

Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 (From April 1, 2019 to March 31, 2020) Supplementary Material Friday, May 8, 2020

> Digital Arts Inc. (Securities Code: 2326)



Since February 2020, we have swiftly introduced the following measures and systems to provide employees with an environment for continuing to work in good health and without worries and to maintain business activities.

	Timing	Measure / System	Intended Effect
Internal measures	Feb.	Required temperature checks for all employees on arrival. Required disinfection of hands and fingers with alcohol when entering or leaving rooms Investigation of overseas travel records and prohibition of overseas travel unless absolutely necessary Required wearing of face masks when commuting, while in offices, when going out, and when meeting customers Introduction of commuting outside rush hours Recommendation to take paid leave in response to school closures	Removing anxiety about employment security from employees and maintaining their motivation by introducing measures and systems for helping them and their family
nea:	Mar.	Provided one month's supply of face masks to every employee	members lead healthy lives without worries
sures	Apr.	All employees ordered to work from home as a rule Online induction training for new graduate employees Special paid leave offered to employees in double career households affected by nursery school closures Financial support program for our employees to hold online lunch meetings and parties using our product, Chat@Cloud (up to 10,000 yen per person per month)	Keeping the number of infections among the employees and their family members at zero through intensive antivirus measures
Э п	Mar.	Decision to cancel business partner meetings scheduled in May and June 2020	 Reducing geographical movements and increasing
External measures	Apr.	Online sales activities using our product, Chat@Cloud Seminars held online Introduction of digital catalogs	efficiency and the speed of sales activities after progress in simultaneous online multi-party connections and in the sharing of internal information



Key Points

Key Points



① Consolidated net sales slightly declined year on year.

- A drop in reaction to the winning of large-scale projects in the previous fiscal year
- With the conclusion of the Windows 7 support period in January 2020, replacement demand for PCs increased and sales agents' initiative to focus on PC sales has lasted longer than initially expected.
- Details of a project under negotiation were revised due to the GIGA School Concept, and its conclusion is now expected to be delayed until the following fiscal year or later.

2 Lineup enhancement, price revision and new plan establishment of DigitalArts@Cloud

- FinalCode@Cloud and Chat@Cloud were added to DigitalArts@Cloud lines. Actualizes a virus-free world that allows users to not be conscious of security, even in cloud operations.
- Prices were revised and new plans for "i-FILTER@Cloud Harmful sites Blocker Edition" and "m-FILTER@Cloud Misdirected E-mail Prevention Edition" were established due to growing needs for cloud operations in terms of corporate security.
- Projects to make corporate and public facilities use the cloud were extensively successful following "Cloud First" endorsed by the government.

3 Sales of i-FILTER Browser & Cloud increased

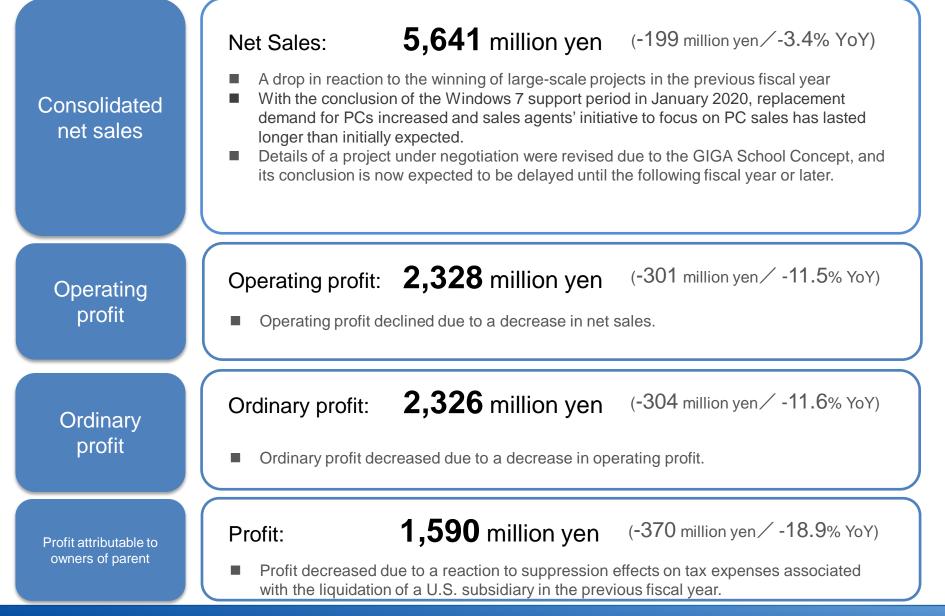
In the enterprise sector market, work style has diversified and there has been growing opportunities to use terminals provided by companies including tablets or note PCs outside companies.



Consolidated Results Highlights

Consolidated Financial Highlights for the Fiscal Year Ended March 31, 2020







Consolidated Results

	FY March 2019	FY March 2020	Change YoY	FY March 2020 Full-Year Forecast
Net sales	5,841	5,641	-3.4%	5,500
Gross profit	4,781	4,280	-10.5%	4,100
Selling, general and administrative expenses	2,152	1,952	-9.3%	2,050
Operating profit	2,629	2,328	-11.5%	2,050
Operating margin	45.0%	41.3%	_	37.3%
Ordinary profit	2,630	2,326	-11.6%	2,050
Profit attributable to owners of parent	1,961	1,590	-18.9%	1,430
ROE	28.1%	19.4%	_	_
Dividend per share	¥48.00	¥50.00	_	¥50.00



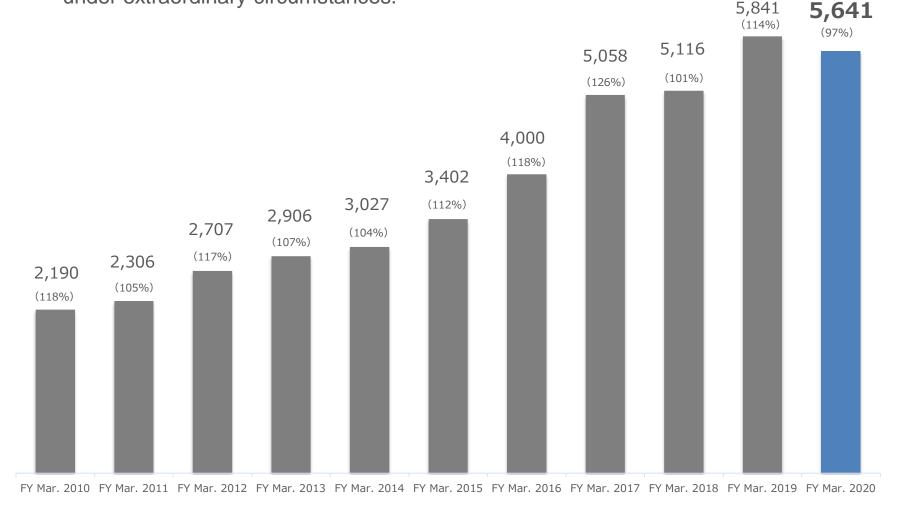
Consolidated Results

- Net sales fell from the preceding fiscal year on a full-year basis. However, the coronavirus crisis had a minor impact and net sales were 141 million yen higher than forecasted.
- For the fourth quarter, net sales tumbled year on year as acquisition of a project in the public sector market is now expected to be delayed to the following or later fiscal year due to the GIGA School Concept.

	Fourth Quarter FY March 2019	Fourth Quarter FY March 2020	Change YoY	Full Year FY March 2019	Full Year FY March 2020	Change YoY	Full-Year Forecast FY March 2020
Net sales	1,674	1,500	-10.4%	5,841	5,641	-3.4%	5,500
Gross profit	1,424	1,123	-21.1%	4,781	4,280	-10.5%	4,100
Selling, general and administrative expenses	469	443	-5.6%	2,152	1,952	-9.3%	2,050
Operating profit	954	679	-28.9%	2,629	2,328	-11.5%	2,050
Operating margin	57.0%	45.3%	-	45.0%	41.3%		37.3%
Ordinary profit	956	677	-29.1%	2,630	2,326	-11.6%	2,050
Profit attributable to owners of parent	542	461	-14.9%	1,961	1,590	-18.9%	1,430

Trend in Consolidated Net Sales

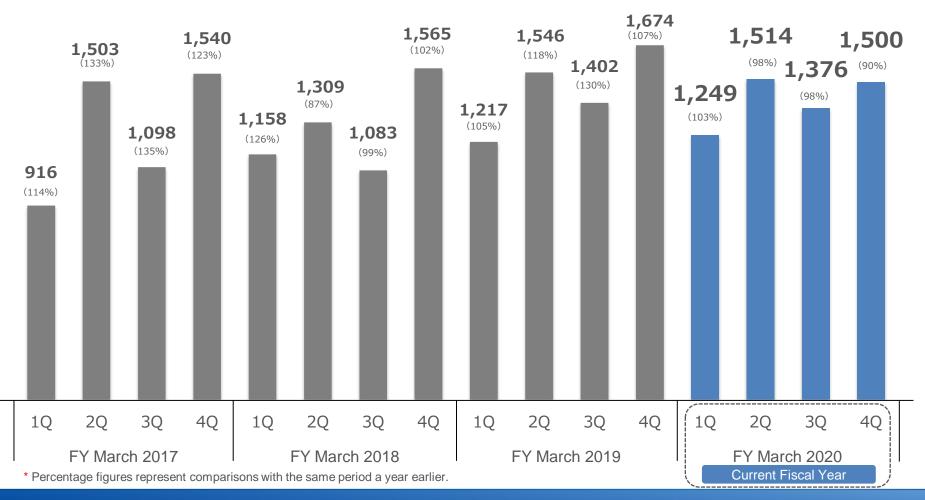
The long-term upward trend was maintained despite a year-on-year drop under extraordinary circumstances.



* Percentage figures represent comparisons with the preceding year.

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- For the first quarter, the figure rose year on year. For subsequent quarters, sales agents were so busy responding to increased computer demand that they could not focus their efforts on the sales of our products. As a result, the figure dropped.
- The decline for the fourth quarter is due to the impact of the GIGA School Concept.







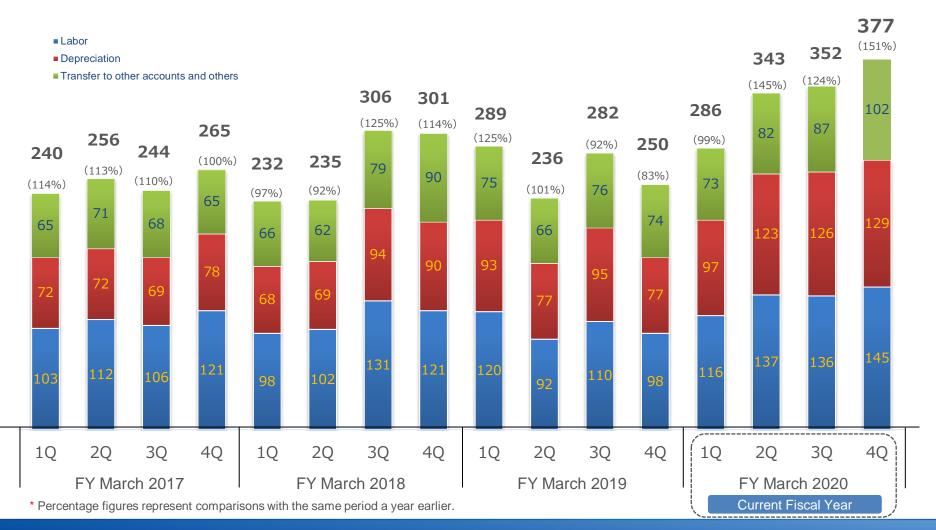
- As part of the cost of sales, labor costs increased after a rise in consultants at domestic subsidiaries.
- An increase in software depreciation resulting from the end of the new development of cloud products.
- With regard to SG&A expenses, profitability improved after the Group's reorganization following the revision to the overseas strategy in the previous fiscal year.

	Fourth Quarter FY March 2019	Fourth Quarter FY March 2020	Change YoY	Full Year FY March 2019	Full Year FY March 2020	Change YoY
Cost of sales	250	377	+127	1,059	1,361	+302
Labor	98	145	+46	421	536	+114
Depreciation	77	129	+52	343	476	+133
Transfer to other accounts Other manufacturing costs	74	102	+28	294	348	+54
Selling, general and administrative expenses	469	443	-26	2,152	1,952	-200
Personnel expenses	243	210	-33	1,034	984	-49
Advertising expenses	57	43	-14	290	207	-83
Other	168	190	+21	828	760	-67



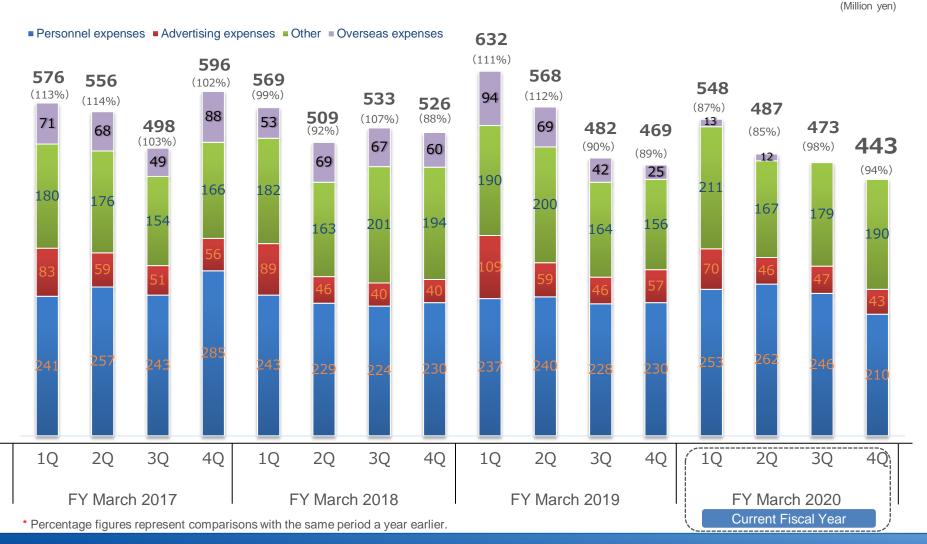
(Million yen)

- Labor cost soared after an increase in consultants at domestic subsidiaries.
- Software depreciation increased with the end of the new development of cloud products.



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Domestic expenses stayed almost flat while overseas expenses contracted significantly after the Group's reorganization following the revision to the overseas strategy in the previous fiscal year.



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Consolidated Balance Sheet

■ The equity ratio of 79.7% shows that strong financial health was maintained.

■ With high figures in ROE and ROA, capital efficiency was high.

	As of end of FY	As of end of F	Y March 2019	As of end of 3Q FY March 2020	
	March 2020	Actual	% Change	Actual	% Change
Current assets	8,733	7,729	+13.0%	7,973	+9.5%
Cash and deposits	7,651	6,169	+24.0%	6,874	+11.3%
Non-current assets	2,118	2,129	-0.5%	2,113	+0.3%
Total assets	10,852	9,859	+10.1%	10,086	+7.6%
Current liabilities	2,125	2,010	+5.7%	1,830	+16.1%
Non-current liabilities	46	46	+0.9%	46	+0.2%
Equity capital	8,652	7,761	+11.5%	8,181	+5.8%
Equity ratio	79.7%	78.7%	_	81.1%	_
Share acquisition rights	18	23	-23.5%	18	-0.9%
Non-controlling interests	9	18	-45.7%	9	+5.7%
ROE	19.4%	28.1%	_	14.1%	_
ROA	15.4%	22.1%		11.3%	_



Consolidated Cash Flows and Financial Health

- After enhanced management efficiency and management emphasizing financial health, cash flows for the fiscal year under review grew to 2,000 million yen. Cash and cash equivalents increased to 7,600 million yen.
- While operating expenses of approximately 3,300 million yen were incurred annually, the amount of orders for renewals (with a renewal rate of 90%) reached around 3,000 million yen in the year. Stable management can be maintained even if a prolonged coronavirus impact pushes the amount of new orders received to a low level.
 (Million yen)

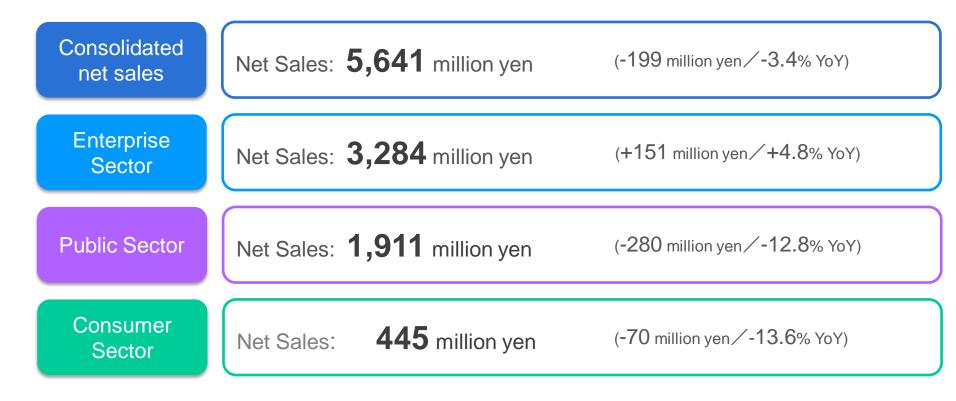
		FY March 2019	FY March 2020	Change	Factors for Change
Cash flows from operating activities		3,091	2,686	-405	Decrease in sales
Cash flows from investing activities		-908	111	+1,019	Transfer from a term deposit to a settlement deposit and government bond redemption
Cash activit	flows from financing ies	-429	-709	-279	Purchase of treasury shares
Cash	Effect of exchange rate change	-2	-5	-3	
and c	Change	1,751	2,082	+331	
ash	At beginning of period	3,826	5,569	+1,742	
equivalents	Change resulting from change in the scope of consolidation	-8	-	+8	
lents	At end of period	5,569	7,651	+2,082	



By Market



- In the public sector market, net sales decreased 12.8% due to a decline in reaction to winning of large projects in the previous fiscal year.
- In the consumer sector market, net sales decreased 13.6% due to a reduction in offer price to carriers despite the progress of filtering installation for minors.



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5,841

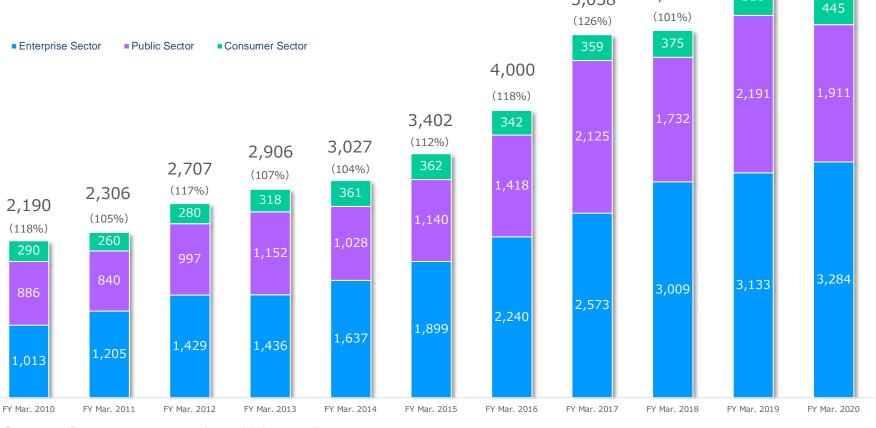
(114%)

(Million yen)

5,641

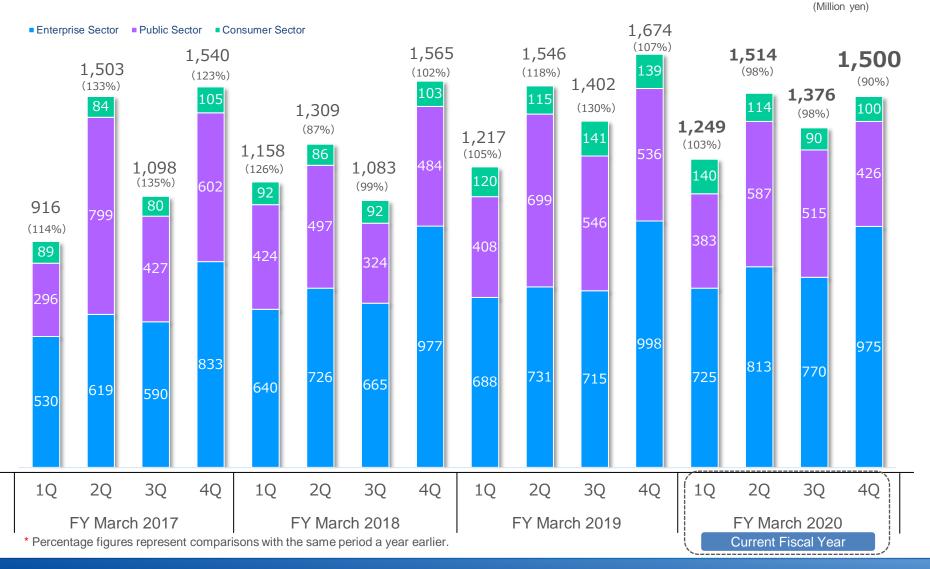
(97%)

- Net sales in the enterprise sector market increased due to strong sales of the i-FILTER series and growth of domestic subsidiaries.
- Net sales in the public sector market decreased due to the decrease in reaction to the winning of large projects in the previous fiscal year.
- Net sales in the consumer sector market decreased due to a reduction in offer price to carriers
 5,058 5,116



* Percentage figures represent comparisons with the preceding year.





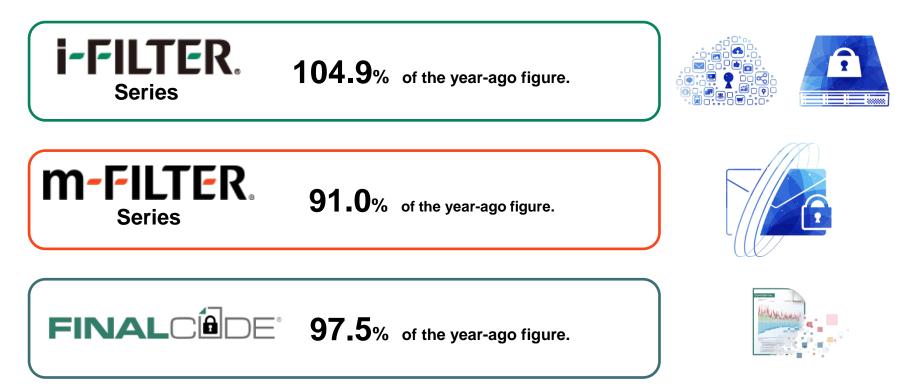
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Enterprise Sector



- Sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of location, continued to expand, reflecting a rise in the number of people who use company-provided tablets, notebooks or other devices on their assignments on the go against the backdrop of diversifying workstyles.
- Sales of m-FILTER declined due to a decrease in reaction to the winning of large projects in the previous fiscal year.

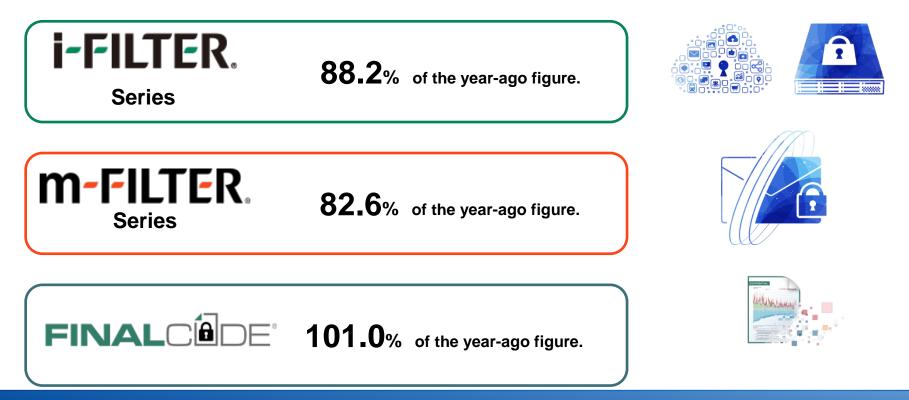




Public Sector

Public Sector

- Overall sales decreased due to the decrease of orders for projects with large monetary value that contributed to sales in the previous fiscal year.
- Details of a project under negotiation were revised due to the GIGA School Concept, and its conclusion is now expected to be delayed until the following fiscal year or later.
- Because of the progress of ICT, changes are taking place in the field of education, and efforts are underway to establish an environment in which one or a small number of students can use one tablet. Reflecting this, sales expanded for i-FILTER Browser & Cloud.



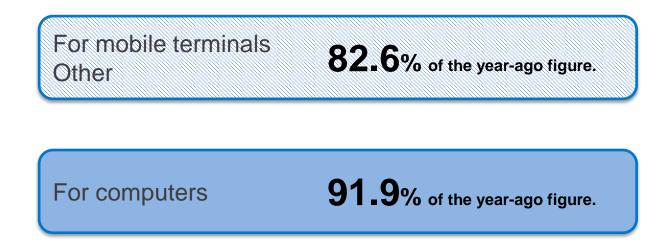
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Consumer Sector



- The number of minors who use smartphones increased and stricter laws on Internet usage by young people were enacted. As a result, filtering use increased. Meanwhile, net sales decreased due to the reduction of offer price to carriers associated with free services to end users by carriers.
- Sales of multiple-year package products and i-FILTER for Multi-Device, which can be available on multiple terminals, were sluggish.





Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2021



Consolidated Financial Forecast For FY March 2021

We will endeavor to attain organic growth in the enterprise sector market and to win orders for GIGA School projects in the public sector market as we aim for substantial growth.

	Results for FY March 2020	Plan for FY March 2021	% Change
Net sales	5,641	7,500	+32.9 %
Gross profit	4,280	5,650	+32.0 %
Selling, general and administrative expenses	1,952	2,100	+7.6 %
Operating profit	2,328	3,550	+52.5 %
Ordinary profit	2,326	3,550	+52.6 %
Profit attributable to owners of parent	1,590	2,450	+54.0 %
Dividend per share	¥50.00	¥55.00	



Full-Year Consolidated Net Sales Forecast by Market

Consolidated net sales	Net Sales: 7,500 million yen (+1,858 million yen / +32.9% YoY)
Enterprise Sector	Net Sales: 3,800 million yen (+515 million yen / +15.7% YoY)
Public Sector	Net Sales: $3,200$ million yen (+1,288 million yen/+67.4% YoY)
Consumer Sector	Net Sales: 500 million yen (+54 million yen / +12.2% YoY)



Non-Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2021

	Results for FY March 2020	Plan for FY March 2021	% Change
Net sales	5,336	7,000	+31.2 %
Gross profit	4,238	5,550	+30.9 %
Selling, general and administrative expenses	1,881	2,050	+9.0 %
Operating profit	2,357	3,500	+48.5 %
Ordinary profit	2,359	3,500	+48.4 %
Profit	1,613	2,420	+50.0 %



Cost of sales is projected to rise 35.9% to 1,850 million yen, in anticipation of growth in labor costs after increases in engineers and consultants and soaring expenses for cloud servers following an increase in the sales of cloud products at domestic subsidiaries.

■ SG&A expenses are expected to increase by 7.5% to 2,100 million yen.

	Results for FY March 2020	Plan for FY March 2021	% Change	Change YoY
Cost of sales	1,361	1,850	+35.9%	+488
Labor	536	720	+34.4%	+184
Depreciation	476	534	+12.1%	+57
Transfer to other accounts Other manufacturing costs	348	595	+70.7%	+246
Selling, general and administrative expenses	1,952	2,100	+7.5%	+147
Personnel expenses	984	1,069	+8.6%	+84
Advertising expenses	207	203	-2.0%	-4
Other	760	827	+8.9%	+67



Dividends

We are planning to pay dividends as follows to return a portion of our earnings to our shareholders.

Target payout ratio for fiscal year ending March 31, 2021: 31.5%

(of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31,

2021: 55.00 yen per share

	Div	Consolidated		
	Interim	Year-end	Total	payout ratio
FY March 2020	25.00	25.00	50.00	44.0%
FY March 2021 (forecast)	25.00	30.00	55.00	31.5%



FY03/21 Initiatives



Initiatives in the Fiscal Year Ending March 31, 2021

Enterprise Sector

Initiatives in the Fiscal Year Ending March 31, 2021 Enterprise Sector



- The Company commenced remote working as a measure against COVID-19 coronavirus infection. At the beginning, we had concerns about the risk of decline in operational efficiency. However, online seminars meant freedom from geographical constraints and led to an increase in customers. In addition, we have established digital sales approaches, such as online sales activities using Chat@Cloud and efficient sales approaches using electronic catalogs.
- For the fiscal year ending March 31, 2021, net sales are forecasted at 3,800 million yen, in comparison with the actual net sales of 3,200 million yen for the fiscal year ended March 31, 2020.

External	Sophistication of targeted attacks New varieties of malware (Emotet) Website falsification	Due to the COVID-19 coronavirus pandemic, teleworking rapidly became widespread and the shift of security products to the cloud speed up.	Due to the COVID-19 coronavirus pandemic, teleworking rapidly became widespread and demand mounted for online tools for business activities without lowering operational efficiency.			
Actions	Enhance the brand image of the use of a whitelist The use of a whitelist already has an ample track record. Make its utility widely known.	Expand sales of DigitalArts@Cloud Provide a secure and reassuring environment based on the use of a whitelist with i-FILTER and m-FILTER on cloud platforms.	Expand sales of Chat@Cloud Carry out full-scale promotion of Chat@Cloud as a business tool supporting online conferencing with video chat as well as text chat.			
	Reorganize the sales team and establish effective and efficient sales methods Reorganize the sales team into several teams dedicated to individual sales agents to build closer ties with sales agents. Carry out efficient sales activities using Chat@Cloud. Conduct effective sales activities using electronic catalogs. Actively organize online seminars to efficiently advertise product value.					



Initiatives in the Fiscal Year Ending March 31, 2021

Public Sector

Initiatives in the Fiscal Year Ending March 31, 2021 Public Sector



- The GIGA School Concept envisions the integrated development of an environment with one learning terminal for each school-aged child and with a high-speed, high-capacity communication network. We will continue to expand our market share from the current level of 60%.
- Sales are projected at 3,200 million yen for the fiscal year ending March 31, 2021, while actual sales for the fiscal year ended March 31, 2020 reached 1,900 million yen.

External environment	Acceleration of the GIGA School Concept In addition to the supplementary budget proposal worth 231.8 billion yen approved by the Cabinet in December 2019 for the GIGA School Concept, another supplementary budget proposal with a total amount of 229.2 billion yen was approved by the Cabinet in April 2020 to accelerate the Concept. It is urgent to swiftly provide each school- aged child with one terminal to quickly construct an environment that ensures children's learning through the use of ICT, even in a state of emergency. => To realize an environment with one terminal per person, a policy for supplying approximately 7.5 million tablets to school-aged children has been presented. Accordingly, a demand for new web filtering software worth around 19.0 billion yen, estimated from subscription fees for five years based on our unit sales price, is anticipated.		
Actions	 GIGA School Concept support campaign Run a campaign offering an extensive array of the i-FILTER series products at special prices and providing services matched with the standard specifications that conform to the Guidelines on Education Information Security Policy free of charge. -> Aiming to retain and expand our current market share of around 60% among the 1,741 boards of education across the country. The financial forecast takes into account negative impacts of the COVID-19 coronavirus pandemic on supply, distribution, installation and other actions related to tablets. 	Reorganize the sales team Reorganize the sales team into several teams dedicated to individual sales agents to build closer ties with sales agents.	Digital sales activities Carry out efficient sales activities using Chat@Cloud. Conduct effective sales activities using electronic catalogs. Actively organize online seminars to efficiently advertise product value.



Initiatives in the Fiscal Year Ending March 31, 2021

Consumer Sector



- Due to school closures amid the COVID-19 coronavirus pandemic, an increasing number of schoolaged children do online home learning. The number of online terminals in households with these children is trending upward.
- Sales for the fiscal year ending March 31, 2021 are forecasted at 500 million yen, in comparison with sales of 400 million yen for the fiscal year ended March 31, 2020.

External environment	Due to school closures amid the COVID-19 coronavirus pandemic, online home learning is practiced at an increasing number of households.	In response to an increase in cases of young people involved in crimes due to social media, legislation tightened around the obligation to introduce filtering products on smartphones.	Following the rise of low- priced smartphones, the number of smartphones owned by young people increased.	
Actions	Continue activities to raise awareness by providing visiting workshops on information literacy and lectures for parents, guardians, education professionals and young people. Offer educational materials free of charge that help users acquire correct knowledge about dangers on the Internet and how to use filtering.			



Among the descriptions of plans, strategies and financial forecasts in this presentation material, those that are not historical facts are forward-looking statements. They reflect judgments made by the management of Digital Arts Inc. on the basis of information currently available to it. They may be subject to considerable change depending on changes in the environment and other factors, and the Company does not in any way guarantee the achievement of the projections. Digital Arts Inc. will disclose any significant changes that occur in the future as appropriate.

With some exceptions, the basic figures in this presentation are rounded down to the nearest million yen.

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