



Consolidated Financial Results for the First  
Three Quarters of the Fiscal Year Ending  
March 31, 2020  
(From April 1, 2019 to December 31, 2019)

Supplementary Material  
Friday, January 31, 2020

Digital Arts Inc.  
(Securities Code: 2326)

**Supplementary Material on Consolidated Financial Results for the  
First Three Quarters of the Fiscal Year Ending March 31, 2020**

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# **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 substantially increased and sales agents' initiative to focus on PC sales has lasted longer than initially expected.

## 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.

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# **Consolidated Results Highlights**

Consolidated  
net sales

Net Sales: **4,141** million yen (-25 million yen / -0.6% YoY)

Consolidated net sales slightly decreased reflecting a drop in reaction to the winning of large-scale projects in the previous fiscal year and sales agents' ongoing focus on PC sales with the expiration of the Windows 7 support period.

Operating  
income

Operating profit: **1,648** million yen (-26 million yen / -1.6% YoY)

Operating profit declined due to a decrease in net sales.

Ordinary  
income

Ordinary profit: **1,648** million yen (-25 million yen / -1.5% YoY)

Ordinary profit decreased due to a decrease in operating profit.

Profit attributable to  
owners of parent

Profit: **1,128** million yen (-289 million yen / -20.4% YoY)

Profit decreased due to a reaction to suppression effects on tax expenses associated with the liquidation of a U.S. subsidiary in the previous fiscal year.

## Consolidated Results

(Million yen)

Item	First 3 Quarters FY March 2019	First 3 Quarters FY March 2020	Change YoY	Full-Year Forecast
Net sales	4,166	<b>4,141</b>	-0.6%	6,800
Gross profit	3,357	<b>3,156</b>	-6.0%	5,450
Selling, general and administrative expenses	1,683	<b>1,508</b>	-10.4%	2,150
Operating profit	1,674	<b>1,648</b>	-1.6%	3,300
Ordinary profit	1,674	<b>1,648</b>	-1.5%	3,300
Profit attributable to owners of parent	1,418	<b>1,128</b>	-20.4%	2,277
ROE	21.2%	<b>14.1%</b>	—	—

\* The full-year forecast figures reflect the consolidated financial forecast announced on May 9, 2019.

Non-Consolidated Results

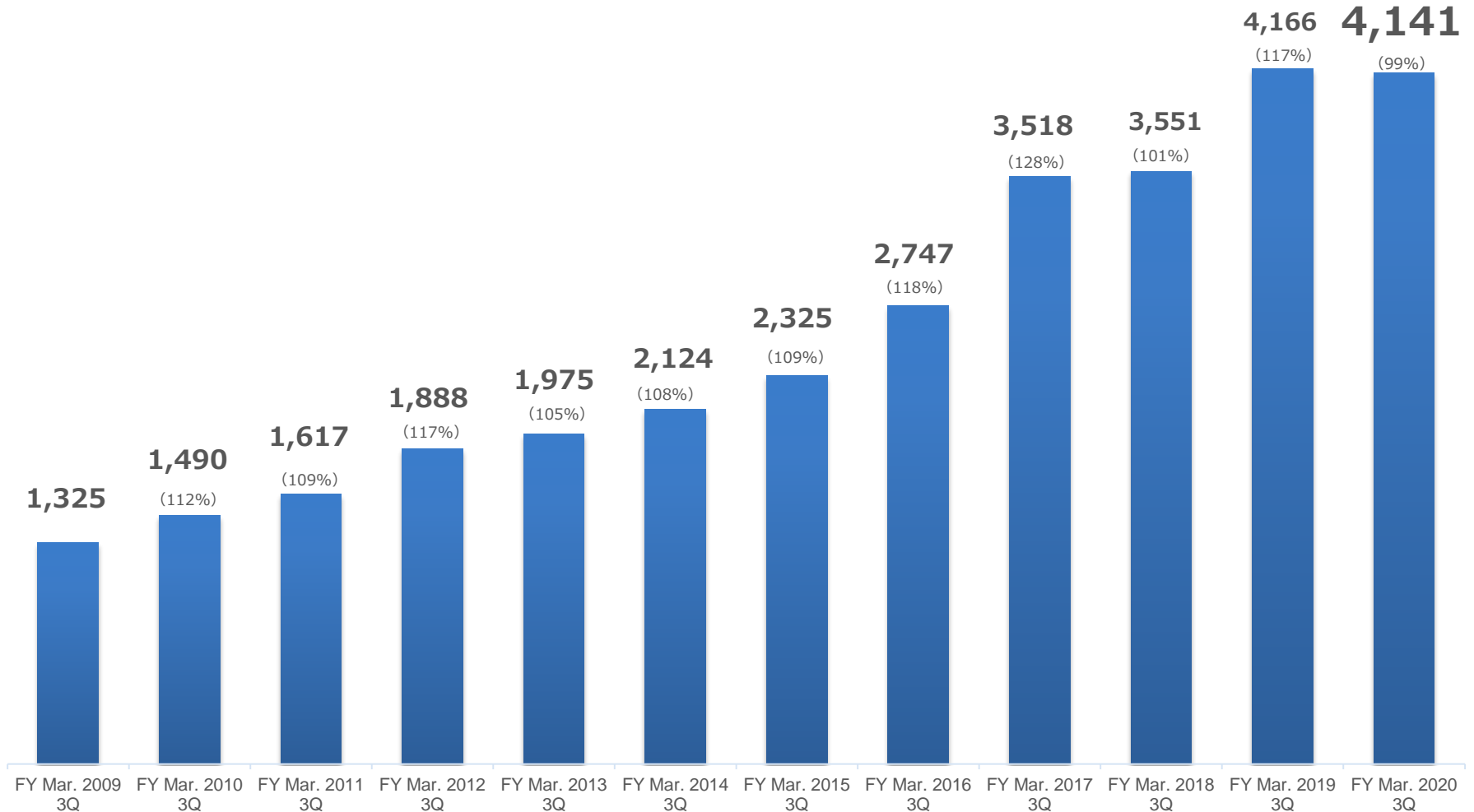
(Million yen)

Item	First 3 Quarters FY March 2019	First 3 Quarters FY March 2020	Change YoY	Full-Year Forecast
Net sales	4,127	<b>3,990</b>	-3.3%	6,600
Gross profit	3,342	<b>3,129</b>	-6.4%	5,400
Selling, general and administrative expenses	1,507	<b>1,445</b>	-4.1%	2,100
Operating profit	1,835	<b>1,684</b>	-8.2%	3,300
Ordinary profit	1,837	<b>1,687</b>	-8.1%	3,300
Profit	1,262	<b>1,162</b>	-7.9%	2,290
ROE	18.4%	<b>14.5%</b>	—	—

\* The full-year forecast figures reflect the non-consolidated financial forecast announced on May 9, 2019.

**Flat from the same period a year ago.**

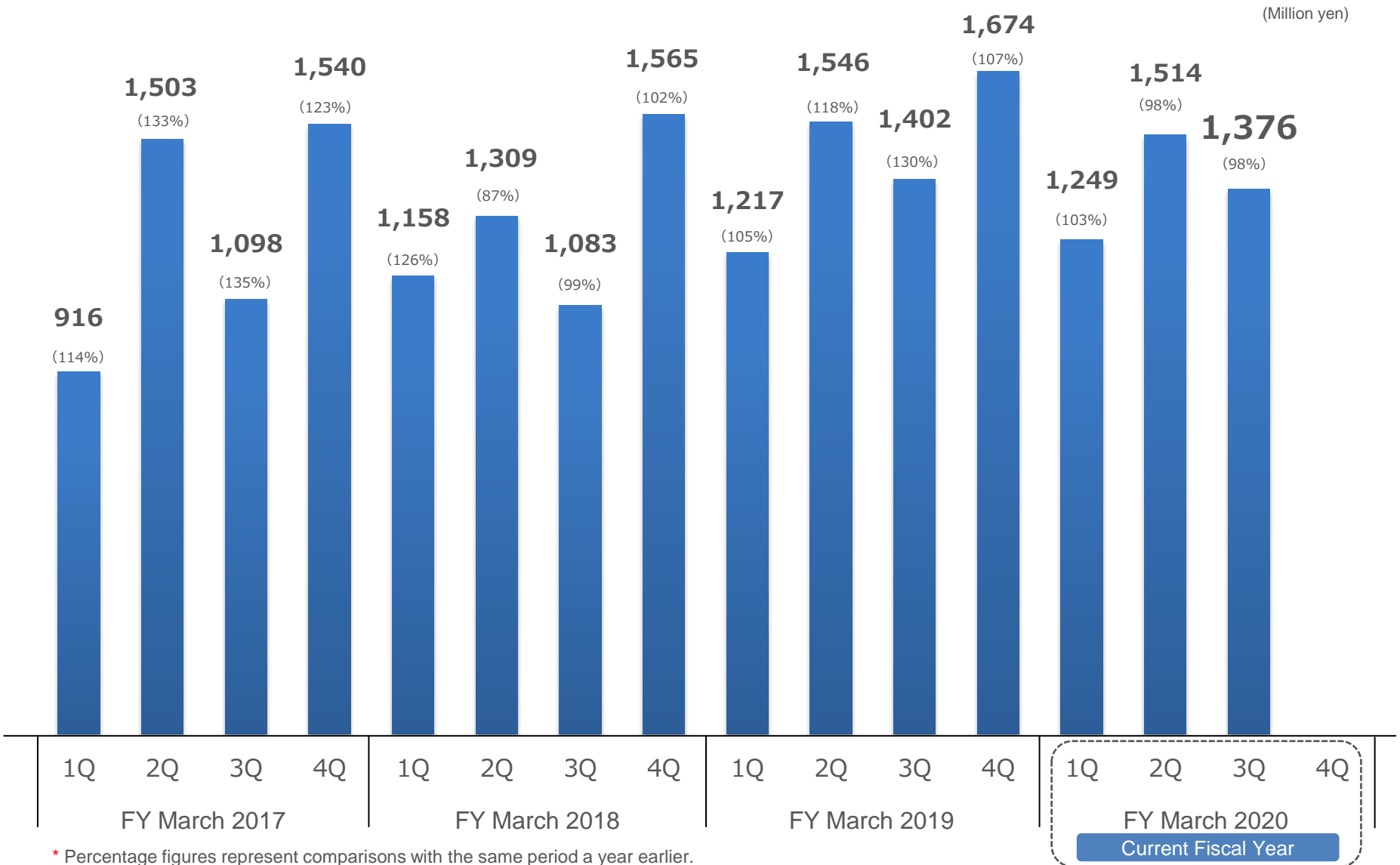
(Million yen)



\* Percentage figures represent comparisons with the preceding quarter.



Roughly the same year on year.



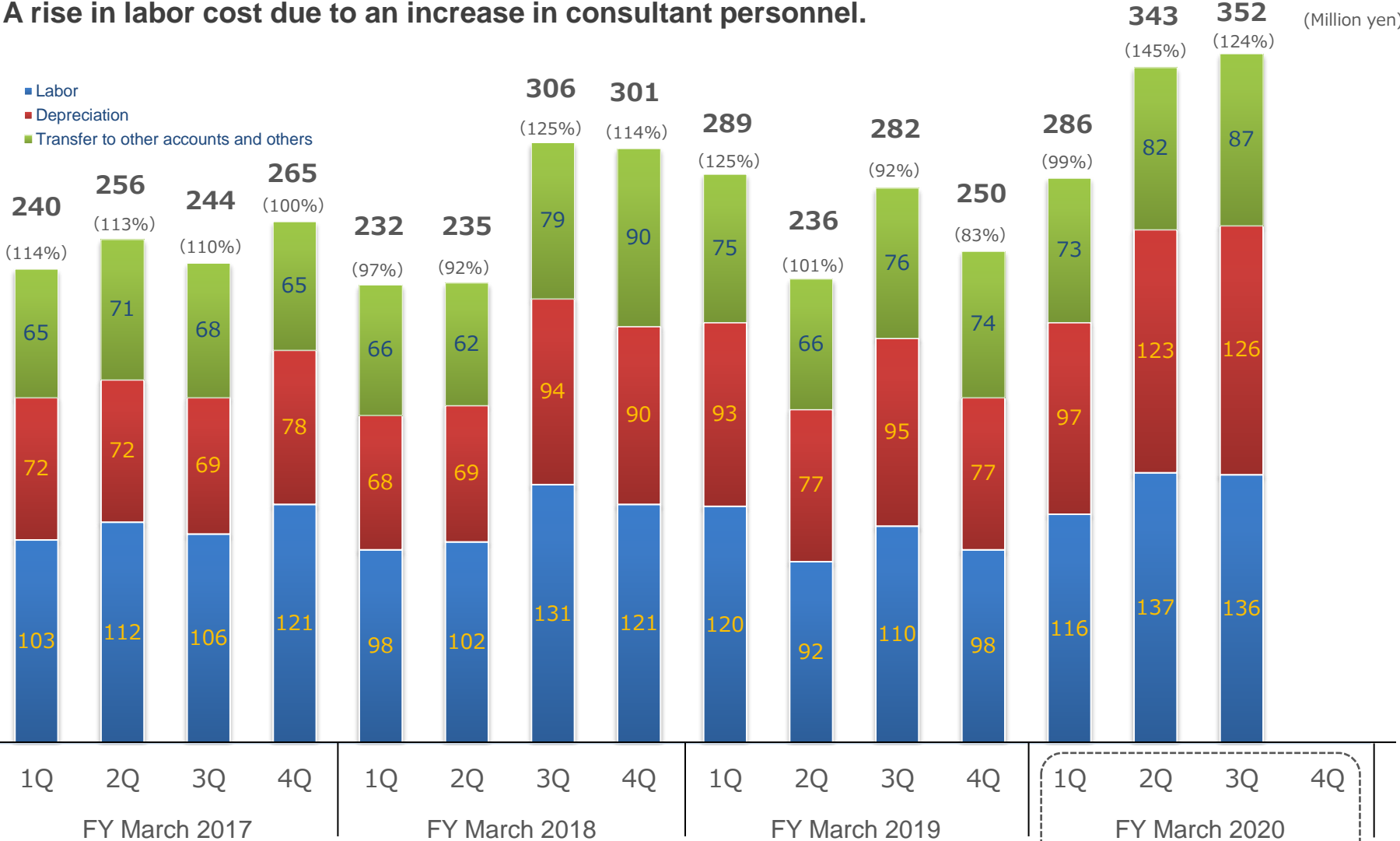
\* Percentage figures represent comparisons with the same period a year earlier.

- An increase in software depreciation resulting from the end of the new development of cloud products.
- A rise in labor cost due to an increase in consultant personnel.
- Profitability improved due to the effects of selection and concentration in management resources associated with the Group reorganization after a review of overseas strategy in the previous fiscal year.

(Million yen)

	First 3 Quarters FY March 2019	First 3 Quarters FY March 2020	Change YoY	Main Factors for Change
<b>Cost of sales</b>	809	<b>984</b>	+175	
Labor	323	<b>391</b>	+68	Increase due to the growth of domestic subsidiaries (consulting business)
Depreciation	266	<b>347</b>	+81	Increase resulting from the end of new development of cloud products
Transfer to other accounts Other manufacturing costs	219	<b>246</b>	+27	
<b>Selling, general and administrative expenses</b>	1,683	<b>1,508</b>	-174	
Personnel expenses	791	<b>774</b>	-16	
Advertising expenses	232	<b>164</b>	-68	Decrease due to a review of advertising strategy
Other	659	<b>569</b>	-89	Other expenses declined as a result of the liquidation of a US-based subsidiary.

An increase in depreciation resulting from the end of the new development of cloud products.  
 A rise in labor cost due to an increase in consultant personnel.

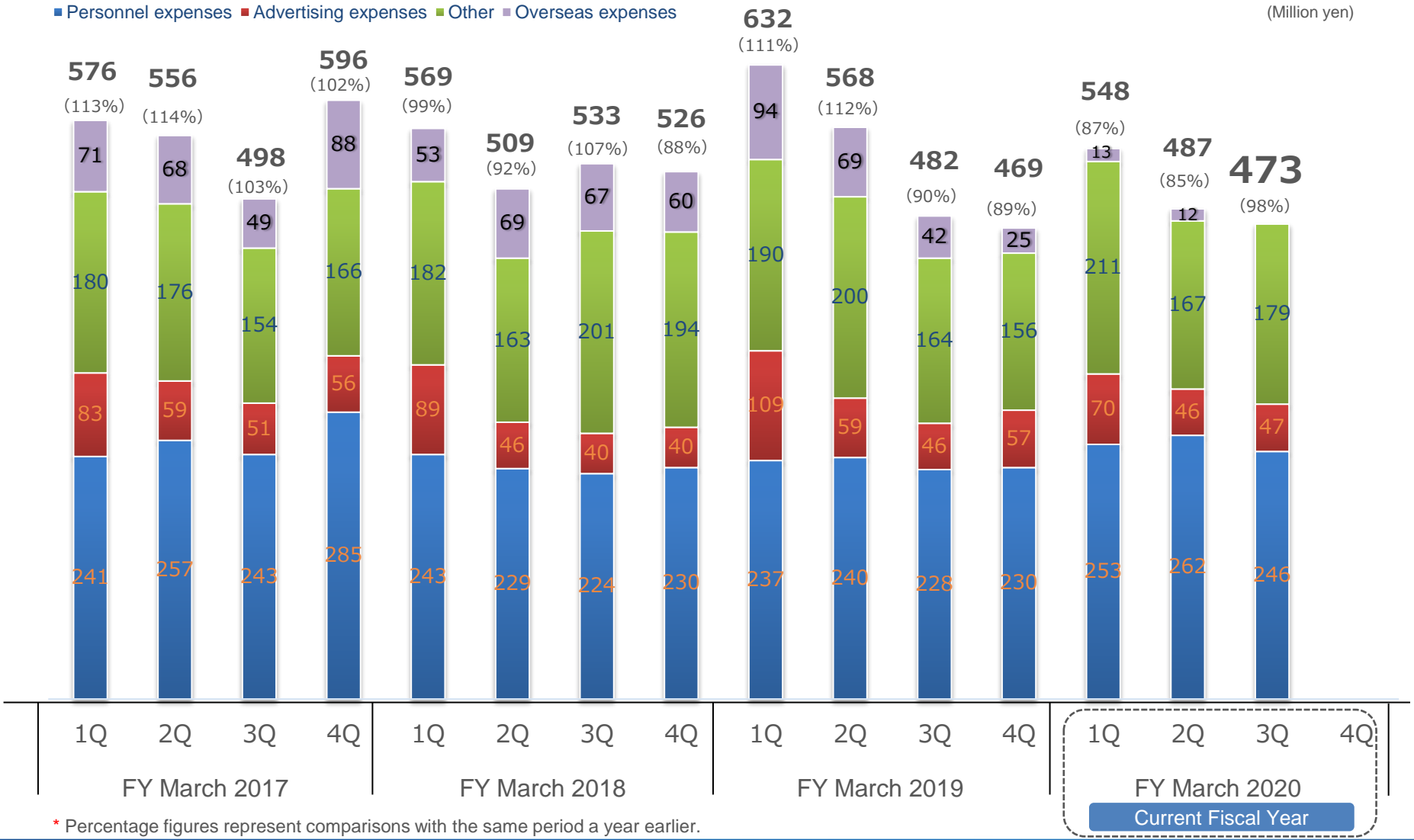


\* Percentage figures represent comparisons with the same period a year earlier.

Domestic expenses were on par with the previous fiscal year, but overseas expenses shrank substantially.

■ Personnel expenses ■ Advertising expenses ■ Other ■ Overseas expenses

(Million yen)



\* Percentage figures represent comparisons with the same period a year earlier.

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# **By Market**

- Total consolidated sales decreased slightly.
- In the enterprise sector market, net sales achieved an increase of +8.2%, reflecting strong sales of i-FILTER Browser & Cloud.
- In the public sector market, net sales decreased 10.2% due to a decline in reaction to winning of large projects in the previous fiscal year.
- In the consumer sector market, net sales decreased 8.5% due to a reduction in offer price to carriers despite the progress of filtering installation for minors.

Consolidated net sales

Net Sales: **4,141** million yen (-25 million yen / -0.6% YoY)

Enterprise Sector

Net Sales: **2,309** million yen (+175 million yen / +8.2% YoY)

Public Sector

Net Sales: **1,486** million yen (-168 million yen / -10.2% YoY)

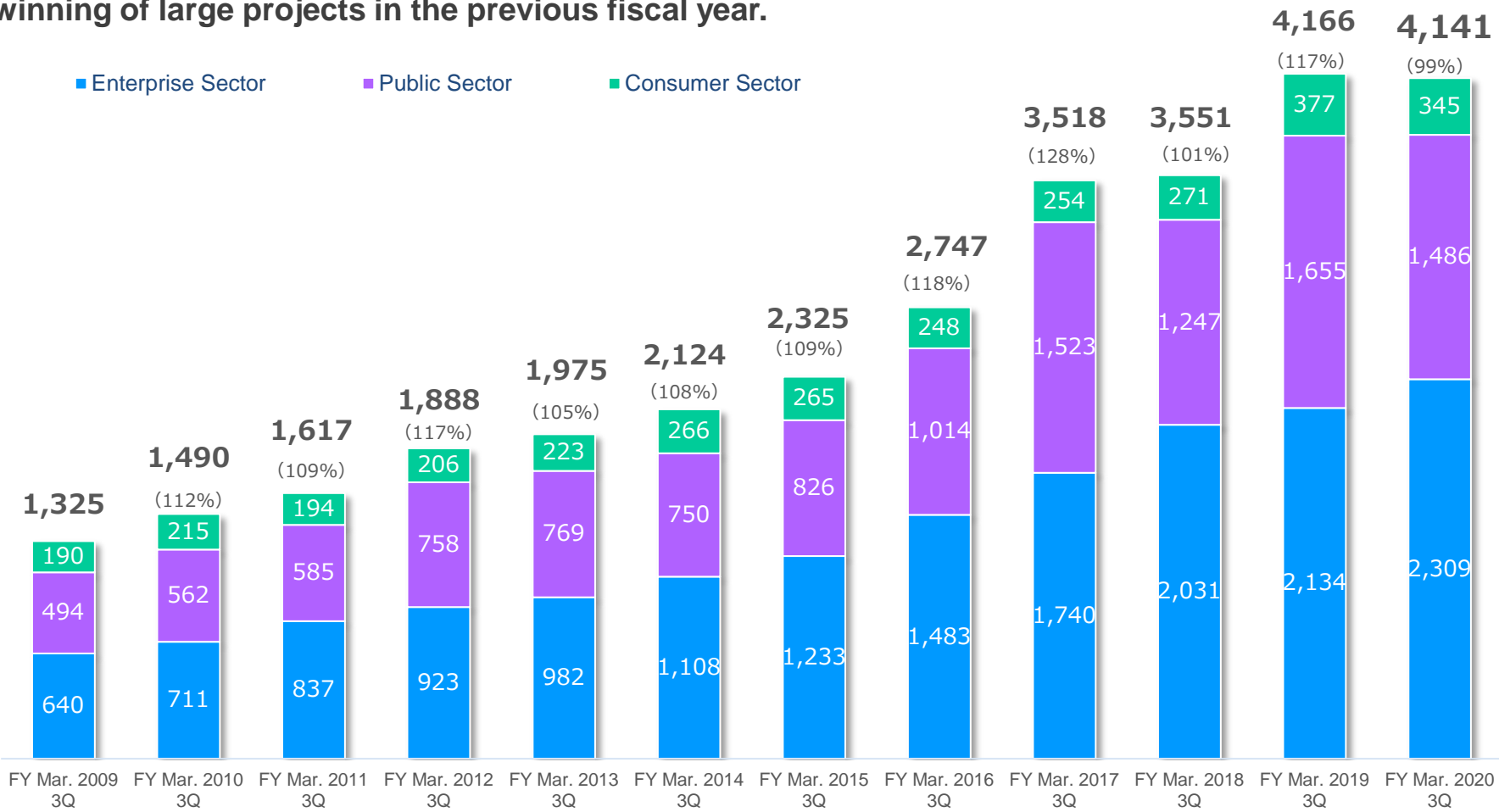
Consumer Sector

Net Sales: **345** million yen (-32 million yen / -8.5% YoY)

Net sales in the enterprise sector market increased thanks to strong sales of the i-FILTER browser & cloud.

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.

(Million yen)

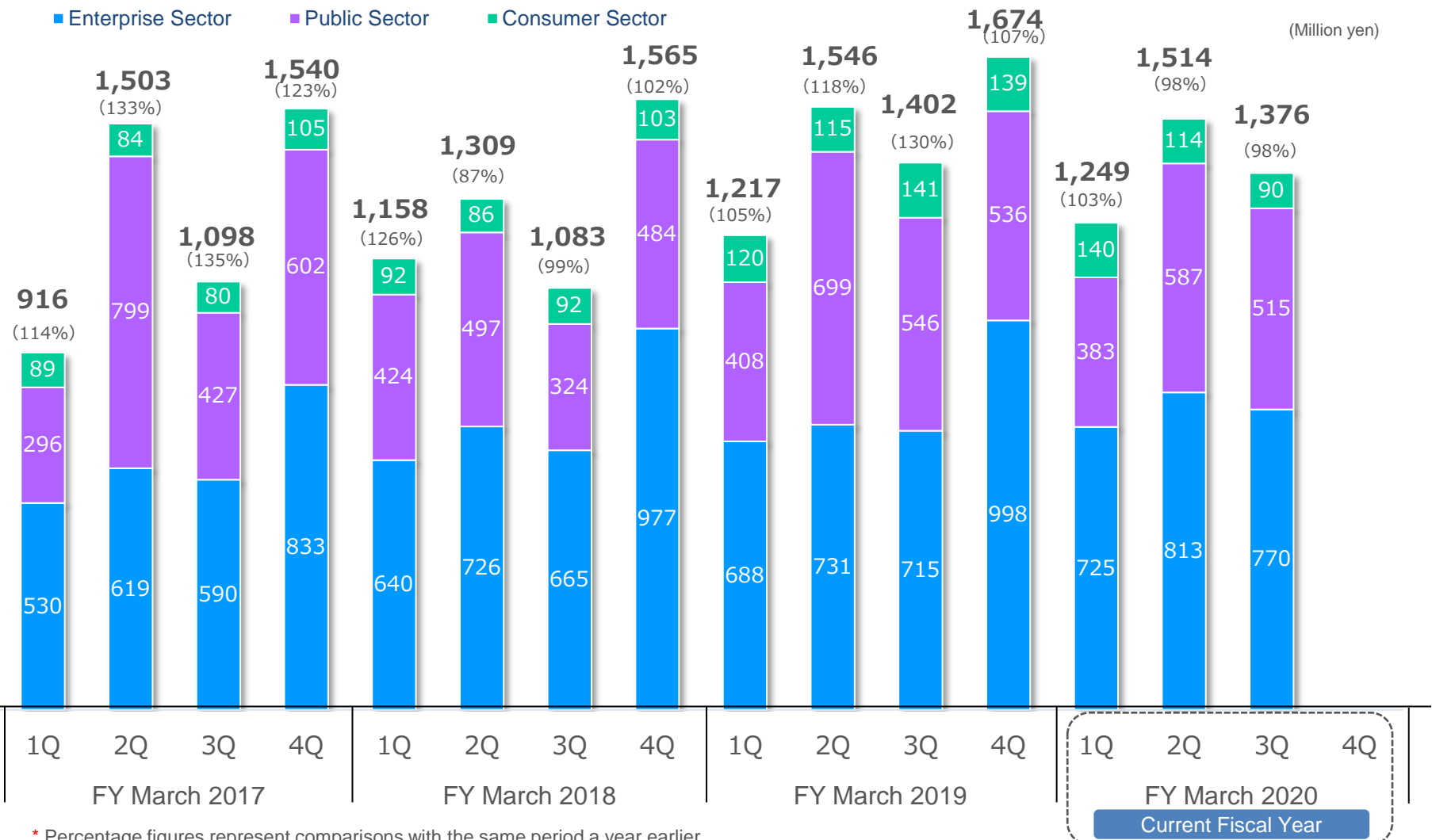


\* Percentage figures represent comparisons with the preceding quarter.

# Quarterly Trend in Net Sales by Market



Net sales in the enterprise sector market increased thanks to strong sales of the i-FILTER browser & cloud.



\* Percentage figures represent comparisons with the same period a year earlier.



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# **Enterprise Sector**

- Sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of location or situation, continued to expand, reflecting a rise in the number of people who take out company-provided tablets, notebooks or other devices and work 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.

**i-FILTER**  
Series **113.1%** of the year-ago figure.



**m-FILTER**  
Series **88.6%** of the year-ago figure.



**FINALCODE**  
**112.1%** of the year-ago figure.



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# **Public Sector**

- Overall sales of the public sector market decreased due to the decrease of orders for projects with large monetary value that contributed to sales in the same period of the previous fiscal year.
- 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 and Cloud.

**i-FILTER**  
Series **89.4%** of the year-ago figure.



**m-FILTER**  
Series **89.0%** of the year-ago figure.



**FINALCODE** **109.7%** of the year-ago figure.



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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.

For mobile terminals  
Other

**85.9%** of the year-ago figure.

For computers

**99.4%** of the year-ago figure.

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# **Full-Year financial Forecast for the Fiscal Year Ending March 2020**

## Revision of consolidated results forecast

(Million yen)

	<b>Initial</b> plan for FY March 2020	<b>Revised</b> plan for FY March 2020	Change
Net sales	6,800	<b>5,500</b>	-1,300
Gross profit	5,450	<b>4,100</b>	-1,350
Selling, general and administrative expenses	2,150	<b>2,050</b>	-100
Operating profit	3,300	<b>2,050</b>	-1,250
Ordinary profit	3,300	<b>2,050</b>	-1,250
Profit attributable to owners of parent	2,277	<b>1,430</b>	-847
Dividend per share (yen)	50.00	<b>50.00</b>	—

Note: Refer to “Notice of Revision to the Full-Year Result Forecast for the Fiscal Year Ending March 2020” announced today for related matters.



## Revision of results forecast on a non-consolidated basis

(Million yen)

	<b>Initial</b> plan for FY March 2020	<b>Revised</b> plan for FY March 2020	Change
<b>Net sales</b>	6,600	<b>5,200</b>	-1,400
<b>Gross profit</b>	5,400	<b>4,050</b>	-1,350
<b>Selling, general and administrative expenses</b>	2,100	<b>1,950</b>	-150
<b>Operating profit</b>	3,300	<b>2,100</b>	-1,200
<b>Ordinary profit</b>	3,300	<b>2,100</b>	-1,200
<b>Profit</b>	2,290	<b>1,450</b>	-840

Note: Refer to “Notice of Revision to the Full-Year Result Forecast for the Fiscal Year Ending March 2020” announced today for related matters.

## Background of revision to full-year consolidated results forecast

With the aim of becoming a total security solution maker, the Group has been progressing in higher quality product development with a new concept and the consolidation of existing product line-ups in the domestic market.

The Company gained high recognition and shares in the area of inside information leak-type security measures. In addition, we facilitated sales promotion activities with the Group and sales agents. As a result, new world view, the solution the Group offers, were highly evaluated and our presence as a comprehensive security measures maker has risen in the market.

However, replacement demand for PCs increased sharply due to the conclusion of the Windows 7 support period in January 2020 and sales agents' initiative to focus on PC sales has lasted longer than initially expected for the fiscal year under review. Furthermore, a supplementary budget for the GIGA School Concept, which works on unified enhancement of one school child on one terminal for learning and high-speed, high-capacity telecommunication networks, was approved by the Cabinet on December 2019. Consequently, projects under negotiation in the public sector market are being reviewed.

Under such circumstances, the winning of new large-scale projects came to an end to a certain degree and negotiations to win existing projects are continuing. As business performance is expected to fall short of the previous forecast, net sales have been revised downward. As a result, operating profit, ordinary profit and profit have been revised downward as well.

Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

(Million yen)

	Results for FY March 2019	<b>Revised plan for FY March 2020</b>	% Change
Net sales	5,841	<b>5,500</b>	-5.8%
Gross profit	4,781	<b>4,100</b>	-14.3%
Selling, general and administrative expenses	2,152	<b>2,050</b>	-4.8%
Operating profit	2,629	<b>2,050</b>	-22.0%
Ordinary profit	2,630	<b>2,050</b>	-22.1%
Profit attributable to owners of parent	1,961	<b>1,430</b>	-27.1%
Dividend per share (yen)	48.00	<b>50.00</b>	—

Note: Refer to “Notice of Revision to the Full-Year Result Forecast for the Fiscal Year Ending March 2020” announced today for related matters.

Non-Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

(Million yen)

	Results for FY March 2019	<b>Revised</b> plan for FY March 2020	% Change
<b>Net sales</b>	5,752	<b>5,200</b>	-9.6%
<b>Gross profit</b>	4,724	<b>4,050</b>	-14.3%
<b>Selling, general and administrative expenses</b>	1,949	<b>1,950</b>	+0.0%
<b>Operating profit</b>	2,774	<b>2,100</b>	-24.3%
<b>Ordinary profit</b>	2,777	<b>2,100</b>	-24.4%
<b>Profit</b>	1,784	<b>1,450</b>	-18.8%

Note: Refer to “Notice of Revision to the Full-Year Result Forecast for the Fiscal Year Ending March 2020” announced today for related matters.

## ■ 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, 2020: 48.9% (of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2020: **50.00 yen per share**

	Dividend (in yen) per share			Consolidated payout ratio
	Interim	Year-end	Total	
FY March 2019	18.00	30.00	48.00	34.0%
FY March 2020	25.00			
FY March 2020 (forecast)		25.00	50.00	48.9%

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.

- デジタルアーツ, DIGITAL ARTS, i-FILTER, info board, ARS, Active Rating System, ACTIVE RATING, ZBRAIN, D-SPA, SP-Cache, NET FILTER, White Web, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER File Scan, Mail Detox, FinalCode, i-FILTER, DigitalArts@Cloud, Chat@Cloud, D-Alert, D-Content, and logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.
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