



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

October 30, 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 DoguContact: (Title) General Manager of the
Administration (Name) Isao Konishi TEL: 03-5220-6045
DepartmentScheduled date for submission of
quarterly report November 9, 2020Scheduled date to start dividends
distribution: December 2, 2020Preparation of supplementary explanatory:
documents for quarterly results YesHolding of quarterly results briefing : Yes (for institutional investors and financial
analysts)

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

1. Consolidated financial results for the first half of the fiscal year ending March 31, 2021 (April 1, 2020 – September 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 half of year ending March 31, 2021	3,101	12.2	1,310	19.5	1,316	20.5	908	22.0
First half of year ended March 31, 2020	2,764	0.0	1,096	5.9	1,092	5.0	745	(24.9)

(Note) Comprehensive First half of year ending March 31, 2021 906million yen (22.2%) First half of year ended March 31, 2020 742million yen (-25.3%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First half of year ending March 31, 2021	64.84	63.35
First half of year ended March 31, 2020	53.40	51.80

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2020	11,437	9,238	80.6	657.61
As of March 31, 2020	10,852	8,680	79.7	617.27

(Reference:.) Equity capital: As of September 30, 2020 9,220million yen As of March 31, 2020 8,652million yen

2. Dividends

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

	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	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 half 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 (4) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)" on page 10 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)

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

As of September 30, 2020	14,133,000	As of March 31, 2020	14,133,000
As of September 30, 2020	111,542	As of March 31, 2020	116,042
First half of year ending March 31, 2021	14,018,558	First half of year ended March 31, 2020	13,957,694

* 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 Half 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 Half of Fiscal Year Ending March 31, 2021

(1) Explanation about business results

During the first half of the consolidated fiscal year under review (April 1 through September 30, 2020), the circumstances encountered by the Japanese economy were adverse. Economic activity stagnated and contracted due to the COVID-19 pandemic, and as a result consumer spending and corporate earnings continued to decline sharply. Since then, the economy has begun to rally, due to the increase in social and economic activities and the government economic package. However, the outlook is very uncertain amid concerns about a resurgence of the pandemic and the ongoing deterioration of corporate performance.

In the security industry, in which the Digital Arts Group (the “Group”) operates, demand for security products expanded following a series of damaging incidents 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 measures 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 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 to offer solutions for a secure Internet environment regardless of the size of the customer.

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 solely view secure websites and receive secure e-mail messages in the cloud environment. The Group also released the Desk@Cloud communication tool equipped not only with online conferencing, communication and chat features but also with security measures. Thus, it prepared to offer cloud services that achieve not only security but also improved work efficiency.

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.

For the fiscal year under review, demand in the enterprise and public sector markets has rapidly soared for cloud service products, following the spread of COVID-19. A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period. This means that as the contracts for cloud service products become a higher percentage of total contract amounts, there is a rise in deferred sales and a wider gap between contract amounts and sales.

As a result, net sales for the first half of the consolidated fiscal year under review stood at 3,101,538 thousand yen, up 12.2% year on year, operating profit at 1,310,585 thousand yen, up 19.5% year on year, ordinary profit at 1,316,378 thousand yen, up 20.5% year on year, and profit attributable to owners of parent at 908,905 thousand yen, up 22.0% year on year.

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, active sales efforts enhanced recognition of effectiveness of i-FILTER Ver. 10 and m-FILTER Ver. 5 and helped acquire new contracts. Especially due to the COVID-19 pandemic, cloud services have increasingly been used to reduce costs and operations management burdens. In addition, Digital Arts Consulting Inc., a subsidiary offering security consulting services, enjoyed mounting demand and achieved an increase in sales.

Net sales in this market reached 1,832,515 thousand yen, up 19.08% year on year.

Public Sector Market

In the public sector market, the Group has traditionally enjoyed excellent recognition and a large market share as a provider of Japan-made security solutions. Highly rated for its track record and reliability, new contracts for i-FILTER Ver. 10 and m-FILTER Ver. 5, which provide advanced security measures and protect against targeted attacks, continued to gain new contracts. Also in the public sector market, there is a rapid shift to security products with cloud technologies. The Group thus steadily acquired new contracts for cloud service products in the i-FILTER series. It also began receiving contracts for the i-FILTER series from boards of education with the help of the GIGA School Concept.

As a consequence, net sales in this market stood at 1,049,502 thousand yen, up 8.14% year on year.

Consumer Sector Market

In the consumer sector market, the Group focused on collaborating with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems using a single serial ID. As a result, it attained an increase of users. Meanwhile, net sales tumbled due to revisions to the prices for sales to mobile network carriers.

Net sales in this market amounted to 219,520 thousand yen, shrunk 13.84% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the second quarter of the consolidated fiscal year under review increased 584,899 thousand yen from the end of the previous consolidated fiscal year to 11,437,133 thousand yen, mainly due to an increase in cash and deposits.

(Liabilities)

Total liabilities at the end of the second quarter of the consolidated fiscal year under review increased 26,282 thousand yen from the end of the previous consolidated fiscal year to 2,198,292 thousand yen. This was due chiefly to an increase in advances received.

(Net assets)

Net assets at the end of the second quarter of the consolidated fiscal year under review increased 558,617 thousand yen from the end of the previous consolidated fiscal year to 9,238,841 thousand yen. This was due to an increase in retained earnings associated with the posting of profit attributable to owners of parent.

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

Operating results for the first half 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 half 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 half of fiscal 2021 (As of September 30, 2020)
Assets		
Current assets		
Cash and deposits	7,651,645	8,257,462
Notes and accounts receivable - trade	994,793	1,022,982
Finished goods	771	643
Supplies	654	597
Other	85,614	98,951
Total current assets	8,733,479	9,380,638
Non-current assets		
Property, plant and equipment	249,474	234,470
Intangible assets		
Software	1,331,410	1,277,510
Other	79,251	87,016
Total intangible assets	1,410,661	1,364,527
Investments and other assets	458,619	457,497
Total non-current assets	2,118,755	2,056,494
Total assets	10,852,234	11,437,133
Liabilities		
Current liabilities		
Accounts payable - trade	32,469	35,258
Income taxes payable	469,079	443,370
Provision for bonuses	119,788	72,533
Advances received	1,229,998	1,328,184
Other	274,151	269,671
Total current liabilities	2,125,487	2,149,019
Non-current liabilities		
Asset retirement obligations	45,877	48,628
Other	645	645
Total non-current liabilities	46,522	49,273
Total liabilities	2,172,010	2,198,292
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	972,058	968,548
Retained earnings	7,340,668	7,899,149
Treasury shares	(380,126)	(365,385)
Total shareholders' equity	8,646,190	9,215,902
Accumulated other comprehensive income		
Foreign currency translation adjustment	6,120	4,765
Total accumulated other comprehensive income	6,120	4,765
Share acquisition rights	18,049	8,971
Non-controlling interests	9,864	9,201
Total net assets	8,680,224	9,238,841
Total liabilities and net assets	10,852,234	11,437,133

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first half

(Thousand yen)

	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)
Net sales	2,764,132	3,101,538
Cost of sales	630,407	875,557
Gross profit	2,133,724	2,225,980
Selling, general and administrative expenses	1,036,750	915,394
Operating profit	1,096,974	1,310,585
Non-operating income		
Interest income	448	291
Commission income	15	—
Gain on forfeiture of unclaimed dividends	350	591
Foreign exchange gains	—	1,400
Subsidy income	—	1,667
Miscellaneous income	474	1,840
Total non-operating income	1,288	5,792
Non-operating expenses		
Foreign exchange losses	6,220	—
Total non-operating expenses	6,220	—
Ordinary profit	1,092,042	1,316,378
Extraordinary income		
Gain on reversal of share acquisition rights	404	8,995
Total extraordinary income	404	8,995
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	1,092,446	1,325,373
Income taxes	347,551	417,131
Profit	744,895	908,242
Loss attributable to non-controlling interests	(413)	(662)
Profit attributable to owners of parent	745,308	908,905

Quarterly consolidated statement of comprehensive income
Consolidated first half

(Thousand yen)

	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)
Profit	744,895	908,242
Other comprehensive income		
Foreign currency translation adjustment	(2,480)	(1,355)
Total other comprehensive income	(2,480)	(1,355)
Comprehensive income	742,414	906,887
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	742,828	907,549
Comprehensive income attributable to non-controlling interests	(413)	(662)

(3) Quarterly consolidated statement of cash flows

	(Thousand yen)	
	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Profit before income taxes	1,092,446	1,325,373
Depreciation	382,093	428,001
Increase (decrease) in provision for bonuses	3,861	(47,254)
Interest income	(448)	(291)
Loss on retirement of non-current assets	0	0
Foreign exchange losses (gains)	6,321	(2,145)
Gain on reversal of share acquisition rights	(404)	(8,995)
Decrease (increase) in trade receivables	271,666	70,137
Decrease (increase) in inventories	118	184
Increase (decrease) in trade payables	(4,235)	2,808
Increase (decrease) in accounts payable - other	(23,525)	(17,505)
Decrease (increase) in other current assets	7,928	(18,396)
Increase (decrease) in other current liabilities	(67,865)	23,751
Other	4,790	(2,446)
Subtotal	1,672,746	1,753,220
Interest and dividends received	628	527
Income taxes paid	(309,063)	(439,973)
Income taxes refund	—	4,774
Net cash provided by (used in) operating activities	1,364,312	1,318,549
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,502)	(22,583)
Purchase of intangible assets	(363,540)	(352,209)
Proceeds from redemption of securities	300,000	—
Net cash provided by (used in) investing activities	(82,042)	(374,792)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	336,643	11,149
Dividends paid	(416,245)	(350,073)
Net cash provided by (used in) financing activities	(79,602)	(338,923)
Effect of exchange rate change on cash and cash equivalents	(8,659)	984
Net increase (decrease) in cash and cash equivalents	1,194,008	605,817
Cash and cash equivalents at beginning of period	5,569,172	7,651,645
Cash and cash equivalents at end of period	6,763,180	8,257,462

(4) 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 half 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.