



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

October 31, 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: November 4, 2022
Scheduled date to start dividends distribution: December 2, 2022

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, 2023 (April 1, 2022 – September 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 half of year ending March 31, 2023	5,084	11.7	2,247	8.1	2,263	8.8	1,558	8.7
First half of year ended March 31, 2022	4,552	46.8	2,079	58.7	2,080	58.0	1,433	57.7

(Note) Comprehensive income: First half of year ending March 31, 2023 1,566 million yen (9.1%)
First half of year ending March 31, 2022 1,435 million yen (58.3%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First half of year ending March 31, 2023	111.03	108.82
First half of year ended March 31, 2022	102.16	99.81

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2022	20,305	13,164	64.7	935.35
As of March 31, 2022	19,341	12,159	62.7	863.96

(Reference) Equity capital: As of September 30, 2022: 13,131 million yen
As of March 31, 2022: 12,129 million 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	—	35.00			
Year ending March 31, 2023 (forecast)			—	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 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 September 30, 2022	14,133,000	As of March 31, 2022	14,133,000
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2) Number of treasury shares

As of September 30, 2022	93,798	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 half of year ending March 31, 2023	14,039,231	First half of year ending March 31, 2022	14,032,314
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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 half 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 half of Fiscal Year Ending March 31, 2023

(1) Explanation about business results

During the first half of the consolidated fiscal year under review (April 1, through September 30, 2022), significant progress in COVID-19 vaccination was made and normal economic activities were gradually resumed as the number of COVID-19 cases decreased and activity restrictions were relaxed. On the other hand, 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.

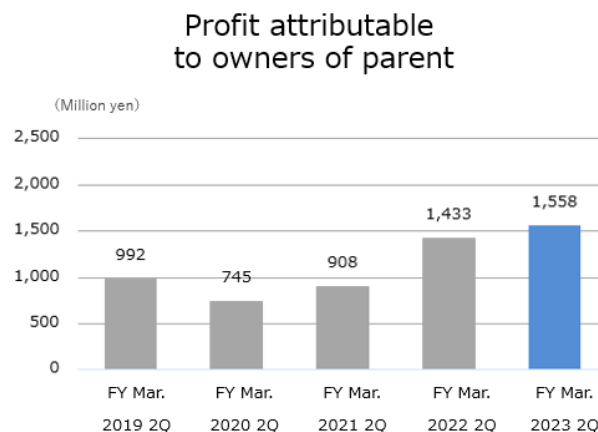
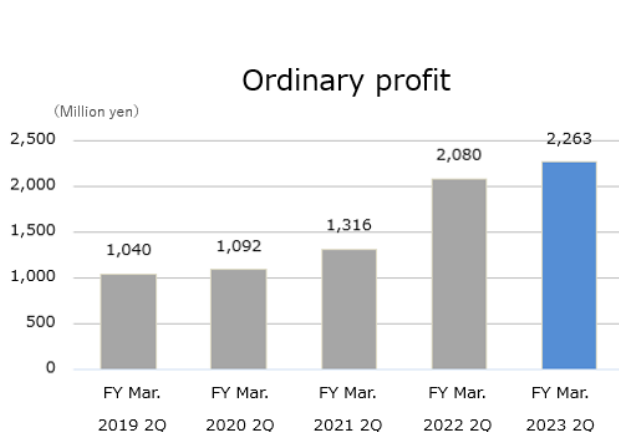
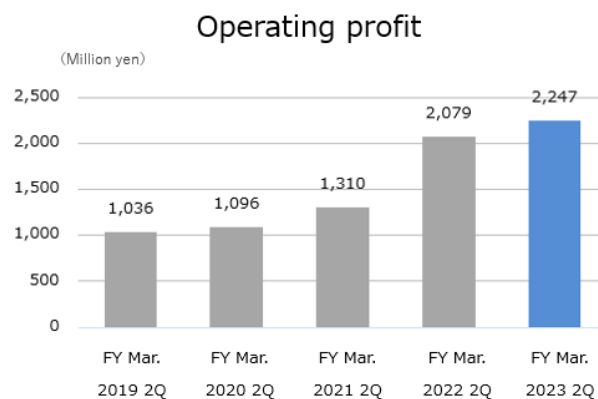
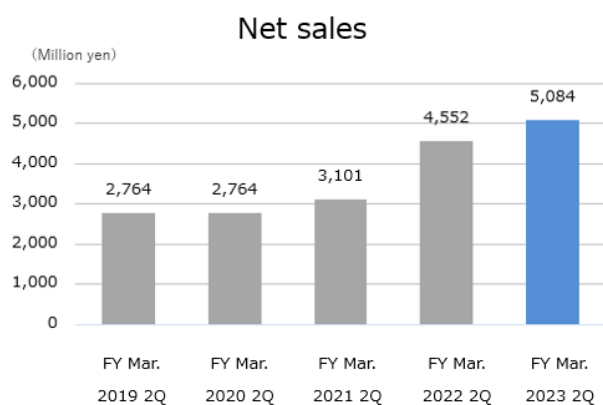
In the security industry, in which the Digital Arts Group (the "Group") operates, demand for security products expanded following the intensification of damaging incidents caused by diversifying cyberattacks, including ransomware and Emotet. Apart from demand from large-sized organizations, new demand 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 half of the consolidated fiscal year under review amounted to 5,084 million yen (up 11.7% year on year), operating profit reached 2,247 million yen (up 8.1% year on year), ordinary profit came to 2,263 million yen (up 8.8% year on year), and profit attributable to owners of parent was 1,558 million yen (up 8.7% year on year).

Overview of Consolidated Business Results

	(Million yen)			
	First half of year ended March 31, 2022	First half of year ending March 31, 2023	Change	% Change
Net sales	4,552	5,084	+532	+11.7
Operating profit	2,079	2,247	+168	+8.1
Ordinary profit	2,080	2,263	+182	+8.8
Profit attributable to owners of parent	1,433	1,558	+125	+8.7



The following describes business performance in separate markets.

Enterprise Sector Market

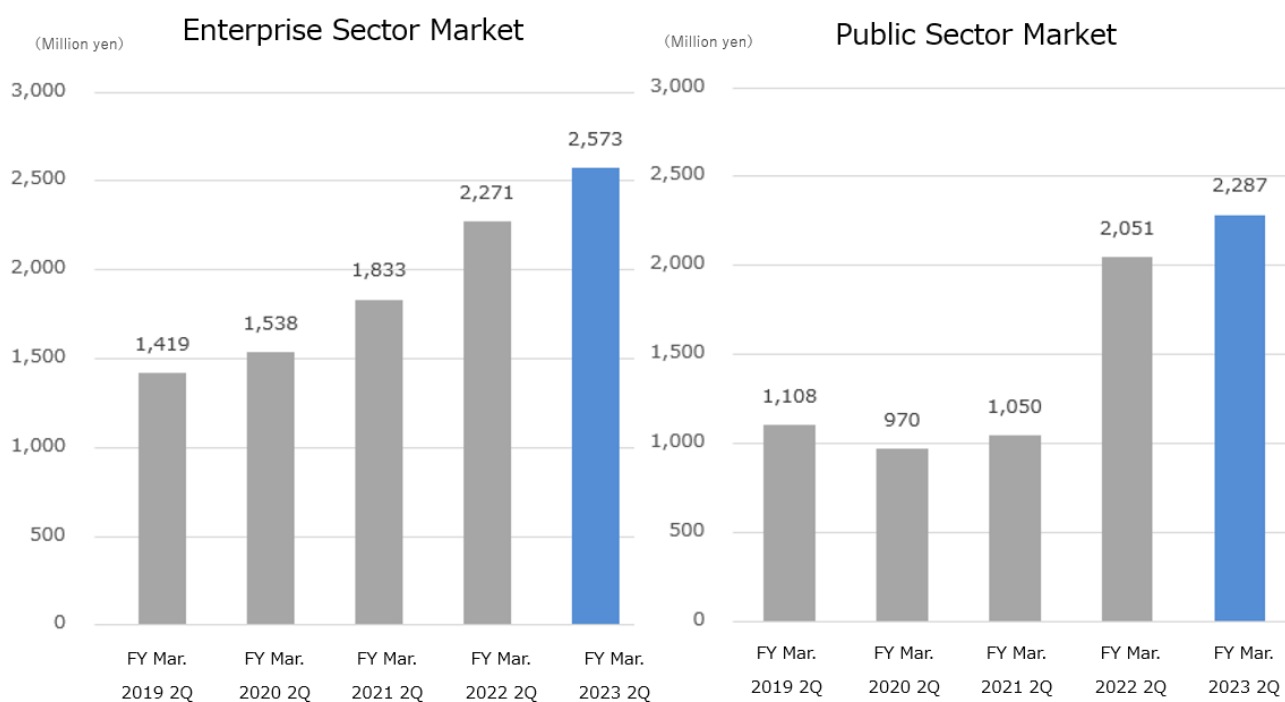
In the enterprise sector market, the Group created new projects by adding new functions, including antivirus functions and sandbox functions, to i-FILTER and m-FILTER to meet demand for total security and strengthened cooperation with agencies to win deals by implementing a strategy to expand sales to 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 2,573 million yen, up 13.3% 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 2,287 million yen, up 11.5% 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, but the Group saw sluggish growth in the number of users.

Net sales in this market amounted to 224 million yen, down 2.2% 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 964 million yen from the end of the previous fiscal year, to 20,305 million yen. This was due mainly to an increase of 881 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first half of the consolidated fiscal year under review declined 40 million yen from the end of the previous consolidated fiscal year to 7,141 million yen. This was due mainly to a decrease of 114 million yen in other current liabilities, including accrued consumption taxes.

(Net assets)

Net assets at the end of the first half of the consolidated fiscal year under review increased 1,004 million yen from the end of the previous consolidated fiscal year to 13,164 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 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, 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)	half of fiscal 2023 (As of September 30, 2022)
Assets		
Current assets		
Cash and deposits	15,773	16,654
Notes and accounts receivable - trade	1,216	1,305
Finished goods	0	0
Supplies	3	3
Other	111	123
Total current assets	17,105	18,088
Non-current assets		
Property, plant and equipment	206	217
Intangible assets		
Software	1,317	1,331
Other	209	173
Total intangible assets	1,526	1,504
Investments and other assets	503	495
Total non-current assets	2,236	2,217
Total assets	19,341	20,305
Liabilities		
Current liabilities		
Accounts payable - trade	44	53
Income taxes payable	760	744
Provision for bonuses	95	113
Advances received	5,684	5,748
Other	546	431
Total current liabilities	7,130	7,090
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	7,181	7,141
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	10,758	11,756
Treasury shares	△307	△308
Total shareholders' equity	12,118	13,115
Accumulated other comprehensive income		
Foreign currency translation adjustment	11	16
Total accumulated other comprehensive income	11	16
Share acquisition rights	12	12
Non-controlling interests	17	20
Total net assets	12,159	13,164
Total liabilities and net assets	19,341	20,305

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first half

(Million yen)

	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)
Net sales	4,552	5,084
Cost of sales	1,238	1,668
Gross profit	3,314	3,416
Selling, general and administrative expenses	1,234	1,168
Operating profit	2,079	2,247
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	—	13
Miscellaneous income	0	0
Total non-operating income	0	15
Non-operating expenses		
Foreign exchange losses	0	—
Total non-operating expenses	0	—
Ordinary profit	2,080	2,263
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	2,081	2,263
Income taxes	646	702
Profit	1,435	1,561
Profit attributable to non-controlling interests	1	2
Profit attributable to owners of parent	1,433	1,558

Quarterly consolidated statement of comprehensive income
Consolidated first half

(Million yen)

	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)
Profit	1,435	1,561
Other comprehensive income		
Foreign currency translation adjustment	0	5
Total other comprehensive income	0	5
Comprehensive income	1,435	1,566
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,433	1,563
Comprehensive income attributable to non-controlling interests	1	2

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half of fiscal 2022 (from April 1, 2021 to September 30, 2021)	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Profit before income taxes	2,081	2,263
Depreciation	434	448
Increase (decrease) in provision for bonuses	178	17
Interest income	(0)	(0)
Loss on retirement of non-current assets	—	0
Foreign exchange losses (gains)	(0)	(12)
Gain on reversal of share acquisition rights	(1)	(0)
Decrease (increase) in trade receivables	2,231	(26)
Decrease (increase) in inventories	0	0
Increase (decrease) in trade payables	(13)	8
Increase (decrease) in accounts payable - other	65	25
Decrease (increase) in other current assets	(40)	(12)
Increase (decrease) in other current liabilities	(15)	(144)
Other	(35)	6
Subtotal	4,884	2,573
Interest and dividends received	0	0
Income taxes paid	(653)	(717)
Income taxes refund	4,231	1,855
Cash flows from investing activities		
Purchase of property, plant and equipment	(0)	(32)
Purchase of intangible assets	(527)	(402)
Net cash provided by (used in) investing activities	(528)	(434)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	12	—
Purchase of treasury shares	(0)	(0)
Proceeds from stock issuance to non-controlling interests	—	1
Dividends paid	(420)	(560)
Proceeds from issuance of share acquisition rights	5	—
Net cash provided by (used in) financing activities	(403)	(560)
Effect of exchange rate change on cash and cash equivalents	0	20
Net increase (decrease) in cash and cash equivalents	3,300	881
Cash and cash equivalents at beginning of period	11,382	15,773
Cash and cash equivalents at end of period	14,682	16,654

(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.