



**Quarterly Consolidated Financial Results for First Three Months of Fiscal  
Year Ending March 31, 2021 (Japanese Accounting Standards)**

July 31, 2020

Name of listed company: Digital Arts Inc. Listed on: Tokyo Stock Exchange 1st Section  
 Securities code: 2326 URL https://www.daj.jp  
 Representative: (Title) Representative Director, President and CEO (Name) Toshio Dogu  
 General Manager of the  
 Contact: (Title) Administration (Name) Isao Konishi TEL: 03-5220-6045  
 Department  
 Scheduled date for submission of quarterly report August 7, 2020 Scheduled date to start dividends distribution: -  
 Preparation of supplementary explanatory documents for quarterly results : Yes  
 Holding of quarterly results briefing : No

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

**1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2021**

(April 1, 2020 – June 30, 2020)

(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 months of year ending March 31, 2021	1,413	13.2	485	17.2	489	18.8	334	19.1
First three months of year ended March 31, 2020	1,249	2.6	413	40.0	411	39.8	280	60.2

(Note) Comprehensive income: First three months of year ending March 31, 2021 331million yen (19.4%) First three months of year ended March 31, 2020 277million yen (53.7%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three months of year ending March 31, 2021	23.86	23.33
First three months of year ended March 31, 2020	20.19	20.15

**(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2020	10,769	8,652	80.2	616.10
As of March 31, 2020	10,852	8,680	79.7	617.27

(Reference) Equity capital: As of June 30, 2020 8,635million yen As of March 31, 2020 8,652million yen

**2. Dividends**

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	25.00	—	25.00	50.00
Year ending March 31, 2021	—				
Year ending March 31, 2021 (forecast)		25.00	—	30.00	55.00

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

### 3. Forecast of consolidated financial results for the year ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	3,300	19.4	1,490	35.8	1,490	36.4	1,030	38.2	73.48
Full year	7,500	32.9	3,550	52.5	3,550	52.6	2,450	54.0	174.79

(Note) Revisions to most recently announced results forecasts : No

#### \* Notes

(1) Changes in important subsidiaries during the first three months of fiscal year ending March 31, 2021 : None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

New - (Company name), Excluding - (Company name)

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements : Yes

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)” on page 9 of the attached materials.

(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)

- Number of shares issued and outstanding (including treasury shares)
- Number of treasury shares
- Average number of shares issued and outstanding in each period (cumulative total)

As of June 30, 2020	14,133,000	As of March 31, 2020	14,133,000
As of June 30, 2020	115,942	As of March 31, 2020	116,042
First three months of year ending March 31, 2021	14,017,028	First three months of year ended March 31, 2020	13,906,554

\* Quarterly financial statements are not subject to quarterly audits 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 concerning results forecasts, please refer to “1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2021 (3) Explanation about information on future forecasts such as consolidated results forecasts” on page 5 of the attached materials.

(How to obtain supplementary materials for quarterly results)

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

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## 1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2021

### (1) Explanation about business results

During the first three months of the consolidated fiscal year under review (April 1 through June 30, 2020), the Japanese economy saw consumer spending and corporate earnings plummet sharply due to the stagnation and contraction of economic activities under the COVID-19 pandemic. The outlook remains extremely uncertain.

In the security industry in which the Digital Arts Group (the “Group”) operates, demand expanded amid successive cases of damages caused by diversifying cyberattacks, including ransomware and Emotet. Apart from demand from large-sized organizations, new demand for security measures is growing from medium- and small-sized enterprises, which were comparatively lagging in these measures. In addition, IoT, AI and other technologies were increasingly used and the practice of working from home spread quickly to stop the proliferation of the COVID-19 coronavirus, security personnel must now manage increasingly diversifying and advancing risks, and the demand for security services is expected to continuously grow. In the public sector market, after the Japanese cabinet decision on the supplementary budget totaling 231.8 billion yen for the GIGA School Concept in December 2019, a supplementary budget proposal earmarking an extra 229.2 billion yen aimed at speeding up the concept was approved by the Japanese Cabinet in April 2020. It is urgent to swiftly create an environment using ICT to ensure all children’s learning, even during an emergency, by rapidly providing every school-aged child with a terminal.

Amid these circumstances, the Group’s domestic operations continued efforts to improve i-FILTER Ver. 10 and m-FILTER Ver. 5 by enhancing performance and adding functions, and to provide higher-precision security environments for the enterprise sector and public sector markets to offer solutions for a secure Internet environment regardless of the size of the businesses operated by customers. In addition, for the enterprise sector market, the Group implemented activities for increasing recognition and sales promotion of DigitalArts@Cloud, released in May 2018, in view of the rapid introduction of cloud technologies to online services and e-mail environments amid the spread of teleworking. The Group worked towards allowing users to view webpages without worry and to open e-mail messages without hesitation in the cloud environment. The Group also endeavored to develop a communication tool for online meetings and prepared to offer cloud services not only for security but also for enhancing work efficiency under the circumstances where it is rapidly becoming common to work from home or other styles of teleworking amid the COVID-19 crisis.

For the public sector market, the GIGA School Concept sets out a policy of newly supplying around 7.5 million tablets to school-aged children to ensure that each one has a terminal. In line with acceleration of this concept, the Company is working more closely with sales partners to offer an extensive lineup of i-FILTER at special prices and is running a campaign to provide service that matches the standard specifications that conform to the Guidelines on Education Information Security Policy free of charge. With these actions, the Company retained its current market share of around 60% among 1,741 boards of education and constructed a system for holding a larger market share.

In the consumer sector market, as more and more young people are using smartphones, they are increasingly being affected by inappropriate Internet content chiefly via smartphone. Filtering needs to be promoted to protect young people. Amid the COVID-19 coronavirus crisis, the closures of schools and tutoring schools are protracted and use of computers and other terminals for online learning at home is increasing. Given these circumstances, the Company continued its educational activities and conducted efforts to popularize i-FILTER in collaboration with mobile network carriers.

As a result, net sales for the first three months of the consolidated fiscal year under review stood at 1,413,949 thousand yen, up 13.2% year on year, operating profit at 485,051 thousand yen, up 17.2% year on year, ordinary profit at 489,200 thousand yen, up 18.8% year on year, and profit attributable to owners of parent at 334,399 thousand yen, up 19.1% year on year.

The following describes business performance in separate markets.

#### Enterprise Sector Market

In the enterprise sector market, active sales promotion efforts enhanced recognition of functionality for i-FILTER Ver. 10 and m-FILTER Ver. 5, which are both high-end models, and helped acquire new contracts. The shortage of security professionals and the spread of teleworking accelerated the use of cloud services to reduce the burden of security operations. The sales share of cloud service products in the i-FILTER series in the Company’s product lineup gradually increased and net sales soared. While license sales are recorded in a lump at the time of shipping, recorded sales of cloud services are apportioned on a monthly basis throughout

the service provision period. As a result, the balance of advances received increased. In addition, Digital Arts Consulting Inc., a subsidiary offering security consulting services, won new projects, contributing to the rise in net sales.

Net sales in this market reached 847,245 thousand yen, up 16.7% year on year.

#### Public Sector Market

In the public sector market, the Group traditionally enjoyed high recognition and a large market share as a provider of Japan-made security solutions with a focus on internal data leakage. Highly rated for its track record and reliability, it continuously gained new contracts for i-FILTER Ver. 10 and m-FILTER Ver. 5, which provide advanced security measures, including those against internal data leakage and targeted attacks. As in the enterprise sector market, there is a gradual trend towards security products with cloud technologies for the public sector market. The Group's steady acquisition of new contracts for cloud service products in the i-FILTER series meant growth in advances received. The GIGA School Concept envisions the integrated development of providing every school-aged child with a learning terminal and constructing high-speed and high-capacity communication networks. In association, the Group already obtained orders for i-FILTER from some boards of education. It is anticipated that these orders will gather momentum in and after the second quarter of the current consolidated fiscal year.

As a consequence, net sales in this market stood at 451,588 thousand yen, up 17.8% year on year.

#### Consumer Sector Market

In this market, the Group focused its efforts on collaboration with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID. Advances in the introduction of filtering amid the widespread use of smartphones among young people and strong sales of i-FILTER for Multiple Devices, for which the Group implemented intensive sales activities, contributed to an increase in licenses. However, net sales tumbled due to revisions to the prices for sales to mobile network carriers.

Net sales in this market amounted to 115,115 thousand yen, shrunk 18.1% year on year.

## (2) Explanation about financial position

### (Assets)

Total assets at the end of the first quarter of the consolidated fiscal year under review decreased 83,173 thousand yen from the end of the previous consolidated fiscal year to 10,769,060 thousand yen. This was due mainly to a slide in cash and deposits.

### (Liabilities)

Total liabilities at the end of the first quarter of the consolidated fiscal year under review declined 55,120 thousand yen from the end of the previous consolidated fiscal year to 2,116,890 thousand yen. This was due chiefly to a decrease in income taxes payable.

### (Net assets)

Net assets at the end of the first quarter of the consolidated fiscal year under review decrease 28,053 thousand yen to 8,652,170 thousand yen. This resulted from a decrease following payment of dividends, though profit attributable to owners of parent led to growth in retained earnings.

## (3) Explanation about information on future forecasts such as consolidated results forecasts

Operating results for the first three months of the consolidated fiscal year under review remained steady overall, and there was therefore no change in the forecast of consolidated financial results for the year ending March 31, 2021 announced on May 8, 2020.

The Company has determined the results forecasts based on information available on the day of these financial results for the first three months of the year ending March 31, 2020. Actual results may be different from the forecasts due to a variety of factors. If there are any significant changes, the Company will disclose them appropriately.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal 2020 (As of March 31, 2020)	First quarter of fiscal 2021 (As of June 30, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	7,651,645	7,609,185
Notes and accounts receivable - trade	994,793	953,717
Finished goods	771	759
Supplies	654	623
Other	85,614	107,353
Total current assets	8,733,479	8,671,639
Non-current assets		
Property, plant and equipment	249,474	244,869
Intangible assets		
Software	1,331,410	1,301,566
Other	79,251	92,430
Total intangible assets	1,410,661	1,393,996
Investments and other assets	458,619	458,555
Total non-current assets	2,118,755	2,097,421
Total assets	10,852,234	10,769,060
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	32,469	24,372
Income taxes payable	469,079	179,585
Provision for bonuses	119,788	73,995
Advances received	1,229,998	1,310,899
Other	274,151	478,872
Total current liabilities	2,125,487	2,067,725
Non-current liabilities		
Asset retirement obligations	45,877	48,519
Other	645	645
Total non-current liabilities	46,522	49,164
Total liabilities	2,172,010	2,116,890
<b>Net assets</b>		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	972,058	971,997
Retained earnings	7,340,668	7,324,643
Treasury shares	(380,126)	(379,799)
Total shareholders' equity	8,646,190	8,630,432
Accumulated other comprehensive income		
Foreign currency translation adjustment	6,120	5,493
Total accumulated other comprehensive income	6,120	5,493
Share acquisition rights	18,049	9,060
Non-controlling interests	9,864	7,184
Total net assets	8,680,224	8,652,170
Total liabilities and net assets	10,852,234	10,769,060

## (2) Quarterly consolidated statement of income and comprehensive income

## Quarterly consolidated statement of income

Consolidated first three months

(Thousand yen)

	First three months of fiscal 2020 (from April 1, 2019 to June 30, 2019)	First three months of fiscal 2021 (from April 1, 2020 to June 30, 2020)
Net sales	1,249,447	1,413,949
Cost of sales	286,767	427,792
Gross profit	962,680	986,157
Selling, general and administrative expenses	548,911	501,105
Operating profit	413,768	485,051
Non-operating income		
Interest income	253	143
Commission income	15	—
Gain on forfeiture of unclaimed dividends	—	593
Foreign exchange gains	—	340
Subsidy income	—	1,629
Miscellaneous income	115	1,441
Total non-operating income	384	4,148
Non-operating expenses		
Foreign exchange losses	2,214	—
Total non-operating expenses	2,214	—
Ordinary profit	411,939	489,200
Extraordinary income		
Gain on reversal of share acquisition rights	75	8,986
Total extraordinary income	75	8,986
Extraordinary losses		
Loss on retirement of non-current assets	0	—
Total extraordinary losses	0	—
Profit before income taxes	412,014	498,186
Income taxes	132,017	166,466
Profit	279,996	331,720
Loss attributable to non-controlling interests	(804)	(2,679)
Profit attributable to owners of parent	280,800	334,399

Quarterly consolidated statement of comprehensive income

Consolidated first three months

(Thousand yen)

	First three months of fiscal 2020 (from April 1, 2019 to June 30, 2019)	First three months of fiscal 2021 (from April 1, 2020 to June 30, 2020)
Profit	279,996	331,720
Other comprehensive income		
Foreign currency translation adjustment	(2,674)	(626)
Total other comprehensive income	(2,674)	(626)
Comprehensive income	277,322	331,093
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	278,126	333,772
Comprehensive income attributable to non-controlling interests	(804)	(2,679)



(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

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

There are no applicable matters.

(Application of special accounting methods to the preparation of quarterly consolidated financial statements)

Calculation of tax expenses

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the first quarter of the consolidated fiscal year under review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.