



Quarterly Consolidated Financial Results for First Three Months of Fiscal Year Ending March 31, 2024 (Japanese Accounting Standards)

July 31, 2023

Name of listed company Digital Arts Inc.

Listed on: Tokyo Stock Exchange Prime Market

Securities code: 2326

URL <https://www.daj.jp/>

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Scheduled date for submission of quarterly report: August 4, 2023 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, 2024 (April 1, 2023 – June 30, 2023)

(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, 2024	2,541	6.5	872	(13.5)	885	(13.2)	614	(12.4)
First three months of year ended March 31, 2023	2,386	24.3	1,009	38.0	1,019	39.1	702	38.5

(Note) Comprehensive income: First three months of year ending March 31, 2024 617million yen (12.7%) First three months of year ended March 31, 2023 706million yen (39.4%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three months of year ending March 31, 2024	43.87	43.08
First three months of year ended March 31, 2023	50.00	48.99

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2023	20,446	13,909	67.9	992.45
As of March 31, 2023	21,149	14,173	66.9	1,007.27

(Reference) Equity capital: As of June 30, 2023 13,877million yen As of March 31, 2023 14,141million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	—	35.00	—	40.00	75.00
Year ending March 31, 2024	—				
Year ending March 31, 2024 (forecast)		40.00	—	40.00	80.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2024 (April 1, 2023 – March 31, 2024)

(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	11,500	10.2	5,150	16.7	5,150	16.3	3,550	15.9	252.86

(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, 2024: 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 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)	As of June 30, 2023	14,133,000	As of March 31, 2023	14,133,000
2) Number of treasury shares	As of June 30, 2023	150,133	As of March 31, 2023	93,833
3) Average number of shares issued and outstanding in each period (cumulative total)	First three months of year ending March 31, 2024	14,018,845	First three months of year ended March 31, 2023	14,039,243

*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, 2024 (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, 2024

(1) Explanation about business results

During the first three months of the consolidated fiscal year under review (April 1 through June 30, 2023), Japan experienced the normalization of its social and economic activities and a recovery in its consumption behavior following the downgrade of the legal classification of COVID-19 to Class 5. However, the outlook of the economy remained uncertain, reflecting rising prices due to the prolonged war in Ukraine and the sharp weakening of the yen against the dollar in the foreign exchange market.

In the security industry, in which the Digital Arts Group (the “Group”) operates, cyber attacks diversified and intensified, including ransomware, Emotet and Agent Tesla, which is remote control malware that steals confidential information from keyboard operations. That expanded demand for security products. Not only among large companies but also at small and medium enterprises that lag behind in security measures, demand for newly introducing security products is expanding.

In this situation, the Company enhanced the linkage and features of its mainstay products of i-FILTER, m-FILTER and FinalCode and added a broad array of security solutions to them in response to mounting needs for comprehensive security. It also worked hard to promote its original next-generation Secure Web Gateway (SWG).

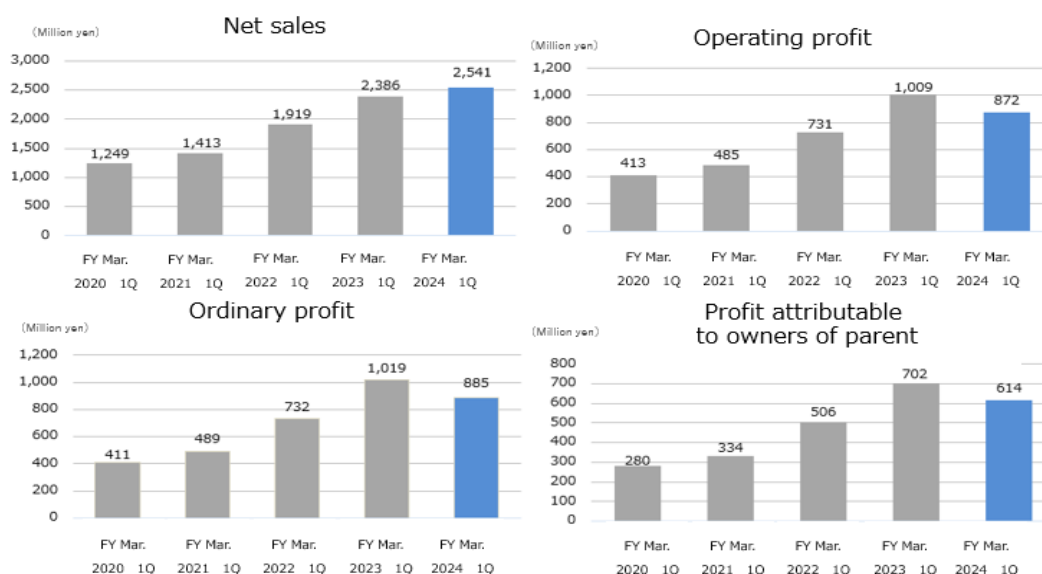
In addition, as a service for realizing the vision of creating new value and increasing demand stated in the medium-term business plan, the Company released a new communications tool product called Desk ahead of the schedule set out in the initial plan.

On the other hand, the Company saw increases in server expenses and personnel expenses, the former reflecting a rise in the number of licenses for cloud service products and the impact of foreign exchange rates and the latter due to a rise in the number of staff in Digital Arts Consulting Inc., its subsidiary. In addition, with the unprecedented number of new functions and new products expected to be released, the Company actively invested to promote sales events for agents and facilitate internal strategic meetings. This resulted in year-on-year increases in the cost of sales and selling, general and administrative expenses.

As a result, net sales for the first three months of the consolidated fiscal year under review stood at 2,541 million yen, up 6.5% year on year, operating profit at 872 million yen, down 13.5% year on year, ordinary profit at 885 million yen, down 13.2% year on year, and profit attributable to owners of parent at 614 million yen, down 12.4% year on year.

Overview of Consolidated Business Results

(Million yen)				
	First three months of year ended March 31, 2023	First three months of year ending March 31, 2024	Change	% Change
Net sales	2,386	2,541	+ 155	+6.5
Operating profit	1,009	872	(136)	(13.5)
Ordinary profit	1,019	885	(134)	(13.2)
Profit attributable to owners of parent	702	614	(87)	(12.4)



The following describes business performance in separate markets.

Enterprise Sector Market

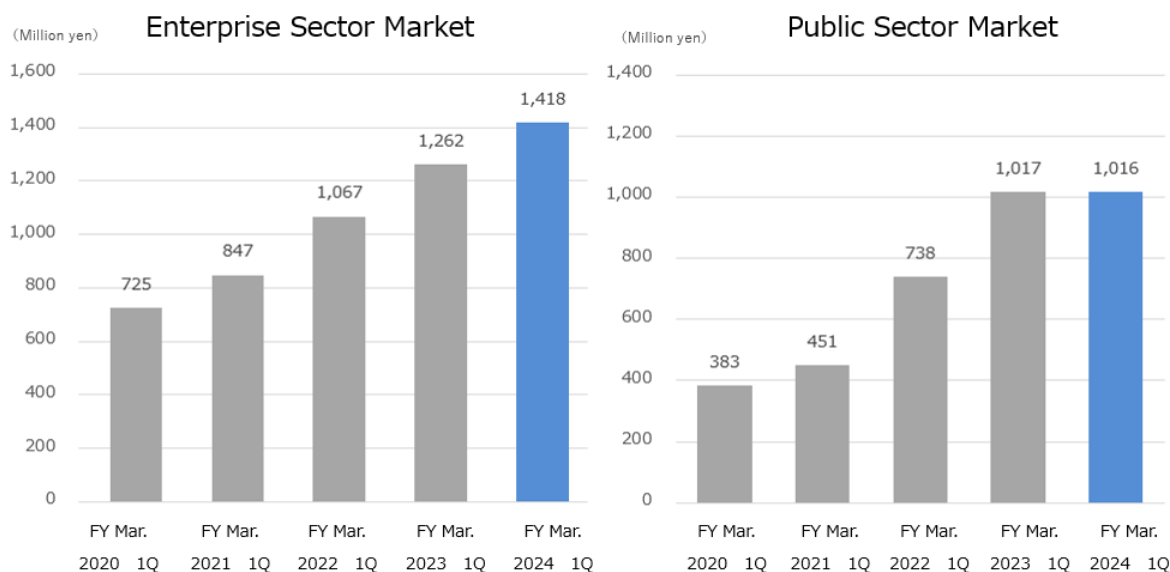
In the enterprise section market, the Group continued to promote new optional functions it released to meet rising demand for comprehensive security against the backdrop of the occurrence of extensive damage from diversifying cyberattacks, and by doing so, made steady progress in the efforts to win new projects. Sales of cloud service products increased following the acquisition of an order for a new m-FILTER project as a result of high marks given to the use of the PPAP method (sending a password-protected Zip file by e-mail and sending the password by separate e-mail) and a function to deal with targeted attacks, including attacks using Emotet. In addition, Digital Arts Consulting Inc., one of the Company's subsidiaries that offers security consulting services, increased the number of consulting staff and boosted sales by winning an ISMAP acquisition-related project and a new project in which it provides comprehensive support, including security assessment and support for the implementation of security measures.

As a consequence, net sales in this market reached 1.418 million yen, up 12.3% year on year.

Public Sector Market

In the public sector market, the Group won new projects for schools that had not adopted filtering, a necessary function in the GIGA School Concept, while also receiving orders for new projects by focusing on proposing solutions to support local governments' efforts to strengthen security measures.

As a consequence, net sales in this market stood at 1,016 million yen, down 0.1% 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 consequence, net sales in this market amounted to 106 million yen, up 0.6% 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 702 million yen from the end of the previous consolidated fiscal year to 20,446 million yen.

This was due mainly to decreases of 630 million yen in cash and deposits and 220 million yen in notes and accounts receivable - trade.

(Liabilities)

Total liabilities at the end of the first three months of the consolidated fiscal year under review declined 438 million yen from the end of the previous consolidated fiscal year to 6,537 million yen.

This was due mainly to a decrease of 542 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 decreased 264 million yen from the end of the previous consolidated fiscal year to 13,909 million yen.

This was mainly due to dividends paid that outweighed an increase in retained earnings due to the recording of profit attributable to owners of parent.

(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, and there was therefore no change in the forecast of consolidated financial results for the year ending March 31, 2024 announced on May 9, 2023.

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, 2024. 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 2023 (As of March 31, 2023)	First quarter of fiscal 2024 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	17,018	16,387
Notes and accounts receivable - trade	1,574	1,354
Finished goods	19	5
Supplies	3	2
Other	309	439
Total current assets	18,925	18,189
Non-current assets		
Property, plant and equipment	209	231
Intangible assets		
Software	1,264	1,251
Other	243	275
Total intangible assets	1,508	1,526
Investments and other assets	506	498
Total non-current assets	2,223	2,256
Total assets	21,149	20,446
Liabilities		
Current liabilities		
Accounts payable - trade	238	119
Income taxes payable	839	297
Provision for bonuses	156	74
Advances received	5,187	5,317
Other	502	677
Total current liabilities	6,924	6,486
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	6,975	6,537
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	12,768	12,821
Treasury shares	(308)	(628)
Total shareholders' equity	14,127	13,860
Accumulated other comprehensive income		
Foreign currency translation adjustment	14	16
Total accumulated other comprehensive income	14	16
Share acquisition rights	11	11
Non-controlling interests	20	20
Total net assets	14,173	13,909
Total liabilities and net assets	21,149	20,446

(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 2023 (from April 1, 2022 to June 30, 2022)	First three months of fiscal 2024 (from April 1, 2023 to June 30, 2023)
Net sales	2,386	2,541
Cost of sales	766	1,019
Gross profit	1,619	1,521
Selling, general and administrative expenses	609	648
Operating profit	1,009	872
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	8	9
Miscellaneous income	0	2
Total non-operating income	10	12
Non-operating expenses		
Miscellaneous loss	—	0
Total non-operating expenses	—	0
Ordinary profit	1,019	885
Extraordinary income		
Gain on reversal of share acquisition rights	0	0
Gain on sales of non-current assets	—	4
Total extraordinary income	0	5
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	1,019	890
Income taxes	316	275
Profit	703	614
Profit attributable to non-controlling interests	1	(0)
Profit attributable to owners of parent	702	614

Quarterly consolidated statement of comprehensive income
Consolidated first three months

	(Million yen)	
	First three months of fiscal 2023 (from April 1, 2022 to June 30, 2022)	First three months of fiscal 2024 (from April 1, 2023 to June 30, 2023)
Profit	703	614
Other comprehensive income		
Foreign currency translation adjustment	3	2
Total other comprehensive income	3	2
Comprehensive income	706	617
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	705	617
Comprehensive income attributable to non-controlling interests	1	(0)

(3) Notes to 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.