



Quarterly Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2022 (Japanese Accounting Standards)

October 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 Department (Name) Isao Konishi TEL: 03-5220-6045

Scheduled date for submission of quarterly report: November 5, 2021
Scheduled date to start dividends distribution: December 2, 2021

Preparation of supplementary explanatory documents for quarterly results: Yes

Holding 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, 2022 (April 1, 2021 – September 30, 2021)

(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, 2022	4,552	46.8	2,079	58.7	2,080	58.0	1,433	57.7
First half of year ended March 31, 2021	3,101	12.2	1,310	19.5	1,316	20.5	908	22.0

(Note) Comprehensive income: First half of year ending March 31, 2022 1,435million yen (58.3%) First half of year ending March 31, 2021 906million yen (22.2%)

	Profit per share (basic)	Profit per share (diluted)
First half of year ending March 31, 2022	Yen 102.16	Yen 99.81
First half of year ended March 31, 2021	64.84	63.35

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of September 30, 2021	Million yen 18,588	Million yen 11,093	% 59.5	Yen 788.58
As of March 31, 2021	14,856	10,062	67.6	715.79

(Reference) Equity capital: As of September 30, 2021: 11,066million yen As of March 31, 2021: 10,041million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
Year ended March 31, 2021	Yen —	Yen 25.00	Yen —	Yen 30.00	Yen 55.00
Year ending March 31, 2022	—	60.00			
Year ending March 31, 2022 (forecast)			—	35.00	95.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2022 (April 1, 2021 – March 31, 2022)

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

Full 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
	9,000	31.9	4,000	34.3	4,000	33.7	2,770	34.5	197.40

(Note) Revisions to most recently announced results forecasts: Yes

* 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 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.: | Yes |
| 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 September 30, 2021	14,133,000	As of March 31, 2021	14,133,000
2) Number of treasury shares	As of September 30, 2021	99,531	As of March 31, 2021	104,462
3) Average number of shares issued and outstanding in each period (cumulative total)	First half of year ending March 31, 2022	14,032,314	First half of year ended March 31, 2021	14,018,558

* 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, 2022 (3) Explanation about information on future forecasts such as consolidated results forecasts" on page 4 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, 2022

(1) Explanation about business results

During the first half of the consolidated fiscal year under review (April 1, 2021 to September 30, 2021), the Japanese economy continued to face challenging circumstances due to the continuing worldwide effects of COVID-19. Consumer spending and corporate earnings continued to decline as a result of the stagnation and contraction of economic activities. Signs of an economic recovery continued to emerge with the step-by-step relaxation of voluntary restraints on economic activities in response to government measures for stimulating the economy and progress in vaccination. However, the economic outlook remained uncertain.

In the security industry, in which the Digital Arts Group (the "Group") operates, the importance of security solutions grew in response to the risk of information leaks and increasingly sophisticated and diverse cyber attacks, including targeted attacks targeting specific enterprises, government agencies and other organizations. At the same time, demand for security products made in Japan rose under the chaotic world situation. Further, in the enterprise sector market, working from home became unavoidable, and demand for software products to prepare for working in the home and performing business processes securely and efficiently increased under the prolonged effects of the pandemic. Meanwhile, progress was also made in the public sector market, with the strengthening of security measures by local governments, in addition to the GIGA School Concept, which envisions the development of an environment with one learning terminal for each school-aged child.

Under these conditions, in the enterprise sector market, the Group took advantage of the fact that more and more people are working from home and web services and e-mail environments are shifting to the cloud and expanded sales of its i-FILTER@Cloud and m-FILTER@Cloud services, creating a world in which the Internet and emails can be used without hesitation in the cloud environment. In the public sector market, the Company provided a special version of i-FILTER that caters to needs arising from the GIGA School Concept. At the same time, it continued to run campaigns, including the provision of free services that conform to the Guidelines on Education Information Security Policy, in its ongoing efforts to expand sales from schools. In addition, the Company focused on proposing solutions to support local government efforts to strengthen security measures, which will be ramped up from the next fiscal year.

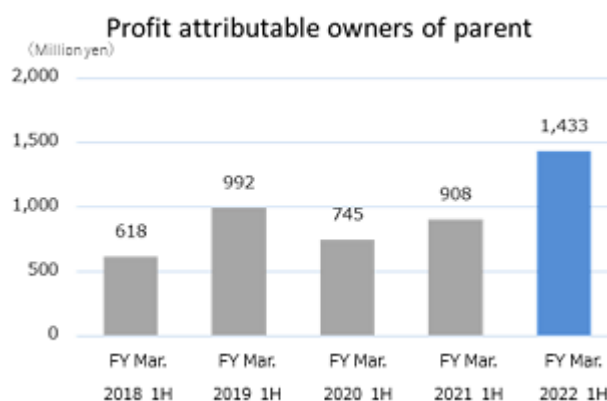
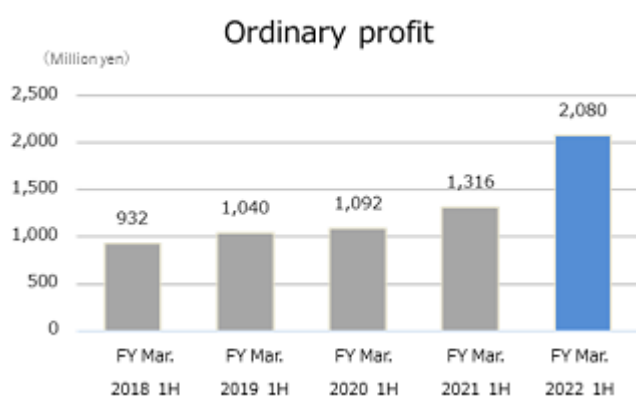
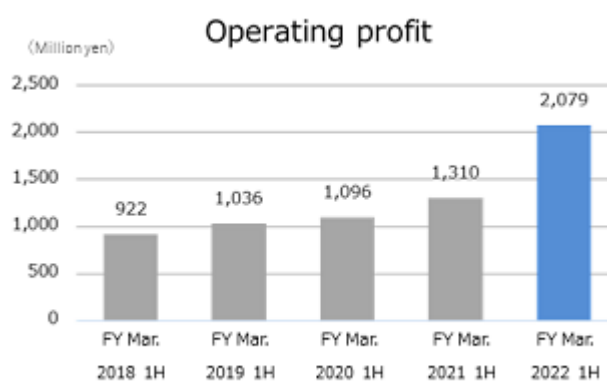
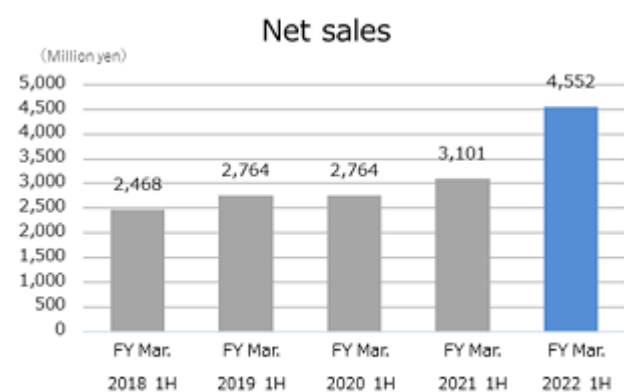
Demand in the enterprise and public sector markets has soared for cloud service products due to the effects of the COVID-19 pandemic. A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period. For that reason, the ratio of cloud service product contracts to all contracts remained high in the current fiscal year, sustaining a trend from the previous fiscal year. Net sales deferred to the next and subsequent fiscal years increased from the end of the first half of the previous fiscal year.

As a result, net sales for the first half of the consolidated fiscal year under review amounted to 4,552 million yen (up 46.8% year on year), operating profit reached 2,079 million yen (up 58.7% year on year), ordinary profit came to 2,080 million yen (up 58.0% year on year), and profit attributable to owners of parent was 1,433 million yen (up 57.7% year on year).

Overview of Consolidated Business Results

	First three months of year ended March 31, 2021	First three months of year ending March 31, 2022	Change	% Change
Net sales	1,413	1,919	+505	+35.7
Operating profit	485	731	+246	+50.8
Ordinary profit	489	732	+243	+49.8
Profit attributable to owners of parent	334	506	+172	+51.6

(Million yen)



The following describes business performance in separate markets.

Enterprise Sector Market

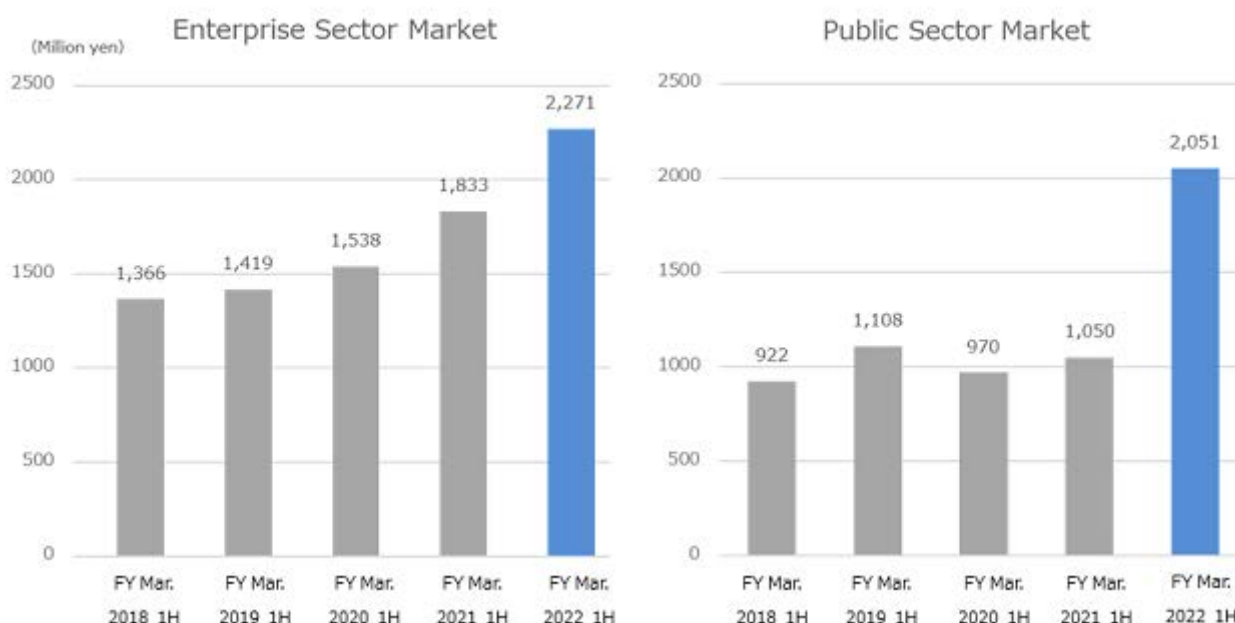
In the enterprise sector market, orders increased for i-FILTER and m-FILTER cloud services which are used to reduce costs and operations management burdens in response to the spread of COVID-19. In addition, net sales for Digital Arts Consulting Inc., a subsidiary offering security consulting services, increased with a progress achieved in new customer acquisition in line with greater corporate demand for cybersecurity and digital transformation (DX).

Net sales in this market reached 2,271 million yen, up 23.9% year on year.

Public Sector Market

In the public sector market, the Company has enjoyed a high degree of recognition and a large market share as a provider of domestically produced security solutions. Sustaining a trend from the previous fiscal year, many schools adopted the Company's i-FILTER@Cloud based on the GIGA School Concept in recognition of its reliability and functionality, enabling learning at home without anxiety. As a result, orders for the cloud service surpassed the Company's estimate. Further, the Company received orders for i-FILTER projects for government and municipal offices in the second quarter under review, ahead of its forecast of receiving the orders in the third quarter of the current fiscal year. Orders for i-FILTER projects for local governments also showed progress. These developments caused net sales in the market to expand substantially.

As a consequence, net sales in this market stood at 2,051 million yen, up 95.5% 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.

Net sales in this market amounted to 229 million yen, up 4.4% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the first half of the consolidated fiscal year under review increased 3,732 million yen from the end of the previous fiscal year, to 18,588 million yen. This was due mainly to an increase of 3,300 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first half of the consolidated fiscal year under review rose 2,701 million yen from the end of the previous fiscal year, to 7,495 million yen. This was due mainly to an increase of 2,490 million yen in advances received, attributable to an increase in the amount of contracts for which orders were received.

(Net assets)

Net assets at the end of the first half of the consolidated fiscal year under review grew 1,030 million yen from the end of the previous fiscal year, to 11,093 million yen. This was mainly due to an increase in retained earnings due to the recording of profit attributable to owners of parent, which outweighed a decrease in dividends paid.

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

The Group has revised the forecast for the full-year financial forecast announced on May 7, 2021. Please refer to the Notice of Difference between Forecasts and Results for the first half of the fiscal year ending March 31, 2022, and Full-Year Financial Forecasts Revision released today for matters related to the revisions made to the forecasts.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)
Assets		
Current assets		
Cash and deposits	11,382	14,682
Notes and accounts receivable - trade	1,268	1,527
Finished goods	0	0
Supplies	3	2
Other	70	111
Total current assets	12,725	16,326
Non-current assets		
Property, plant and equipment	233	215
Intangible assets		
Software	1,274	1,232
Other	128	289
Total intangible assets	1,403	1,522
Investments and other assets	493	524
Total non-current assets	2,130	2,262
Total assets	14,856	18,588
Liabilities		
Current liabilities		
Accounts payable - trade	32	19
Income taxes payable	688	678
Provision for bonuses	194	373
Advances received	3,370	5,861
Other	456	511
Total current liabilities	4,743	7,445
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	4,793	7,495
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	963	959
Retained earnings	8,699	9,712
Treasury shares	△342	△326
Total shareholders' equity	10,034	11,058
Accumulated other comprehensive income		
Foreign currency translation adjustment	7	7
Total accumulated other comprehensive income	7	7
Share acquisition rights	8	12
Non-controlling interests	12	13
Total net assets	10,062	11,093
Total liabilities and net assets	14,856	18,588

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first half

(Million yen)

	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)
Net sales	3,101	4,552
Cost of sales	875	1,238
Gross profit	2,225	3,314
Selling, general and administrative expenses	915	1,234
Operating profit	1,310	2,079
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	1	—
Subsidy income	1	—
Miscellaneous income	1	0
Total non-operating income	5	0
Non-operating expenses		
Foreign exchange losses	—	0
Total non-operating expenses	—	0
Ordinary profit	1,316	2,080
Extraordinary income		
Gain on reversal of share acquisition rights	8	1
Total extraordinary income	8	1
Extraordinary losses		
Loss on retirement of non-current assets	0	—
Total extraordinary losses	0	—
Profit before income taxes	1,325	2,081
Income taxes	417	646
Profit	908	1,435
Profit (loss) attributable to non-controlling interests	△0	1
Profit attributable to owners of parent	908	1,433

Quarterly consolidated statement of comprehensive income
Consolidated first three months

(Million yen)

	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)
Profit	908	1,435
Other comprehensive income		
Foreign currency translation adjustment	△1	0
Total other comprehensive income	△1	0
Comprehensive income	906	1,435
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	907	1,433
Comprehensive income attributable to non-controlling interests	△0	1

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half of fiscal 2021 (from April 1, 2020 to September 30, 2020)	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)
Cash flows from operating activities		
Profit before income taxes	1,325	2,081
Depreciation	428	434
Increase (decrease) in provision for bonuses	△47	178
Interest income	△0	△0
Loss on retirement of non-current assets	0	—
Foreign exchange losses (gains)	△2	△0
Gain on reversal of share acquisition rights	△8	△1
Decrease (increase) in trade receivables	70	2,231
Decrease (increase) in inventories	0	0
Increase (decrease) in trade payables	2	△13
Increase (decrease) in accounts payable - other	△17	65
Decrease (increase) in other current assets	△18	△40
Increase (decrease) in other current liabilities	23	△15
Other	△2	△35
Subtotal	1,753	4,884
Interest and dividends received	0	0
Income taxes paid	△439	△653
Income taxes refund	4	—
Net cash provided by (used in) operating activities	1,318	4,231
Cash flows from investing activities		
Purchase of property, plant and equipment	△22	△0
Purchase of intangible assets	△352	△527
Net cash provided by (used in) investing activities	△374	△528
Cash flows from financing activities		
Proceeds from disposal of treasury shares	11	12
Purchase of treasury shares	—	△0
Dividends paid	△350	△420
Proceeds from issuance of share acquisition rights	—	5
Net cash provided by (used in) financing activities	△338	△403
Effect of exchange rate change on cash and cash equivalents	0	0
Net increase (decrease) in cash and cash equivalents	605	3,300
Cash and cash equivalents at beginning of period	7,651	11,382
Cash and cash equivalents at end of period	8,257	14,682

(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.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 issued on March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition"), etc. from the beginning of the first three months of the consolidated fiscal year under review and recognizes revenue in the amount expected to be received in exchange for promised goods or services when the control of those goods or services is transferred to customers.

As a result, sales rebates, which were previously recorded as selling, general and administrative expenses, are now deducted from sales. The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first three months of the consolidated fiscal year under review was added to or subtracted from the beginning balance of retained earnings of the first three months of the consolidated fiscal year under review. However, this did not have any impact on such beginning balance.

As a result of application of the Accounting Standard for Revenue Recognition, etc., net sales and selling, general and administrative expenses for the first half of the consolidated fiscal year under review both decreased, causing gross profit to fall. However, the impact was insignificant and operating profit, ordinary profit and profit before income taxes were not affected.