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

October 31, 2023

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 Investor Relations Office (Name) Fumihiko Tanizaki (TEL) 03-5220-1670

Scheduled date for submission of quarterly report: November 8, 2023 Scheduled date to start dividends distribution: December 4, 2023

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, 2024 (April 1, 2023 – September 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 half of year ending March 31, 2024	5,563	9.4	2,188	(2.6)	2,201	(2.7)	1,521	(2.4)
First half of year ended March 31, 2023	5,084	11.7	2,247	8.1	2,263	8.8	1,558	8.7

(Note) Comprehensive income: First half of year ending March 31, 2024 1,526 million yen (-2.5) % First half of year ended March 31, 2023 1,566 million yen (9.1) %

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First half of year ending March 31, 2024	108.90	107.02
First half of year ended March 31, 2023	111.03	108.82

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2023	20,896	14,262	68.1	1,025.71
As of March 31, 2023	21,149	14,173	66.9	1,007.27

(Reference) Equity capital: As of September 30, 2023: 14,229 million yen As of March 31, 2023: 14,141 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
Year ended March 31, 2023	Yen —	Yen 35.00	Yen —	Yen 40.00	Yen 75.00
Year ending March 31, 2024	—	40.00			
Year ending March 31, 2024 (forecast)			—	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 (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.: 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, 2023	14,133,000	As of March 31, 2023	14,133,000
2) Number of treasury shares	As of September 30, 2023	259,930	As of March 31, 2023	93,833
3) Average number of shares issued and outstanding in each period (cumulative total)	First half of year ending March 31, 2024	13,972,909	First half of year ended March 31, 2023	14,039,231

*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, 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 Half of Fiscal Year Ending March 31, 2024

(1) Explanation about business results

During the first half of the consolidated fiscal year under review (April 1 through September 30, 2023), the Japanese economic outlook was still unstable with rises of goods prices following the prolonged war in Ukraine and the sharp weakening of the Japanese yen against the dollar in foreign exchange markets.

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 Agent Tesla, which is remote control malware that steals confidential information from keyboard operations. Apart from demand from large organizations, new demand is growing for the introduction of security measures from small and medium enterprises, which by comparison were lagging in these measures.

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 added new features including the cloud access security broker (CASB) functionality in an intensive effort to deploy its original next-generation secure web gateway (SWG). The CASB functionality is designed to visualize and control the use of cloud services. In addition, the AI Chat Filter is provided as a standard feature of i-FILTER and i-FILTER@Cloud from August 2023 onwards. This highly-received feature is aimed at allowing users to use generative AI, which attracts attention for the autonomous creation of text and other content, something that was difficult to do with conventional AI, more securely by controlling it and visualizing how it is used.

To further expand its comprehensive security products and services, the Group released an IDaaS product for safe and secure cloud service authentication and ID management under the name of StartIn in September 2023. It is positioned as a service for "creating new value and increasing demand," as stated in the management vision of the Group's Medium-Term Management Plan.

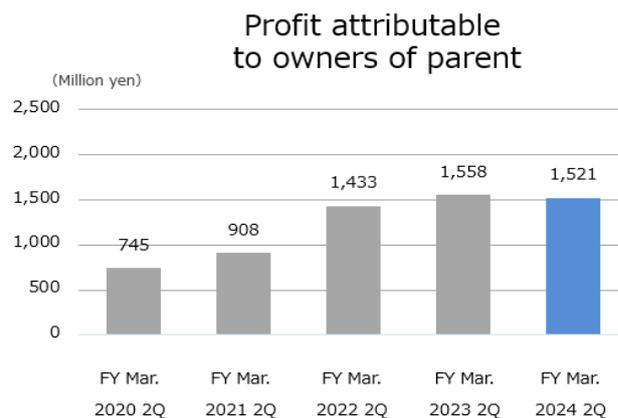
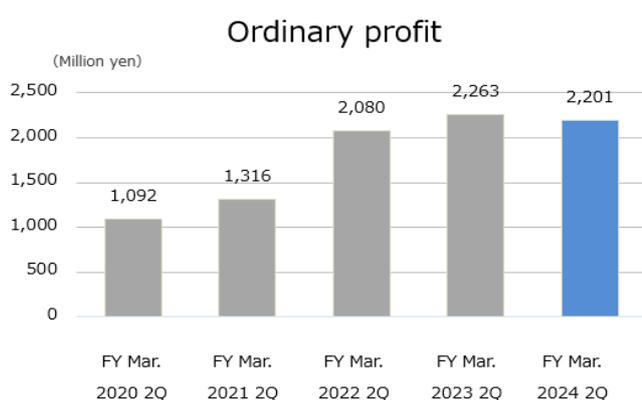
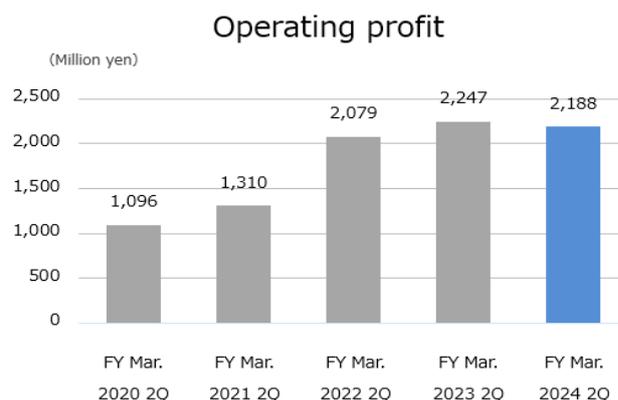
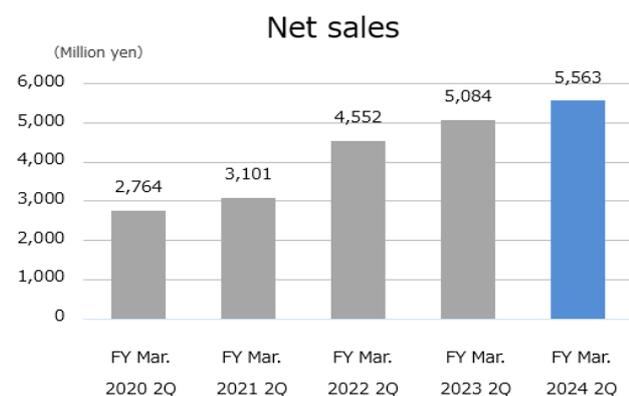
Meanwhile, the cost of sales and selling, general and administrative expenses surpassed the level in the same period a year earlier, chiefly as a result of positive investment in an unprecedented number of newly added features, and new product releases and a surge in personnel expenses due to staff increases at the Company and a subsidiary, namely Digital Arts Consulting Inc.

As a result, net sales for the first half of the consolidated fiscal year under review amounted to 5,563 million yen (up 9.4% year on year), operating profit reached 2,188 million yen (down 2.6% year on year), ordinary profit came to 2,201 million yen (down 2.7% year on year), and profit attributable to owners of parent was 1,521 million yen (down 2.4% year on year).

Overview of Consolidated Business Results

(Million yen)

	First half of year ended March 31, 2023	First half of year ending March 31, 2024	Change	% Change
Net sales	5,084	5,563	+479	+9.4
Operating profit	2,247	2,188	(58)	(2.6)
Ordinary profit	2,263	2,201	(61)	(2.7)
Profit attributable to owners of parent	1,558	1,521	(37)	(2.4)



The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise section market, mainly because the Group continued to promote new optional functions to meet rising demand for comprehensive security against the backdrop of the occurrence of extensive damage from diversifying cyberattacks, the Group 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, such as ransomware and Agent Tesla.

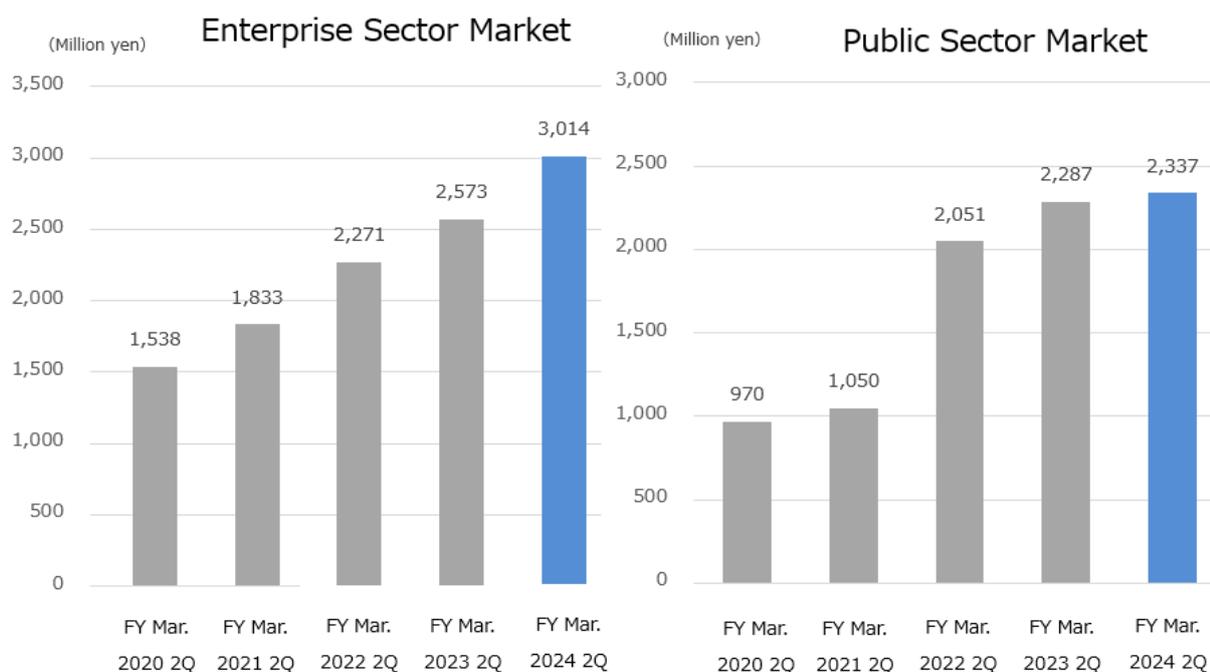
In addition, Digital Arts Consulting Inc., one of the Company's subsidiaries that offers security consulting services, increased the number of consulting staff and boosted sales by winning an ISMAP acquisition-related project and a new project in which it provides comprehensive support, including security assessment and support for the implementation of security measures.

Net sales in this market reached 3,014 million yen, up 17.2% 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. It also gained large products from governmental agencies and ministries as they had given high marks to the Group's products.

As a consequence, net sales in this market stood at 2,337 million yen, up 2.2% year on year.



Consumer Sector Market

In the consumer sector market, the Group made intensive efforts to promote i-FILTER for Multi-Device, which can be used on multiple operating systems with a single serial ID. However, sales from mobile network carriers and MVNOs decreased.

Net sales in this market amounted to 211 million yen, down 5.5% 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 decreased 252 million yen from the end of the previous consolidated fiscal year to 20,896 million yen.

This was due mainly to decrease of 759 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first half of the consolidated fiscal year under review declined 341 million yen from the end of the previous consolidated fiscal year to 6,633 million yen. This was due mainly to a decrease of 144 million yen in Accounts payable .

(Net assets)

Net assets at the end of the first half of the consolidated fiscal year under review increased 89 million yen from the end of the previous consolidated fiscal year to 14,262 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, 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 half of the fiscal 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 half of fiscal 2024 (As of September 30, 2023)
Assets		
Current assets		
Cash and deposits	17,018	16,259
Notes and accounts receivable - trade	1,574	1,536
Finished goods	19	2
Supplies	3	2
Other	309	836
Total current assets	18,925	18,637
Non-current assets		
Property, plant and equipment	209	222
Intangible assets		
Software	1,264	1,365
Other	243	172
Total intangible assets	1,508	1,538
Investments and other assets	506	498
Total non-current assets	2,223	2,259
Total assets	21,149	20,896
Liabilities		
Current liabilities		
Accounts payable - trade	238	94
Income taxes payable	839	725
Provision for bonuses	156	104
Advances received	5,187	5,172
Other	502	486
Total current liabilities	6,924	6,582
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	6,975	6,633
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	12,768	13,728
Treasury shares	(308)	(1,186)
Total shareholders' equity	14,127	14,211
Accumulated other comprehensive income		
Foreign currency translation adjustment	14	17
Total accumulated other comprehensive income	14	17
Share acquisition rights	11	11
Non-controlling interests	20	21
Total net assets	14,173	14,262
Total liabilities and net assets	21,149	20,896

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first half

(Million yen)

	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)	First half of fiscal 2024 (from April 1, 2023 to September 30, 2023)
Net sales	5,084	5,563
Cost of sales	1,668	2,128
Gross profit	3,416	3,435
Selling, general and administrative expenses	1,168	1,246
Operating profit	2,247	2,188
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	13	9
Miscellaneous income	0	2
Total non-operating income	15	13
Non-operating expenses		
Miscellaneous loss	—	0
Total non-operating expenses	—	0
Ordinary profit	2,263	2,201
Extraordinary income		
Gain on reversal of share acquisition rights	0	0
Gain on sales of non-current assets	—	4
Total extraordinary income	0	4
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	2,263	2,205
Income taxes	702	683
Profit	1,561	1,522
Profit attributable to non-controlling interests	2	1
Profit attributable to owners of parent	1,558	1,521

Quarterly consolidated statement of comprehensive income
Consolidated first half

(Million yen)

	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)	First half of fiscal 2024 (from April 1, 2023 to September 30, 2023)
Profit	1,561	1,522
Other comprehensive income		
Foreign currency translation adjustment	5	3
Total other comprehensive income	5	3
Comprehensive income	1,566	1,526
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,563	1,525
Comprehensive income attributable to non-controlling interests	2	1

(3) Quarterly consolidated statement of cash flows

(Million yen)

	First half of fiscal 2023 (from April 1, 2022 to September 30, 2022)	First half of fiscal 2024 (from April 1, 2023 to September 30, 2023)
Cash flows from operating activities		
Profit before income taxes	2,263	2,205
Depreciation	448	433
Increase (decrease) in provision for bonuses	17	(52)
Interest income	(0)	(0)
Loss (gain) on sales of non-current assets	—	(4)
Loss on retirement of non-current assets	0	0
Foreign exchange losses (gains)	(12)	(12)
Gain on reversal of share acquisition rights	(0)	(0)
Decrease (increase) in trade receivables	(26)	22
Decrease (increase) in inventories	0	17
Increase (decrease) in trade payables	8	(144)
Increase (decrease) in accounts payable - other	25	9
Decrease (increase) in other current assets	(12)	84
Increase (decrease) in other current liabilities	(144)	(27)
Other	6	3
Subtotal	2,573	2,534
Interest and dividends received	0	0
Income taxes paid	(717)	(784)
Income taxes refund	1,855	1,750
Cash flows from investing activities		
Purchase of property, plant and equipment	(32)	(45)
Proceeds from sale of property, plant and equipment	—	9
Purchase of intangible assets	(402)	(435)
Other	—	5
Net cash provided by (used in) investing activities	(434)	(466)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	—	0
Purchase of treasury shares	(0)	(885)
Decrease (increase) in deposits for purchase of treasury shares	—	(615)
Proceeds from stock issuance to non-controlling interests	1	—
Dividends paid	(560)	(561)
Net cash provided by (used in) financing activities	(560)	(2,061)
Effect of exchange rate change on cash and cash equivalents	20	18
Net increase (decrease) in cash and cash equivalents	881	(759)
Cash and cash equivalents at beginning of period	15,773	17,018
Cash and cash equivalents at end of period	16,654	16,259

(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.