

Quarterly Consolidated Financial Results for First Three Quarters of the Fiscal
Year Ending March 31, 2020 [Japan GAAP]



January 31, 2020

Name of listed company: Digital Arts Inc. Listed on: Tokyo Stock Exchange 1st Section
 Securities code: 2326 URL https://www.daj.jp
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 Scheduled date for filing the quarterly financial report: February 7, 2020 Scheduled date to start dividends distribution: __
 Supplementary quarterly materials prepared: Yes
 Quarterly results information meeting held: No

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the first three quarters ended December 31, 2019

(from April 1, 2019 to December 31, 2019)

(1) Consolidated operating results (cumulative totals) (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three quarters ended December 31, 2019	4,141	(0.6)	1,648	(1.6)	1,648	(1.5)	1,128	(20.4)
First three quarters ended December 31, 2018	4,166	17.3	1,674	43.7	1,674	42.2	1,418	82.4

(Note) Comprehensive income First three quarters ended December 31, 2019: 1,126 million yen (-20.9%) First three quarters ended December 31, 2018: 1,422 million yen (83.1%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three quarters ended December 31, 2019	80.72	78.54
First three quarters ended December 31, 2018	102.07	101.85

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	10,086	8,209	81.1	583.85
As of March 31, 2019	9,859	7,802	78.7	558.33

(Reference) Equity capital: As of December 31, 2019: 8,181 million yen As of March 31, 2019: 7,761 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	—	18.00	—	30.00	48.00
Year ending March 31, 2020	—	25.00	—	—	—
Year ending March 31, 2020 (forecast)	—	—	—	25.00	50.00

(Note) Revisions to most recently announced dividend forecast: No

2. Forecast of consolidated financial results for the year ending March 31, 2020

(April 1, 2019 – March 31, 2020)

(Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	5,500	(5.8)	2,050	(22.0)	2,050	(22.1)	1,430	(27.1)	102.26

(Note) Revisions to most recently announced financial results forecast: Yes

* Notes

(1) Significant changes in subsidiaries during the term (Changes in specified subsidiaries resulting in changes in scope of consolidation): None

New — (Company name) , Excluding — (Company name)

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: Yes

(Note) For details, refer to (*Application of specific accounting for preparing the quarterly consolidated financial statements*) in (3) *Notes to quarterly consolidated financial statements* in 2. *Quarterly consolidated financial statements and major notes* on page 7 of the Attached Document.

(3) Changes in accounting policies, changes of accounting estimates and restatement

1) Changes in accounting policies due to revisions of accounting standards, etc.: None

2) Changes in accounting policies due to reasons other than those stated in 1): None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury shares)

As of December 31, 2019:	14,133,000	As of March 31, 2019	14,133,000
As of December 31, 2019:	119,920	As of March 31, 2019	232,320
First three quarters ended December 31, 2019	13,983,960	First three quarters ended December 31, 2018	13,898,365

2) Number of treasury shares

3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)

* Quarterly financial results are outside the scope of the quarterly review by certified public accountants or audit corporations.

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

Business forecasts and other forward-looking statements in this material contain predictions based on future assumptions, outlooks and plans as of the date of publication of this material. The Company does not warrant the accomplishment of the forecasts. Actual results may differ significantly from the forecasts due to risks and uncertain factors associated with the world economy, the state of competition, and fluctuations in foreign exchange rates and interest rates.

For matters relevant to business forecasts, refer to (3) Information on the future outlook, including consolidated financial results forecasts in 1. Qualitative information on quarterly financial results on page 3 of the Attached Document.

(Obtaining the Supplementary Material for the Financial Results)

The material is available at Digital Arts Inc. corporate website.

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1. Qualitative Information on quarterly financial results

(1) Details of business results

During the first three quarters of the consolidated fiscal year under review (April 1 through December 31, 2019), the Japanese economy continued to show a moderate recovery, chiefly because the employment conditions and income environment continued to improve, and corporate earnings remained steady against the backdrop of the government-led economic measures. On the other hand, the outlook of the global economy remained uncertain, mainly due to concerns over an economic slowdown attributable to intensifying US - China trade tensions that are likely to persist longer than expected, as well as mounting geopolitical risks.

In the security industry, in which the Digital Arts Group (the “Group”) operates, there is a growing number of challenges faced by companies and other organizations such as a shortage of security-related personnel, in addition to the diversification and sophistication in threats of targeted cyberattacks with a focus on specific companies, organizations and national institutions, not only in Japan but also on a global scale. There is also a sharp increase in the number of users who rely on cloud services for the outsourcing of security operations that they find difficult to deal with and reductions in the burden of security operations. In addition, with the gradual enforcement of the workstyle reform law from April 1, 2019, companies and other organizations are required to rectify long working hours and establish an environment in which operations can be performed more flexibly. Against this backdrop, the way workstyle reforms should be implemented while simultaneously maintaining security has surfaced as a new challenge because security needs to be improved urgently in out-of-office environments such as work from home and satellite offices.

Given these circumstances, with a view to offering solutions for a secure internet environment, regardless of the size of the businesses operated by the respective customers, the Group continued to improve i-FILTER Ver. 10 and m-FILTER Ver. 5 by enhancing performance and adding functions, and endeavored to increase sales of the products while also aiming to establish a higher level of security in conjunction with businesses for the enterprise sector and public sector markets. In addition, it began to supply FinalCode Ver. 6 in June 2019. Ver. 6 incorporates an automatic file encryption function, for which there is strong demand from existing users and potential customers. Regardless of security literacy, Ver. 6 actualizes an environment in which files are automatically encrypted instantly. In addition, by introducing a free browsing function for internal users and volume discounts according to the number of licenses purchased, it offers more users an opportunity to utilize FinalCode more securely in more operation-friendly environments. Moreover, by including FinalCode@Cloud and Chat@Cloud in the lineup of DigitalArts@Cloud, it creates the world of a virus-free room as well, where users are not conscious of security in the cloud environment. Moreover, the Group revised sales prices and established new plans: “i-FILTER@Cloud Harmful Sites Blocker Edition” and “m-FILTER@Cloud Misdirected E-mail Prevention Edition.” Accordingly, a system was put in place to provide products meeting the needs of all types of users.

In the consumer sector market, efforts need to be stepped up to popularize filtering functions among young people as the amount of internet-linked damage is increasing due to the use of smartphones against the backdrop of the rising number of young people who use smartphones. Given these circumstances, the Group continued to engage in educational activities and work with mobile network carriers, among other parties, and contributed to popularizing the i-FILTER for smartphones.

Consolidated net sales for the first three quarters of the fiscal year under review stood at 4,141,002 thousand yen, 99.4% of the previous year, reflecting substantially increased replacement demand for PCs with the Window7 support period coming to an end in January 2020, the fact that sales agents’ initiative of focusing on PC sales has lasted longer than initially expected, and due to a reactionary drop in large orders in monetary terms, which was a driving force of net sales a year ago. In terms of profit, operating profit was 1,648,190 thousand yen, 98.4% of the previous year’s level, and ordinary profit came to 1,648,945 thousand yen, 98.5% of the previous year’s level. Profit attributable to owners of parent came to 1,128,844 thousand yen (79.6% year-on-year) due to the decline as a reaction to control effect of tax expenses associated with the liquidation of the U.S. subsidiary in the previous consolidated fiscal year.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, in particular, sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of the location or situation, expanded, 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. In addition, sales of FinalCode Ver. 6, which was released in the first quarter of the consolidated fiscal year under review, steadily increased as well. Moreover, progress was made in winning new orders to some extent for i-FILTER Ver. 10 and m-FILTER Ver. 5, which support countermeasures against sophisticated targeted cyberattacks.

Net sales in this market reached 2,309,786 thousand yen, up 8.2% year on year.

Public Sector Market

In this market, with respect to the mainstay products i-FILTER and m-FILTER, in addition to ongoing projects from the previous consolidated fiscal year, the acquisition of new projects progressed to a certain degree. However, sales in this entire market declined from a year earlier due to a reactionary drop in large orders in monetary terms, which was a driving force of net sales a year ago. Meanwhile, due to 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, which features the capability to implement sophisticated security measures for tablets as well as the addition of a service of providing information that creates the optimal environment for learning.

As a consequence, net sales in this market stood at 1,486,191 thousand yen, down 10.2% year on year.

Consumer Sector Market

In this market, filtering installation for the ever-increasing use of smartphones by youth progressed. Sales decreased, however, mainly reflecting a reduction in the offer price to carriers resulting from carriers' free-of-charge service to end users, and sluggish sales of multiple-year products and i-FILTER® for Multi-device that can be made available on multiple terminals.

Net sales in this market amounted to 345,024 thousand yen, down 8.5% year on year.

(2) Details of financial position

(Assets)

Total assets at the end of the third quarter of the consolidated fiscal year under review increased 227,107 thousand yen from the end of the previous consolidated fiscal year, to 10,086,454 thousand yen, mainly due to an increase in cash and deposits.

(Liabilities)

Total liabilities at the end of the third quarter of the consolidated fiscal year under review decreased 179,148 thousand yen from the end of the previous consolidated fiscal year, to 1,877,304 thousand yen.

(Net assets)

Net assets at the end of the third quarter of the consolidated fiscal year under review increased 406,255 thousand yen from the end of the previous consolidated fiscal year, to 8,209,150 thousand yen. This was mainly due to an increase in retained earnings associated with the posting of profit attributable to owners of parent.

(3) Information on the future outlook, including consolidated financial results forecasts

The Group has revised the forecast for the full-year financial forecast announced on May 9, 2019. Please refer to “Notice of Revisions to the Full-Year Financial Forecast” announced today for matters related to the revisions to the projected figures.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	First three quarters of fiscal year ending March 31, 2020 (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	6,169,172	6,874,203
Notes and accounts receivable - trade	1,172,515	1,018,142
Securities	299,968	—
Finished goods	290	624
Other	87,863	80,036
Total current assets	7,729,809	7,973,006
Non-current assets		
Property, plant and equipment	261,087	246,842
Intangible assets		
Software	1,044,163	1,299,128
Other	367,390	115,426
Total intangible assets	1,411,553	1,414,555
Investments and other assets	456,896	452,049
Total non-current assets	2,129,537	2,113,447
Total assets	9,859,347	10,086,454
Liabilities		
Current liabilities		
Accounts payable - trade	22,744	26,460
Income taxes payable	330,672	228,212
Provision for bonuses	128,192	82,053
Advances received	1,225,258	1,188,800
Other	303,494	305,362
Total current liabilities	2,010,363	1,830,889
Non-current liabilities		
Asset retirement obligations	45,444	45,769
Other	645	645
Total non-current liabilities	46,089	46,414
Total liabilities	2,056,452	1,877,304
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	827,730	975,073
Retained earnings	6,518,256	6,878,728
Treasury shares	(306,939)	(392,775)
Total shareholders' equity	7,752,637	8,174,617
Accumulated other comprehensive income		
Foreign currency translation adjustments	8,499	6,986
Total accumulated other comprehensive income	8,499	6,986
Share acquisition rights	23,587	18,214
Non-controlling interests	18,169	9,331
Total net assets	7,802,894	8,209,150
Total liabilities and net assets	9,859,347	10,086,454

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

(Consolidated financial results for the first three quarters)

(Thousand yen)

	First three quarters of fiscal year ended March 31, 2019 (from April 1, 2018 to December 31, 2018)	First three quarters of fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)
Net sales	4,166,963	4,141,002
Cost of sales	809,382	984,044
Gross profit	3,357,581	3,156,958
Selling, general and administrative expenses	1,683,270	1,508,767
Operating profit	1,674,310	1,648,190
Non-operating income		
Interest income	796	603
Commission income	154	15
Gain on forfeiture of unclaimed dividends	1,168	840
Miscellaneous income	1,021	574
Total non-operating income	3,141	2,034
Non-operating expenses		
Foreign exchange losses	2,870	979
Miscellaneous loss	109	299
Total non-operating expenses	2,980	1,278
Ordinary profit	1,674,471	1,648,945
Extraordinary income		
Gain on reversal of share acquisition rights	2,062	468
Total extraordinary income	2,062	468
Extraordinary losses		
Loss on retirement of non-current assets	0	55
Loss on valuation of golf club membership	2,200	—
Total extraordinary losses	2,200	55
Profit before income taxes	1,674,333	1,649,358
Income taxes	253,558	521,559
Profit	1,420,774	1,127,799
Profit (loss) attributable to non-controlling interests	2,221	(1,045)
Profit attributable to owners of parent	1,418,552	1,128,844

Quarterly consolidated statements of comprehensive income
(Consolidated financial results for the first three quarters)

(Thousand yen)

	First three quarters of fiscal year ended March 31, 2019 (from April 1, 2018 to December 31, 2018)	First three quarters of fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)
Profit	1,420,774	1,127,799
Other comprehensive income		
Foreign currency translation adjustments	2,224	(1,512)
Total other comprehensive income	2,224	(1,512)
Comprehensive income	1,422,999	1,126,286
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,420,777	1,127,332
Comprehensive income attributable to non-controlling interests	2,221	(1,045)

(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

(Notes on significant fluctuation in the amount of shareholders' equity)

There are no applicable matters.

(Application of special accounting for preparing the quarterly consolidated financial statements)

Calculation of tax expenses

Tax expenses have been calculated by multiplying profit before income taxes for the consolidated fiscal year including the first three quarters concerned by the reasonably estimated effective tax rate after application of tax effect accounting to the said profit before income taxes.