

Quarterly Consolidated Financial Results for First Three Months of Fiscal Year Ending March 31, 2023 (Japanese Accounting Standards)

July 29, 2022

Name of listed company: Digital Arts Inc.

Listed on: Tokyo Stock Exchange
Prime Market

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: August 5, 2022
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, 2023 (April 1, 2022 – June 30, 2022)

(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, 2023	2,386	24.3	1,009	38.0	1,019	39.1	702	38.5
First three months of year ended March 31, 2022	1,919	35.7	731	50.8	732	49.8	506	51.6

(Note) Comprehensive income: First three months of year ending March 31, 2023 706million yen (39.4%)
First three months of year ended March 31, 2022 507million yen (53.2%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three months of year ending March 31, 2023	50.00	48.99
First three months of year ended March 31, 2022	36.13	35.29

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2022	19,204	12,304	63.9	874.20
As of March 31, 2022	19,341	12,159	62.7	863.96

(Reference) Equity capital: As of June 30, 2022 12,273million yen As of March 31, 2022 12,129million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	—	30.00	—	40.00	70.00
Year ending March 31, 2023	—				
Year ending March 31, 2023 (forecast)		35.00	—	40.00	75.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(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	10,500	16.0	4,700	13.9	4,700	13.7	3,250	12.0	231.49

(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, 2023: 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 8 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 June 30, 2022	14,133,000	As of March 31, 2022	14,133,000
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2) Number of treasury shares

As of June 30, 2022	93,769	As of March 31, 2022	93,731
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3) Average number of shares issued and outstanding in each period (cumulative total)

First three months of year ending March 31, 2023	14,039,243	First three months of year ended March 31, 2022	14,031,398
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*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, 2023 (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 Three Months of Fiscal Year Ending March 31, 2023

(1) Explanation about business results

During the first three months of the consolidated fiscal year under review (April 1 through June 30, 2022), COVID-19 vaccinations were widespread in Japan, but economies worldwide continued to be affected by COVID-19. In addition to the impact of COVID-19, rising raw materials prices due to the prolonged war in Ukraine and the sharp weakening of the yen against the dollar caused uncertainty in the outlook for the Japanese economy.

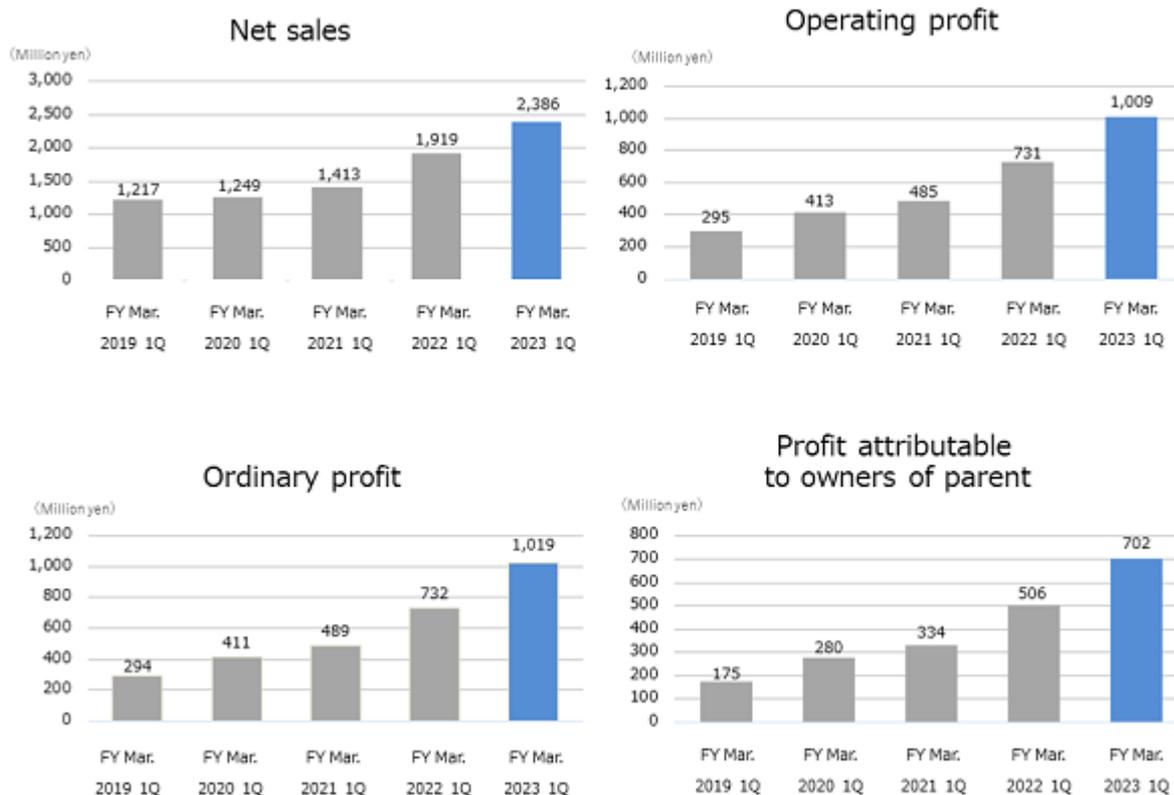
In the security industry, in which the Digital Arts Group (the “Group”) operates, demand for security products expanded following the intensification of damaging incidents caused by diversifying cyberattacks, including ransomware and Emotet. Apart from demand from large-sized organizations, new demand 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 threats, and the demand for total security is expected to continue growing. Expected to continue accelerating are the outsourcing of security operations and the utilization of cloud services to reduce the burden of security operations.

Under these conditions, in the enterprise sector market, the Group expanded sales chiefly by adding new functions, particularly those of mainstay products, i-FILTER and m-FILTER, to meet demand for total security and won deals by implementing a strategy to expand sales to specific targets. In the public sector market, the Group focused on proposing solutions to support local government efforts to strengthen security measures, which are ramped up from the fiscal year under review.

As a result, net sales for the first three months of the consolidated fiscal year under review stood at 2,386 million yen, up 24.3% year on year, operating profit at 1,009 million yen, up 38.0% year on year, ordinary profit at 1,019 million yen, up 39.1% year on year, and profit attributable to owners of parent at 702 million yen, up 38.5% year on year.

Overview of Consolidated Business Results

	(Million yen)			
	First three months of year ended March 31, 2022	First three months of year ending March 31, 2023	Change	% Change
Net sales	1,919	2,386	+466	+24.3
Operating profit	731	1,009	+278	+38.0
Ordinary profit	732	1,019	+286	+39.1
Profit attributable to owners of parent	506	702	+195	+38.5



The following describes business performance in separate markets.

Enterprise Sector Market

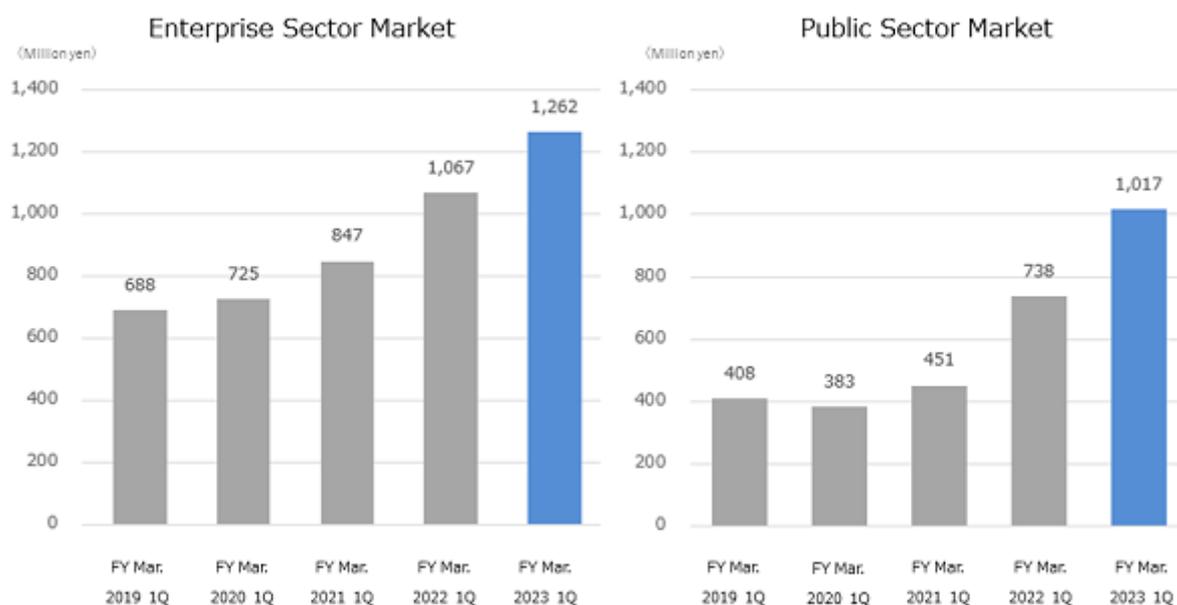
In the enterprise sector market, the Group created new projects by adding new functions, including antivirus functions and sandbox functions, to i-FILTER and m-FILTER to meet demand for total security and strengthened cooperation with agencies to win deals by implementing a strategy to expand sales to specific targets. Sales of m-FILTER increased steadily as a result of high marks given to the use of the PPAP method (sending the Zip file protected by a password by e-mail and sending the password by a separate e-mail) and a function to deal with targeted attacks, including attacks using Emotet. 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) consulting.

Net sales in this market reached 1,262 million yen, up 18.3% year on year.

Public Sector Market

In the public sector market, the Group focused on proposing solutions to support local government efforts to strengthen security measures, which are ramped up from the fiscal year under review, and as a result, sales of the i-FILTER and m-FILTER series grew as brisk orders were won from public agencies and local governments.

As a consequence, net sales in this market stood at 1,017 million yen, up 37.8% 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, but the Group saw sluggish growth in the number of users.

Net sales in this market amounted to 105 million yen, down 6.9% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the first three months of the consolidated fiscal year under review decreased 137 million yen from the end of the previous consolidated fiscal year to 19,204 million yen. This was due mainly to a decrease of 197 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first three months of the consolidated fiscal year under review declined 282 million yen from the end of the previous consolidated fiscal year to 6,899 million yen. This was due mainly to a decrease of 423 million yen in income taxes payable.

(Net assets)

Net assets at the end of the first three months of the consolidated fiscal year under review increased 144 million yen from the end of the previous consolidated fiscal year to 12,304 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

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, 2023 announced on May 10, 2022.

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, 2023. 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

(Million yen)

	Fiscal 2022 (As of March 31, 2022)	First quarter of fiscal 2023 (As of June 30, 2022)
Assets		
Current assets		
Cash and deposits	15,773	15,575
Notes and accounts receivable - trade	1,216	1,290
Finished goods	0	0
Supplies	3	3
Other	111	121
Total current assets	17,105	16,990
Non-current assets		
Property, plant and equipment	206	197
Intangible assets		
Software	1,317	1,380
Other	209	136
Total intangible assets	1,526	1,516
Investments and other assets	503	499
Total non-current assets	2,236	2,213
Total assets	19,341	19,204
Liabilities		
Current liabilities		
Accounts payable - trade	44	55
Income taxes payable	760	337
Provision for bonuses	95	65
Advances received	5,684	5,777
Other	546	612
Total current liabilities	7,130	6,848
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	7,181	6,899
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	10,758	10,899
Treasury shares	(307)	(307)
Total shareholders' equity	12,118	12,258
Accumulated other comprehensive income		
Foreign currency translation adjustment	11	14
Total accumulated other comprehensive income	11	14
Share acquisition rights	12	12
Non-controlling interests	17	19
Total net assets	12,159	12,304
Total liabilities and net assets	19,341	19,204

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first three months

(Million yen)

	First three months of fiscal 2022 (from April 1, 2021 to June 30, 2021)	First three months of fiscal 2023 (from April 1, 2022 to June 30, 2022)
Net sales	1,919	2,386
Cost of sales	613	766
Gross profit	1,305	1,619
Selling, general and administrative expenses	574	609
Operating profit	731	1,009
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	0	8
Miscellaneous income	0	0
Total non-operating income	1	10
Ordinary profit	732	1,019
Extraordinary income		
Gain on reversal of share acquisition rights	1	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on retirement of non-current assets	—	0
Total extraordinary losses	—	0
Profit before income taxes	734	1,019
Income taxes	226	316
Profit	507	703
Profit attributable to non-controlling interests	0	1
Profit attributable to owners of parent	506	702

Quarterly consolidated statement of comprehensive income
Consolidated first three months

(Million yen)

	First three months of fiscal 2022 (from April 1, 2021 to June 30, 2021)	First three months of fiscal 2023 (from April 1, 2022 to June 30, 2022)
Profit	507	703
Other comprehensive income		
Foreign currency translation adjustment	(0)	3
Total other comprehensive income	(0)	3
Comprehensive income	507	706
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	506	705
Comprehensive income attributable to non-controlling interests	0	1

(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.