



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

January 29, 2021

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

Contact: (Title) General Manager of the
Administration (Name) Isao Konishi TEL: 03-5220-6045
Department

Scheduled date for submission of quarterly report February 10, 2021 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 quarters of the fiscal year ending March 31, 2021 (April 1, 2020 – December 31, 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 quarters of year ending March 31, 2021	4,750	14.7	1,973	19.7	1,982	20.2	1,363	20.8
First three quarters of year ended March 31, 2020	4,141	(0.6)	1,648	(1.6)	1,648	(1.5)	1,128	(20.4)

(Note) Comprehensive income: First three quarters of year ending March 31, 2021 1,363million yen (21.1%) First three quarters of year ended March 31, 2020 1,126million yen (-20.9%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three quarters of year ending March 31, 2021	97.22	94.97
First three quarters of year ended March 31, 2020	80.72	78.54

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2020	11,906	9,358	78.4	665.66
As of March 31, 2020	10,852	8,680	79.7	617.27

(Reference) Equity capital: As of December 31, 2020 9,336million 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 financial results forecast : No

* Notes

(1) Changes in important subsidiaries during the first three quarters 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)

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

As of December 31, 2020	14,133,000	As of March 31, 2020	14,133,000
As of December 31, 2020	106,342	As of March 31, 2020	116,042
First three quarters of year ending March 31, 2021	14,020,719	First three quarters of year ended March 31, 2020	13,983,960

2) Number of treasury shares

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

* 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 Quarters 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.

○Table of Contents for the Attached Document

1. Qualitative Information on Financial Results for the First Three Quarters of Fiscal Year Ending March 31, 2021	4
(1) Explanation about business results.....	4
(2) Explanation about financial position	5
(3) Explanation about information on future forecasts such as consolidated results forecasts.....	5
2. Quarterly Consolidated Financial Statements and Primary Notes	6
(1) Quarterly consolidated balance sheet.....	6
(2) Quarterly consolidated statement of income and comprehensive income.....	7
Quarterly consolidated statement of income	
Consolidated first three quarters.....	7
Quarterly consolidated statement of comprehensive income	
Consolidated first three quarters.....	8
(3) Notes to quarterly consolidated financial statements.....	9
(Notes on the premise of a going concern).....	9
(Notes on significant changes in the amount of shareholders' equity).....	9
(Application of special accounting methods to the preparation of quarterly consolidated financial statements).....	9

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

(1) Explanation about business results

During the first three quarters of the consolidated fiscal year under review (April 1 through December 31, 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, reflecting the increase in social and economic activities and the government economic package. However, the outlook is very uncertain as a state of emergency was declared for the second time following a resurgence of the pandemic.

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, 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. Providing every school-aged child with a terminal is urgently needed.

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.

In the public sector market, the Company strove to expand sales of the i-FILTER series, running a campaign building closer ties with sales partners to offer the extensive i-FILTER lineup at special prices in line with the acceleration of the GIGA School Concept and offering services matched with the standard specifications that conform to the Guidelines on Education Information Security Policy free of charge.

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 three quarters of the consolidated fiscal year under review stood at 4,750,916 thousand yen, up 14.7% year on year, operating profit at 1,973,608 thousand yen, up 19.7% year on year, ordinary profit at 1,982,538 thousand yen, up 20.2% year on year, and profit attributable to owners of parent at 1,363,097 thousand yen, up 20.8% 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 2,804,275 thousand yen, up 21.4% 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. In the GIGA School Concept, orders for the i-FILTER series are continuing to grow.

As a consequence, net sales in this market stood at 1,623,527 thousand yen, up 9.4% 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 323,112 thousand yen, down 6.4% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the third quarter of the consolidated fiscal year under review increased 1,054,165 thousand yen from the end of the previous consolidated fiscal year to 11,906,400 thousand yen. This was due mainly to an increase of 945,707 thousand yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the third quarter of the consolidated fiscal year under review rose 376,236 thousand yen from the end of the previous consolidated fiscal year to 2,548,246 million yen. This was due mainly to an increase of 379,374 thousand yen in advances received due to the expansion of sales.

(Net assets)

Net assets at the end of the third quarter of the consolidated fiscal year under review increased 677,929 thousand yen from the end of the previous consolidated fiscal year to 9,358,153 thousand yen. This was chiefly due to the posting of a profit attributable to owners of parent.

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

Operating results for the first three quarters 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 quarters of the year ending March 31, 2021. 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 three quarters of fiscal 2021 (As of December 31, 2020)
Assets		
Current assets		
Cash and deposits	7,651,645	8,597,352
Notes and accounts receivable - trade	994,793	1,138,038
Finished goods	771	1,218
Supplies	654	566
Other	85,614	73,712
Total current assets	8,733,479	9,810,888
Non-current assets		
Property, plant and equipment	249,474	235,192
Intangible assets		
Software	1,331,410	1,315,680
Other	79,251	87,553
Total intangible assets	1,410,661	1,403,233
Investments and other assets	458,619	457,086
Total non-current assets	2,118,755	2,095,511
Total assets	10,852,234	11,906,400
Liabilities		
Current liabilities		
Accounts payable - trade	32,469	46,605
Income taxes payable	469,079	317,121
Provision for bonuses	119,788	127,786
Advances received	1,229,998	1,609,373
Other	274,151	397,979
Total current liabilities	2,125,487	2,498,865
Non-current liabilities		
Asset retirement obligations	45,877	48,736
Other	645	645
Total non-current liabilities	46,522	49,381
Total liabilities	2,172,010	2,548,246
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	972,058	964,735
Retained earnings	7,340,668	8,002,805
Treasury shares	(380,126)	(348,351)
Total shareholders' equity	8,646,190	9,332,778
Accumulated other comprehensive income		
Foreign currency translation adjustment	6,120	4,169
Total accumulated other comprehensive income	6,120	4,169
Share acquisition rights	18,049	8,855
Non-controlling interests	9,864	12,349
Total net assets	8,680,224	9,358,153
Total liabilities and net assets	10,852,234	11,906,400

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first three quarters

(Thousand yen)

	First three quarters of fiscal 2020 (from April 1, 2019 to December 31, 2019)	First three quarters of fiscal 2021 (from April 1, 2020 to December 31, 2020)
Net sales	4,141,002	4,750,916
Cost of sales	984,044	1,362,430
Gross profit	3,156,958	3,388,485
Selling, general and administrative expenses	1,508,767	1,414,877
Operating profit	1,648,190	1,973,608
Non-operating income		
Interest income	603	432
Commission income	15	—
Gain on forfeiture of unclaimed dividends	840	1,199
Foreign exchange gains	—	2,680
Subsidy income	330	3,562
Miscellaneous income	244	1,055
Total non-operating income	2,034	8,930
Non-operating expenses		
Foreign exchange losses	979	—
Miscellaneous loss	299	—
Total non-operating expenses	1,278	—
Ordinary profit	1,648,945	1,982,538
Extraordinary income		
Gain on reversal of share acquisition rights	468	9,009
Gain on sales of non-current assets	—	3,430
Total extraordinary income	468	12,439
Extraordinary losses		
Loss on liquidation of subsidiaries	—	2,109
Loss on retirement of non-current assets	55	0
Total extraordinary losses	55	2,109
Profit before income taxes	1,649,358	1,992,868
Income taxes	521,559	627,286
Profit	1,127,799	1,365,582
Profit (loss) attributable to non-controlling interests	(1,045)	2,485
Profit attributable to owners of parent	1,128,844	1,363,097

Quarterly consolidated statement of comprehensive income

Consolidated first three quarters

(Thousand yen)

	First three quarters of fiscal 2020 (from April 1, 2019 to December 31, 2019)	First three quarters of fiscal 2021 (from April 1, 2020 to December 31, 2020)
Profit	1,127,799	1,365,582
Other comprehensive income		
Foreign currency translation adjustment	(1,512)	(1,951)
Total other comprehensive income	(1,512)	(1,951)
Comprehensive income	1,126,286	1,363,631
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,127,332	1,361,146
Comprehensive income attributable to non-controlling interests	(1,045)	2,485

(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 three quarters 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.