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

January 31, 2024

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  
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Scheduled date for submission  
of quarterly report: February 6, 2024

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 quarters of the fiscal year ending March 31, 2024 (April 1, 2023 –December 31, 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                             | %     |
| Nine months ended<br>December 31, 2023 | 8,322       | 8.7  | 3,122            | (3.3) | 3,132           | (3.4) | 2,162                                   | (3.3) |
| December 31, 2022                      | 7,658       | 14.5 | 3,228            | 6.7   | 3,241           | 7.0   | 2,235                                   | 7.4   |

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥ 2,166 million ((3.3%))  
Nine months ended December 31, 2022: ¥ 2,240 million (7.4%)

|  | Profit per share<br>(basic) | Profit per share<br>(diluted) |
|--|-----------------------------|-------------------------------|
|  | Yen                         | Yen                           |
| Nine months ended<br>December 31, 2023 | 155.38                      | 152.80                        |
| December 31, 2022                      | 159.25                      | 156.10                        |

### (2) Consolidated financial position

|                         | Total assets | Net assets  | Equity ratio | Net assets per share |
|-------------------------|--------------|-------------|--------------|----------------------|
|                         | Million yen  | Million yen | %            | Yen                  |
| As of December 31, 2023 | 19,717       | 13,803      | 69.8         | 1,001.13             |
| As of March 31, 2023    | 21,149       | 14,173      | 66.9         | 1,007.27             |

(Reference) Equity capital: As of December 31, 2023: ¥ 13,768 million  
As of March 31, 2023: ¥ 14,141 million

### 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               | —                | 40.00  | —      | —        | —      |
| Year ending March 31, 2024<br>(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 quarters 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 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)

- Number of shares issued and outstanding (including treasury shares)
- Number of treasury shares
- Average number of shares issued and outstanding in each period (cumulative total)

|  |            |   |            |
|--|------------|---|------------|
| As of December 31, 2023                            | 14,133,000 | As of March 31, 2023                              | 14,133,000 |
| As of December 31, 2023                            | 379,630    | As of March 31, 2023                              | 93,833     |
| First three quarters of year ending March 31, 2024 | 13,919,043 | First three quarters of year ended March 31, 2023 | 14,039,217 |

\*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 Quarters 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 Quarters of Fiscal Year Ending March 31, 2024

## (1) Explanation about business results

During the first three quarters of the consolidated fiscal year under review (April 1 through December 31, 2023), Japan saw signs of a recovery in consumer spending and capital investment, partly reflecting the normalization of social and economic activities following the downgrade of the legal classification of COVID-19 to Class 5 in spring last year. As a result, the Japanese economy achieved a moderate recovery. Despite that, the future outlook remained uncertain given growing tensions in the Middle East, the weakening of the yen and surging resource and material prices, as well as the prolonged conflict in Ukraine.

In the security industry, in which the Digital Arts Group (the "Group") operates, demand for security products expanded, mainly reflecting the intensification of damaging incidents caused by cyberattacks, such as ransomware and phishing scams, coupled with new demand for security measures associated with changes in the flow of operations and workstyles as a result of the advance of digital transformation (DX). Apart from demand from large-sized enterprises and public organizations, demand for the introduction of security measures grew among small- and medium-sized enterprises, which, by comparison, were unprepared to invest in such measures due to budgetary and human source constraints, reflecting growing awareness of security risks in supply chains.

In this situation, in response to growing demand for diverse security measures among companies and organizations irrespective of their size, the Company focused on promoting its original next-generation secure web gateway (SWG) through continuous enhancement of the functionality of the i-FILTER, m-FILTER and FinalCode, which are its mainstay products, and incorporation of the CASB functionality (functionality to visualize and control the use of cloud services) in the i-FILTER@Cloud, among other means. 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.

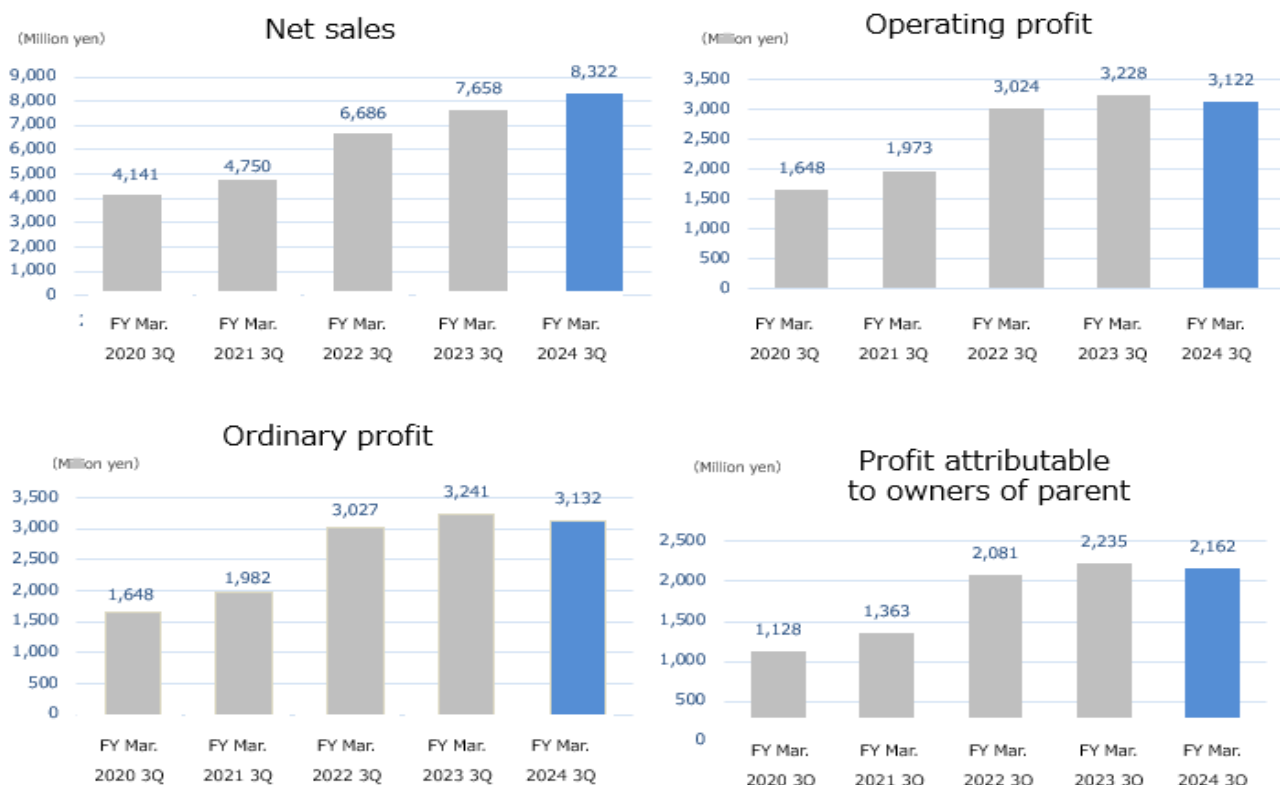
Furthermore, the Group released the StartIn, an IDaaS product that realizes safe and secure cloud service authentication and ID management, in September 2023, and the f-FILTER, a DLP and file transfer service that prevents the external leakage of important information through the secure transfer of files, in November 2023, to address demand for comprehensive security. These are part of solutions 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 year-ago level, chiefly reflecting positive investment in an unprecedented number of newly added features and new product releases, and rises in labor and personnel expenses, among other expenses, due to business expansion by Digital Arts Consulting Inc.

As a result, net sales for the first three quarters of the consolidated fiscal year under review amounted to 8,322 million yen (up 8.7% year on year), operating profit reached 3,122 million yen (down 3.3% year on year), ordinary profit came to 3,132million yen (down 3.4% year on year), and profit attributable to owners of parent was 2,162 million yen (down 3.3% year on year).

### Overview of Consolidated Business Results

|  | First three quarters<br>of year ended<br>March 31, 2023 | First three quarters<br>of year ending<br>March 31, 2024 | Change | % Change |
|--|---|--|--------|----------|
| Net sales                                  | 7,658   | 8,322  | +663   | +8.7     |
| Operating profit                           | 3,228   | 3,122  | (105)  | (3.3)    |
| Ordinary profit                            | 3,241   | 3,132  | (108)  | (3.4)    |
| Profit attributable to<br>owners of parent | 2,235   | 2,162  | (72)   | (3.3)    |



The following describes business performance in separate markets.

#### Enterprise Sector Market

In the enterprise sector market, the Group offered the new CASB functionality, in addition to the i-FILTER and the Anti-Virus & Sandbox, an optional product, to meet demand for the transition from the castle and moat security model and a switch from other companies' products. As a result of these activities, steady progress was made in winning new projects. The Group steadily won projects for the m-FILTER as well, reflecting high marks given to comprehensive needs satisfying security functions, such as a function to deal with targeted attacks including those using ransomware, measures against PPAP (sending a password-protected Zip file by e-mail and sending the password by a separate e-mail) and measures to increase security in emailing in the cloud environment.

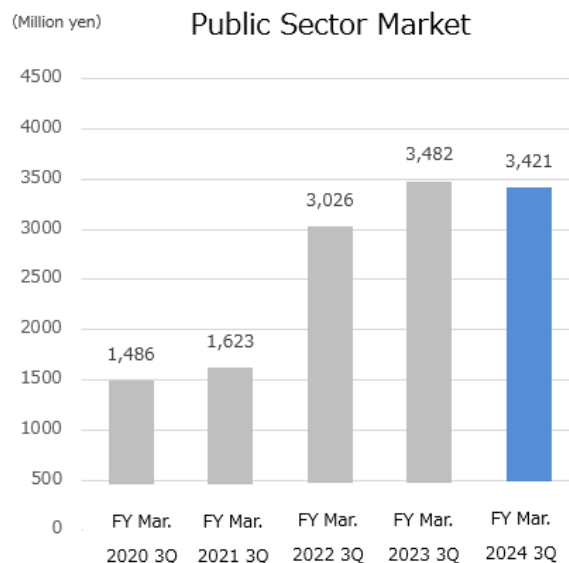
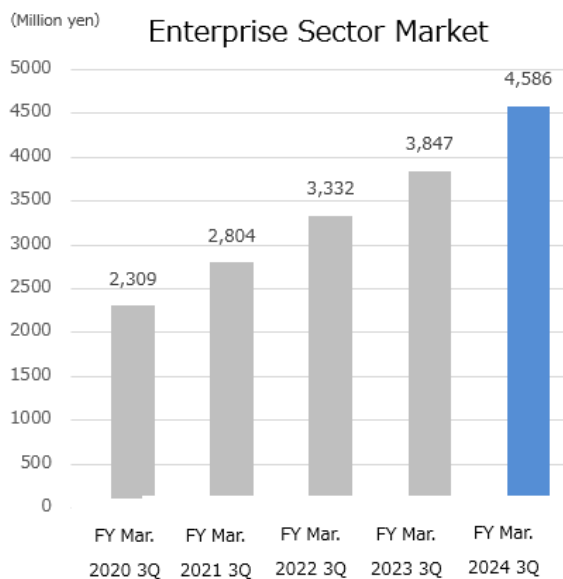
In addition, the number of new projects won by Digital Arts Consulting Inc., a subsidiary of the Company that offers security consulting services, increased sharply due to the winning of ISMAP acquisition-related projects and the provision of services that offer comprehensive support, including security assessment and support for the implementation of security measures, following an increase in the number of its project consulting staff.

As a consequence, net sales in this market reached 4,586 million yen, up 19.2% year on year.

#### Public Sector Market

In the public sector market, the Group steadily won new projects by focusing on proposing solutions that are in line with guidelines for security improvements for local governments. It also offered a GIGA School version of the i-FILTER, which is equipped with original functions suitable for applications at the frontlines of education, to education boards and schools that had not adopted filtering in the GIGA School Concept. Nonetheless, the Group was affected by a reactionary decline in the number of large-scale projects from the level it won in the previous fiscal year, as well as the completion of the first round of the project for enhancing cloud security at prefectural offices.

As a consequence, net sales in this market stood at 3,421 million yen, down 1.7% 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 313 million yen, down 4.4% year on year.

## (2) Explanation about financial position

#### (Assets)

Total assets at the end of the third quarter of the consolidated fiscal year under review decreased 1,432 million yen from the end of the previous fiscal year to 19,717 million yen. This was due mainly to an decreased of 1,057 million yen in cash and deposits and an decreased of 263 million yen in notes and accounts receivable - trade.

#### (Liabilities)

Total liabilities at the end of the third quarter of the consolidated fiscal year under review decreased 1,061 million yen from the end of the previous consolidated fiscal year to 5,914 million yen. This was due mainly to a decrease of 403 million yen in advances received and a decrease of 537 million yen in income taxes payable.

#### (Net assets)

Net assets at the end of the third quarter of the consolidated fiscal year under review decreased 370 million yen from the end of the previous fiscal year to 13,803 million yen. This was mainly due to the payment of cash dividends and the purchase of treasury stock, which exceeded the increase in retained earnings resulting from the recording of net income attributable to owners of the parent.

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

Operating results for the first three quarters 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 three quarters 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<br>(As of March 31, 2023) | First three quarters of fiscal<br>2024<br>(As of December 31, 2023) |
|--|---------------------------------------|---|
| <b>Assets</b>                                |                                       |   |
| Current assets                               |                                       |   |
| Cash and deposits                            | 17,018                                | 15,961  |
| Notes and accounts receivable - trade        | 1,574                                 | 1,311   |
| Finished goods                               | 19                                    | 0   |
| Supplies                                     | 3                                     | 2   |
| Other  | 309                                   | 145   |
| Total current assets                         | 18,925                                | 17,422  |
| Non-current assets                           |                                       |   |
| Property, plant and equipment                | 209                                   | 211   |
| Intangible assets                            |                                       |   |
| Software                                     | 1,264                                 | 1,333   |
| Other  | 243                                   | 249   |
| Total intangible assets                      | 1,508                                 | 1,583   |
| Investments and other assets                 | 506                                   | 499   |
| Total non-current assets                     | 2,223                                 | 2,294   |
| Total assets                                 | 21,149                                | 19,717  |
| <b>Liabilities</b>                           |                                       |   |
| Current liabilities                          |                                       |   |
| Accounts payable - trade                     | 238                                   | 115   |
| Income taxes payable                         | 839                                   | 301   |
| Provision for bonuses                        | 156                                   | 120   |
| Advances received                            | 5,187                                 | 4,784   |
| Other  | 502                                   | 540   |
| Total current liabilities                    | 6,924                                 | 5,862   |
| Non-current liabilities                      |                                       |   |
| Asset retirement obligations                 | 48                                    | 48  |
| Other  | 1                                     | 2   |
| Total non-current liabilities                | 50                                    | 51  |
| Total liabilities                            | 6,975                                 | 5,914   |
| <b>Net assets</b>                            |                                       |   |
| Shareholders' equity                         |                                       |   |
| Share capital                                | 713                                   | 713   |
| Capital surplus                              | 953                                   | 956   |
| Retained earnings                            | 12,768                                | 13,814  |
| Treasury shares                              | (308)                                 | (1,730)   |
| Total shareholders' equity                   | 14,127                                | 13,753  |
| Accumulated other comprehensive income       |                                       |   |
| Foreign currency translation adjustment      | 14                                    | 15  |
| Total accumulated other comprehensive income | 14                                    | 15  |
| Share acquisition rights                     | 11                                    | 11  |
| Non-controlling interests                    | 20                                    | 22  |
| Total net assets                             | 14,173                                | 13,803  |
| Total liabilities and net assets             | 21,149                                | 19,717  |

(2) Quarterly consolidated statement of income and comprehensive income  
Quarterly consolidated statement of income  
Consolidated first three quarters

(Million yen)

|  | First three quarters of fiscal<br>2023<br>(from April 1, 2022<br>to December 31, 2022) | First three quarters of fiscal<br>2024<br>(from April 1, 2023<br>to December 31, 2023) |
|--|--|--|
| Net sales  | 7,658  | 8,322  |
| Cost of sales                                    | 2,651  | 3,306  |
| Gross profit                                     | 5,006  | 5,015  |
| Selling, general and administrative expenses     | 1,778  | 1,892  |
| Operating profit                                 | 3,228  | 3,122  |
| Non-operating income                             |  |  |
| Interest income                                  | 0  | 0  |
| Gain on forfeiture of unclaimed dividends        | 1  | 1  |
| Foreign exchange gains                           | 9  | 6  |
| Miscellaneous income                             | 1  | 2  |
| Total non-operating income                       | 12   | 11   |
| Non-operating expenses                           |  |  |
| Miscellaneous loss                               | —  | 1  |
| Total non-operating expenses                     | —  | 1  |
| Ordinary profit                                  | 3,241  | 3,132  |
| 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                       | 3,242  | 3,137  |
| Income taxes                                     | 1,003  | 972  |
| Profit   | 2,238  | 2,165  |
| Profit attributable to non-controlling interests | 2  | 2  |
| Profit attributable to owners of parent          | 2,235  | 2,162  |



Quarterly consolidated statement of comprehensive income  
Consolidated first three quarters

(Million yen)

|  | First three quarters of fiscal<br>2023<br>(from April 1, 2022<br>to December 31, 2022) | First three quarters of fiscal<br>2024<br>(from April 1, 2023<br>to December 31, 2023) |
|--|--|--|
| Profit   | 2,238  | 2,165  |
| Other comprehensive income                                     |  |  |
| Foreign currency translation adjustment                        | 2  | 1  |
| Total other comprehensive income                               | 2  | 1  |
| Comprehensive income   | 2,240  | 2,166  |
| Comprehensive income attributable to                           |  |  |
| Comprehensive income attributable to owners of parent          | 2,238  | 2,164  |
| Comprehensive income attributable to non-controlling interests | 2  | 2  |

### (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 three quarters 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.