settlements business

● Cloud field

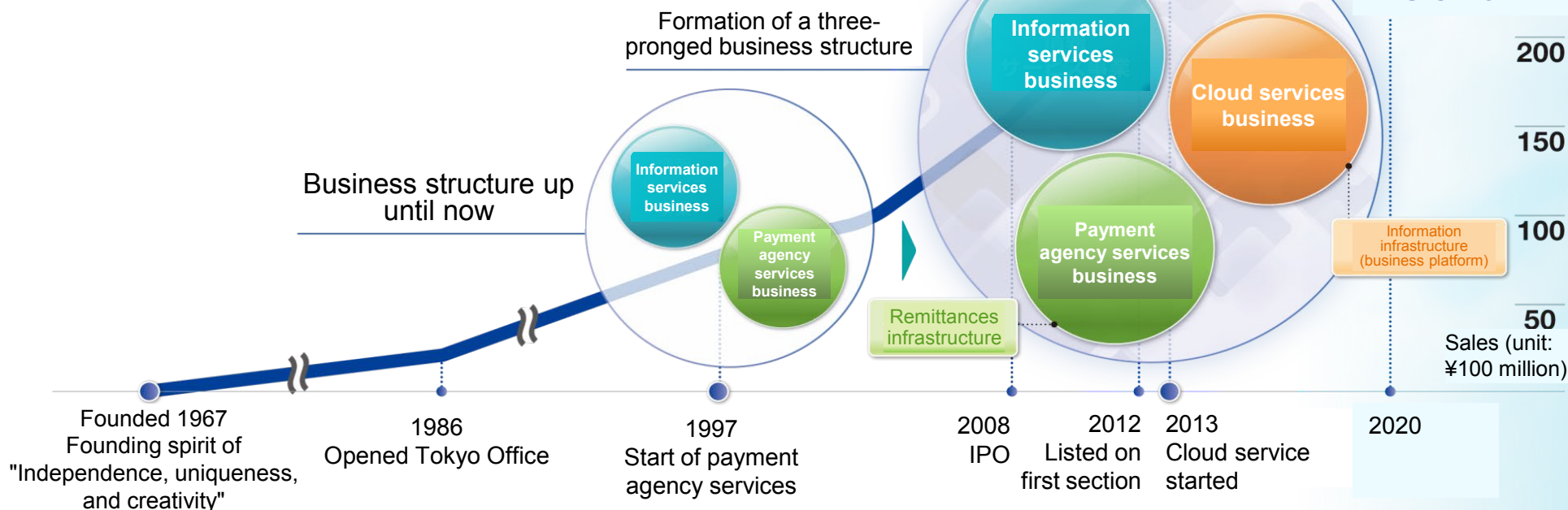
- (4) Cloud services business

● Business processing field

- (5) BPO business
- (6) Development, operation and maintenance business
- (7) Agribusiness
- (8) Medical business

Unit:
million yen

2020
Net sales:
¥50 billion



Philippines selected as first country for overseas initiatives



March 10, 2016

Signing of the MoA with CBCI
at the Ogaki Techno Center of the Company

Conclusion of a memorandum of agreement on cooperation with CIS Bayad Center, Inc., the largest operator in the Philippines with at-the-counter payment collection in 4,400 locations countrywide and a 30% transaction handling share.

FY2016 Progress Status

Development of the Biz@gent system for the Philippines with operations start-up under preparation

As to development, the Biz@gent server (telecommunications and management) has as of the end of 2016 passed user testing at the location, with the environment for actual operations being under preparation.

Meralco Head Office



CBCI



Bayad Center Store

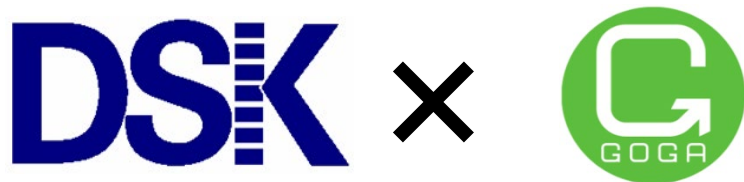


- ✓ Electronic bar code
- ✓ New payment collection methods
- ✓ Fintech
- ✓ Overseas initiatives

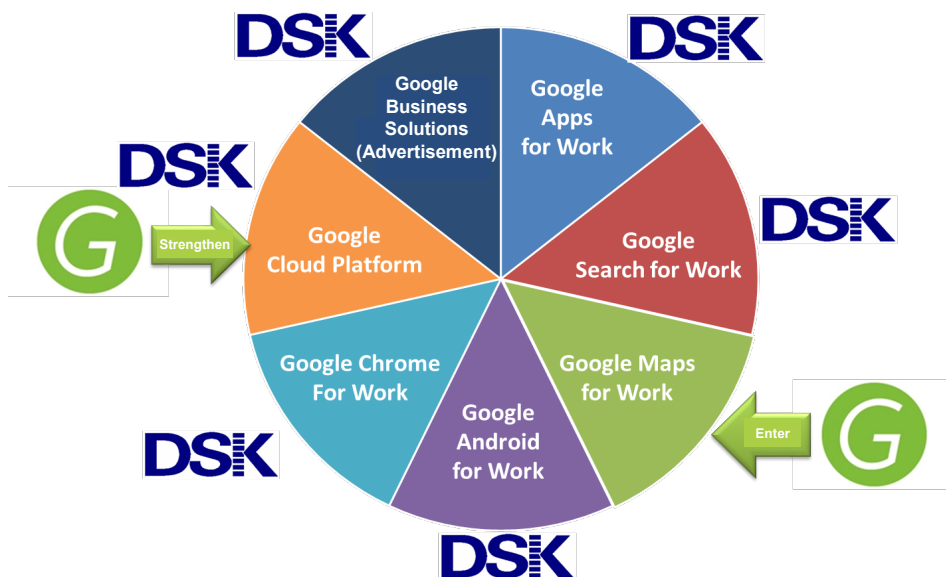
Acquisition of the share capital of GOGA, Inc. (integration as subsidiary)

About GOGA, Inc.

Established in 2006 and from the first approved as partner in the map development of Google. As a frontrunner in Google Map business application services, active as developer of location-based services.



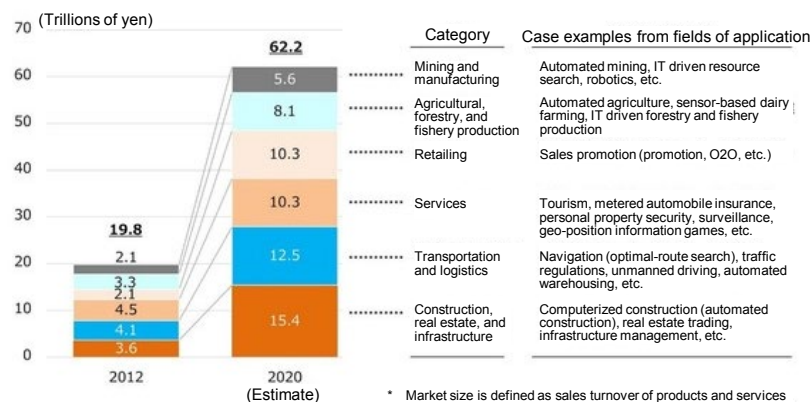
Efforts geared at ONE Google



Case examples from the track record of GOGA, Inc.

- Seven & i Food Systems Co., Ltd.
Operator of the nationwide "Denny's" restaurant chain in Japan, adopted the GOGA Store Locator comprised of the "Denny's" website and store search system.
- NTT DOCOMO, INC.
For the "Docomodake" design wrapped-trolley buses operated in Hawaii by the international business division of NTT DOCOMO, INC., creation of a system for visually checking on the bus locations at all times.

Market size of the geolocation information industry in Japan *



What can be done with maps:

Location information, static and dynamic IOT

These are actively used across all types of industries

[Transportation]

- Real-time display of moving objects such as trucks, etc.
- Display of shortest routes
- Display of traffic congestion information



[Retailing]

- Real-time display of map-linked sales data
- Marketing strategies
- Inventory checks



[Self-governing bodies]

- Information sharing and visual display in case of accident
- Management and joint use of own facilities



[Electric power and resource development]

- Pipeline simulations
- Power grid plotting
- Tie-ins with pre-existing systems



[Construction consulting]

- Plotting travel locations on maps
- Sharing and practical use of completed drawings and simulation results



[IT, real estate, business agency]

- Support tools for sales people
- Display of object data
- BCP creation (verification that employees are unharmed, etc.)



- ✓ One Google-based business expansion
- ✓ Business platform enhancement by using the Company's data center
- ✓ Cloud transitioning of the SI business

In November 2016 the Company concluded a share underwriting agreement for a capital participation and cooperative arrangement with Works Applications Co., Ltd., a leading company in the ERP package industry.

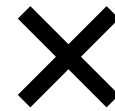
Content of the cooperative arrangement

The arrangement opens the possibility of service provision for small and medium-sized enterprise (businesses with up to 800 employees) regarding the "COMPANY" series for large companies, hitherto available only through direct sales.

* SaaS license will be specially provided for the Company.



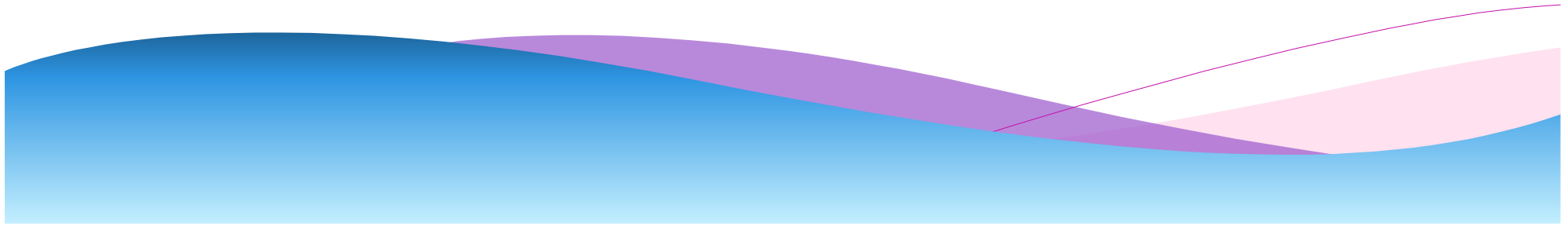
COMPANY
Human
Resources Series



DSK BPO
Services

Support for the introduction and
operation of AI-driven ERP packages

- ✓ Stock business increase through BPO business expansion
- ✓ Share expansion through improvements to automatic auction platforms
- ✓ Promotion of business consolidation and augmentation of synergy effects



IV. Stock Information

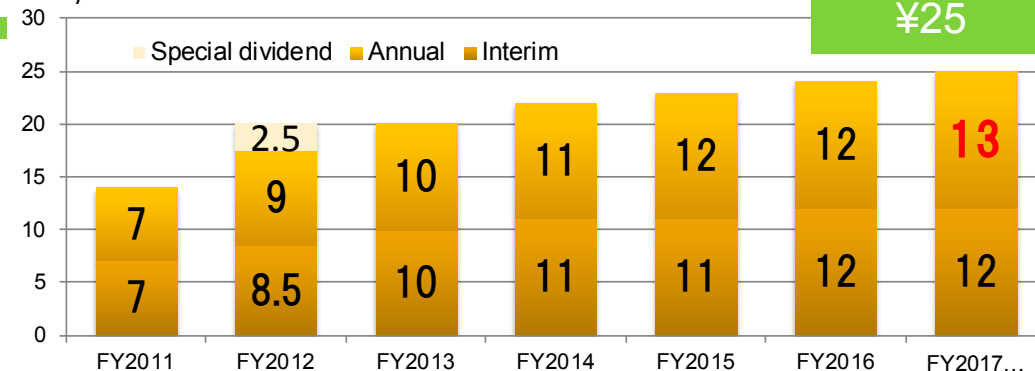
● **¥25 per share
annual dividend on common stock**

Ordinary dividend:
¥24 → ¥25
Up 4.1%

★ Continuous dividend
increases on ordinary
dividend since the stock
exchange listing

● **Dividend payout ratio: 36.2%**

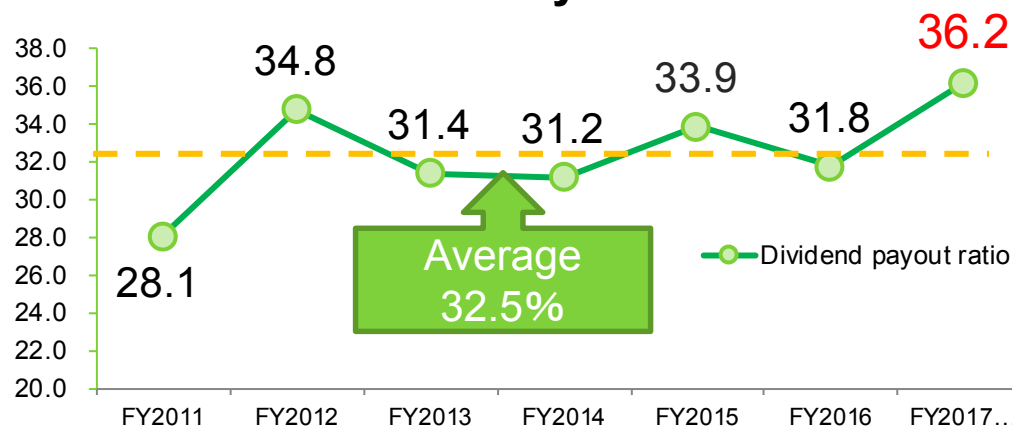
Unit: yen



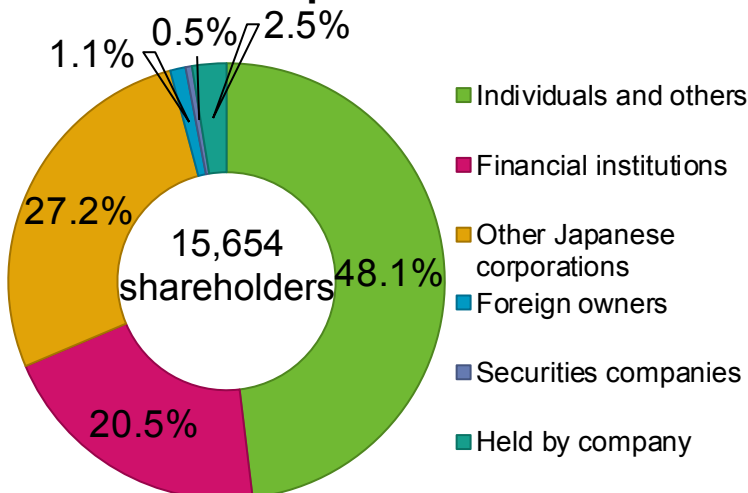
Ordinary
dividend:
¥25

%

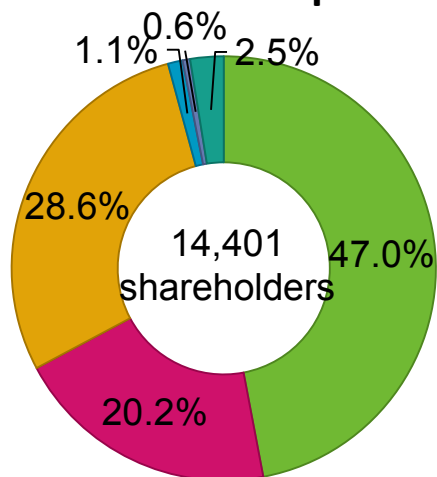
Dividend Payout Ratio



End of 50th Period - Distribution of Ownership



End of 49th Period - Distribution of Ownership



Top 10 Shareholders (as of December 31, 2016)

Shareholder	Ownership	
	Number of shares	Ratio
HIROTA Co.Ltd.	890,100	8.87%
Densan System employee stock plan	869,566	8.66%
The Juroku Bank, Ltd.	441,900	4.40%
Ogaki Kyoritsu Bank Ltd.	424,900	4.23%
Masanao Miyachi	414,770	4.13%
The Gifu Shinkin Bank	359,900	3.58%
Kazuhiro Uchiki	212,670	2.12%
TOKAI Corp.	207,180	2.06%
TIS Inc.	200,000	1.99%
The Master Trust Bank of Japan, Ltd.	151,500	1.51%

* Total number of shares issued: 10,040,000

* Excluding 254,854 shares held by the company

		42nd period	43rd period	44th period	45th period	46th period	47th period	48th period	49th period	50th period
Fiscal year		FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Net sales	(million yen)	16,872	16,785	19,153	21,027	23,369	24,559	26,494	28,956	30,369
Ordinary income	(million yen)	1,013	603	802	829	928	1,021	1,163	1,071	1,157
Net income	(million yen)	563	324	422	450	516	593	685	660	732
Net assets	(million yen)	5,027	5,172	5,549	5,791	6,207	7,072	7,678	7,974	8,613
Total assets	(million yen)	17,277	19,221	19,026	29,998	24,011	26,396	27,350	30,064	44,991
Net assets per share	(yen)	1,088.22	1,138.54	1,207.19	1,271.21	1,363.27	723.51	776.68	812.42	866.6
Net income per share	(yen)	145.3	70.81	92.94	99.6	115.07	63.7	70.43	67.81	75.42
Equity ratio	(%)	29.1	26.9	28.8	19	25.5	26.4	27.7	26.2	18.8
Return on equity	(%)	12.7	6.4	7.9	8.1	8.7	9.1	9.4	8.6	9.0
Price-earnings ratio	(multiple)	3.9	8	8.3	6.9	10.3	22	22.4	28.3	23.2
Market capitalization	(million yen)	2,605	2,566	3,488	3,095	5,319	13,518	15,795	19,224	17,590
Ordinary profit margin	(%)	6.0	3.6	4.2	3.9	4.0	4.2	4.4	3.7	3.8
Current ratio	(%)	128.7	122.9	124.7	113.6	120.7	120.7	121.4	120.2	113.5

Total number of shares issued: 10,040,000

Average number of shares during the fiscal year: 9,710,925