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Consolidated Financial Results for the Nine Months Ended December 31, 2024 [Japanese GAAP]

January 31, 2025

Company name: Digital Arts Inc.

Listing: Tokyo

Securities code: 2326

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

Representative: Toshio Dogu

Inquiries: Fumihiko Tanizaki

Telephone: +81-3-5220-1670

Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: None

Representative Director, President and CEO
General Manager of the Investor Relations Office

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2024 (April 1, 2024 to December 31, 2024)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2024	7,274	(12.6)	3,145	0.7	3,150	0.6	2,174	0.6
December 31, 2023	8,322	8.7	3,122	(3.3)	3,132	(3.4)	2,162	(3.3)

(Note) Comprehensive income: Nine months ended December 31, 2024: ¥ 2,176 million [0.5%]
Nine months ended December 31, 2023: ¥ 2,166 million [(3.3)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2024	158.89	156.37
December 31, 2023	155.38	152.80

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2024	21,079	16,603	78.6	1,214.95
March 31, 2024	22,518	15,998	71.0	1,162.40

(Reference) Equity: As of December 31, 2024: ¥ 16,573 million
As of March 31, 2024: ¥ 15,986 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	40.00	-	40.00	80.00
Fiscal year ending March 31, 2025	-	40.00	-		
Fiscal year ending March 31, 2025 (Forecast)				45.00	85.00

(Note) Revision to the forecast for dividends announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025(April 1, 2024 to March 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,720	(6.9)	5,140	16.1	5,140	15.7	3,540	(19.1)	257.39

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - (Company name:)
Excluded: - (Company name:)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Primary Notes (3) Note 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 in accounting estimates, and restatement

- 1) Changes in accounting policies due to revisions to accounting standards and other regulations: None
- 2) Changes in accounting policies due to other reasons: None
- 3) Changes in accounting estimates: None
- 4) Restatement: None

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2024: 14,133,000 shares
March 31, 2024: 14,133,000 shares

2) Number of treasury shares at the end of the period:

December 31, 2024: 491,396 shares
March 31, 2024: 379,630 shares

3) Average number of shares outstanding during the period:

Nine months ended December 31, 2024: 13,687,619 shares
Nine months ended December 31, 2023: 13,919,043 shares

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

* Proper use of earnings forecasts, and other special matters

(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. Overview of Business Results, etc. (3) Explanation about Information on Future Forecasts such as Consolidated Results Forecasts” on page 6 of the attached materials.

(How to obtain supplementary materials for quarterly results)

The material is available at Digital Arts Inc. corporate website.

(Reference) Overview of the non-consolidated business results

1. Non-consolidated financial results for the Nine Months Ended December 31, 2024 (April 1, 2024 – December 31, 2024)

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2024	7,267	7.4	3,148	2.2	3,155	1.9	2,179	1.7
December 31, 2023	6,769	2.7	3,081	(3.5)	3,094	(3.4)	2,142	(3.2)
	Basic earnings per share		Diluted earnings per share					
Nine months ended	Yen		Yen					
December 31, 2024	159.26		156.73					
December 31, 2023	153.94		151.38					

(2) Non-consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2024	21,164	16,699	78.8	1,222.04
March 31, 2024	22,595	16,091	71.2	1,169.18

(Reference) Equity: As of December 31, 2024: ¥ 16,670 million
As of March 31, 2024: ¥ 16,080 million

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1. Overview of Business Results, etc.

(1) Overview of business results for the first nine months of the consolidated fiscal year under review

During the first nine months of the consolidated fiscal year under review (from April 1, 2024 to December 31, 2024), in the security industry where the Digital Arts Group (the "Group") operates, companies and organizations using information and communication technology (ICT) equipment for business and educational purposes had a growing awareness of the need for security reflecting the frequent occurrence of information leakage incidents due to ransomware attacks, phishing scams and cyberattacks attributable to the abuse of generative AI. This led to an increase in demand for products that include countermeasures to these issues. This trend is expected to expand and persist, as it is widespread irrespective of the size or sector of companies and organizations.

At the end of the previous fiscal year, the Company transferred all of the shares it owned in Digital Arts Consulting Inc. (DAC), a consolidated subsidiary engaged in the security consulting business. That produced an impact of a decrease in net sales for the first nine months of the consolidated fiscal year under review of around 1,544 million yen. Reflecting these developments, the Group re-established its Medium-Term Management Plan (fiscal year ending March 31, 2025 through fiscal year ending March 31, 2027), taking advantage of a change in a business situation that enabled it to focus on product expansion as a general Japan-made security manufacturer this fiscal year. This plan defines three priority areas: growth of the security business, increased public sector market share and investment in personnel to execute new measures. Accordingly, the Group started pursuing a number of different initiatives in the current fiscal year. In the enterprise sector market, by advancing a product strategy that responds to both cloud and on-premises environments, the Group succeeded in capturing the need for migration to cloud security for the web and email, as well as the need for change to the Group's on-premises products with the end of sales of other companies' on-premises products. In addition, it achieved solid results in the cross-selling and up-selling strategy through the provision of new products and option products that provide added value to mainstay products. As a result of these efforts, the Group was able to continue to achieve solid growth. In the public sector market, the Group sought to increase product value by continuously upgrading i-FILTER's functions for schools with the objective of receiving projects related to Next-Generation School Affairs DX, as well as those related to the second phase of the GIGA School Concept for which the full-scale procurement of devices is under way, while also moving forward steadily with activities for continuing to expand our market share through the enhancement of sales promotion activities. In particular, during the third quarter under review, with companies starting to receive orders in projects relating to the second phase of the GIGA School Concept, the contract amount grew at a high growth rate that follows that recorded when the first phase of the GIGA School Concept launched. Due to efforts in each of these markets, the number of users of the Group's original "white operation" service reached 13,710 thousand licenses (an increase of 1,090 thousand licenses from the beginning of the fiscal year), and the number of malware infection reports remained zero.

With regard to expenses, DAC's cost of sales and personnel expenses declined following the exclusion of DAC from consolidation. However, communication expenses increased as a result of larger-than-expected orders for cloud service editions of products in projects for the public sector market. As a result, the cost of sales increased.

As a result, contracts for the first nine months of the consolidated fiscal year under review amounted to 6,858 million yen (down 5.6% year on year), net sales were 7,274 million yen (down 12.6% year on year), operating profit reached 3,145 million yen (up 0.7% year on year), ordinary profit came to 3,150 million yen (up 0.6% year on year), and profit attributable to owners of parent was 2,174 million yen (up 0.6% year on year).

Excluding the effect of DAC transfer, contracts were up 19.8% year on year, net sales were up 7.3% year on year.

Overview of Consolidated Business Results

(Millions of yen)

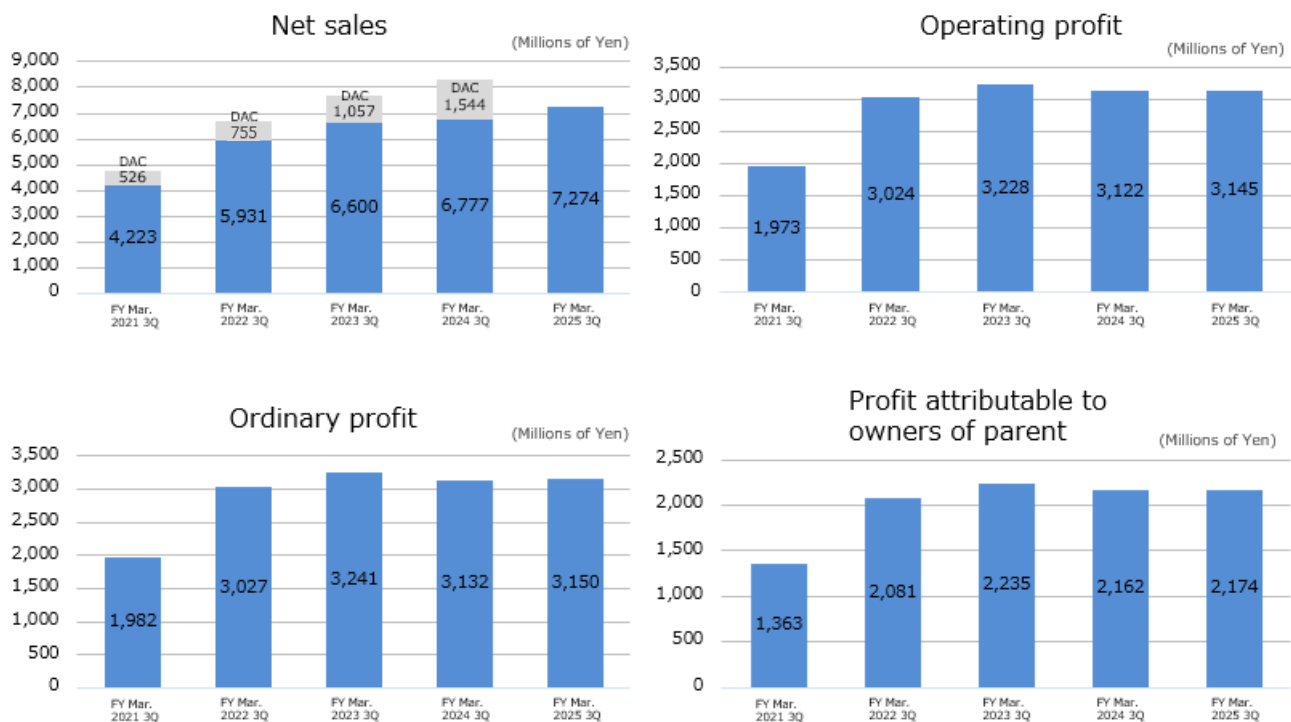
	First nine months of year ended March 31, 2024	First nine months of year ending March 31, 2025	Change	% Change
Contracts The figure in square brackets [] represents the result excluding DAC.	7,267 [5,723]	6,858	(408) [+1,135]	(5.6) [+19.8%]
Net sales The figure in square brackets [] represents the result excluding DAC.	8,322 [6,777]	7,274	(1,047) [+496]	(12.6) [+7.3]
Operating profit	3,122	3,145	+22	+0.7
Ordinary profit	3,132	3,150	+17	+0.6
Profit attributable to owners of parent for the first nine months	2,162	2,174	+12	+0.6

(Reference)

Overview of non-consolidated business results (net sales)

(Millions of yen)

	First nine months of year ended March 31, 2024	First nine months of year ending March 31, 2025	Change	% Change
Net sales	6,769	7,267	+497	+7.4



*The transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year has an impact of lowering net sales for the first nine months of the consolidated fiscal year under review by around 1,544 million yen. (Excluding this effect, net sales were up 7.3% year on year.)

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, the i-FILTER captured the need for countermeasures that secure cloud security, such as cloud proxies and CASB, and the need for on-premises continuity solutions arising from factors such as the replacement of products due to the end of sales of other companies' on-premises products and the hybrid operation of cloud and on-premises systems. In addition, as a result of strong sales of the Anti-Virus & Sandbox, an optional product, the Group maintained significant growth. The Group performed solidly to acquire new m-FILTER projects by taking advantage of the favorable evaluations of its comprehensive functions meeting a broad range of email security needs against the backdrop of a growing awareness of the need to implement cloud-based email security solutions due to the popularization of cloud-type email services such as Exchange Online and Google Workspace. In addition, progress was steady regarding the new product f-FILTER, mainly in the acquisition of projects related to PPAP issue solutions due to the provision of the product together with m-FILTER as a set. Meanwhile, the transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year produced an impact of decreasing net sales by around 1,544 million yen.

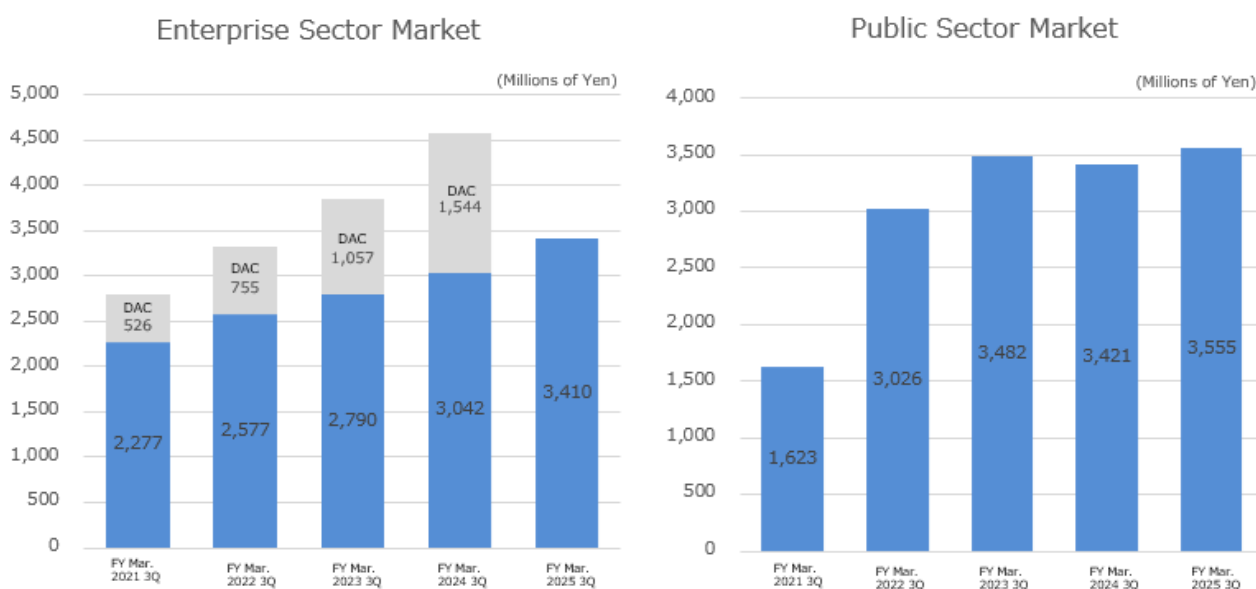
As a result, contracts in the enterprise sector market amounted to 3,367 million yen (down 26.2% year on year), net sales stood 3,410 million yen (down 25.6% year on year).

Excluding the effect of DAC transfer, contracts in the enterprise sector market were up 11.7% year on year, net sales were up 12.1% year on year.

Public Sector Market

In the public sector market, the Group proposed comprehensive solutions compatible with the Information system Security Management and Assessment Program (ISMAP) and the security guidelines for projects for the Security Improvements for Local Governments and Next-Generation School Affairs DX projects, and by doing so, it achieved steady progress in the reception of orders for new projects. In addition, with companies gradually starting to receive orders in projects in relation to the second phase of the GIGA School Concept, in which the full-scale procurement of devices will start in the next fiscal year, the Group received strong orders in several large projects in the third quarter under review. While most contract amounts for on-premises products, which are products sold as licenses, are recorded as sales at the time of shipment, sales of cloud service products, orders for which are received mainly in projects for the GIGA School Concept and Next-Generation School Affairs DX, are recorded on a monthly prorated basis through the period during which relevant services are provided. During the first nine months under review, sales were not recorded as anticipated because orders for cloud service products increased more than planned.

As a result, contracts in the public sector market reached 3,184 million yen (up 33.0% year on year), net sales amounted to 3,555 million yen (up 3.9% year on year).



* The transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year produced an impact of lowering net sales in the enterprise sector market for the first nine months of the consolidated fiscal year under review by around 1,544 million yen. (Excluding this effect, net sales in the enterprise sector market were up 12.1% year on year.)

Consumer Sector Market

In the consumer sector market, the Group made efforts to sell i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID, and to acquire commissioned development projects related to this. However, revenue from mobile network carriers, MVNOs, etc. decreased.

As a result, contracts in the consumer sector market totaled 306 million yen (down 2.1% year on year), net sales amounted to 307 million yen (down 1.8% year on year).

(Assets)

Total assets at the end of the first nine months of the consolidated fiscal year under review decreased 1,438 million yen from the end of the previous fiscal year to 21,079 million yen. This was due mainly to decreases of 1,108 million yen in cash and deposits and 348 million yen in notes and accounts receivable - trade.

(Liabilities)

Total liabilities at the end of the first nine months of the consolidated fiscal year under review decreased 2,043 million yen from the end of the previous consolidated fiscal year to 4,475 million yen. This was due mainly to decreases of 574 million yen in advances received and 1,354 million yen in income taxes payable.

(Net assets)

Net assets at the end of the first nine months of the consolidated fiscal year under review increased 605 million yen from the end of the previous fiscal year to 16,603 million yen. This was mainly due to an increase in retained earnings associated with the recording of profit attributable to owners of parent for the first nine months, which outweighed decreases due to the payment of dividends and the purchase of treasury shares.

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

Operating results for the first nine 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, 2025 announced on May 8, 2024.

The Company has determined the results forecasts based on information available on the day of these financial results for the first six months of the year ending March 31, 2025. 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 Sheets

(Millions of yen)

	As of March 31, 2024	As of December 31, 2024
Assets		
Current assets		
Cash and deposits	18,339	17,230
Notes and accounts receivable - trade	1,535	1,187
Finished goods	0	1
Supplies	2	0
Other	305	122
Total current assets	20,183	18,542
Non-current assets		
Property, plant and equipment	211	199
Intangible assets		
Software	1,367	1,465
Other	234	303
Total intangible assets	1,602	1,768
Investments and other assets	521	569
Total non-current assets	2,334	2,537
Total assets	22,518	21,079
Liabilities		
Current liabilities		
Accounts payable - trade	54	17
Income taxes payable	1,354	-
Provision for bonuses	137	78
Advances received	4,418	3,844
Other	501	483
Total current liabilities	6,467	4,424
Non-current liabilities		
Asset retirement obligations	49	49
Other	3	2
Total non-current liabilities	52	51
Total liabilities	6,519	4,475
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	956	955
Retained earnings	16,029	17,108
Treasury shares	(1,730)	(2,223)
Total shareholders' equity	15,968	16,553
Accumulated other comprehensive income		
Foreign currency translation adjustment	18	20
Total accumulated other comprehensive income	18	20
Share acquisition rights	11	29
Total net assets	15,998	16,603
Total liabilities and net assets	22,518	21,079

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income (For the nine months)

(Millions of yen)

	For the nine months ended December 31, 2023	For the nine months ended December 31, 2024
Net sales	8,322	7,274
Cost of sales	3,306	2,228
Gross profit	5,015	5,045
Selling, general and administrative expenses	1,892	1,900
Operating profit	3,122	3,145
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	1	1
Foreign exchange gains	6	2
Miscellaneous income	2	1
Total non-operating income	11	5
Non-operating expenses		
Miscellaneous losses	1	0
Total non-operating expenses	1	0
Ordinary profit	3,132	3,150
Extraordinary income		
Gain on reversal of share acquisition rights	0	0
Gain on sale of non-current assets	4	0
Total extraordinary income	4	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	3,137	3,150
Income taxes	972	975
Profit	2,165	2,174
Profit attributable to non-controlling interests	2	-
Profit attributable to owners of parent	2,162	2,174

Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Millions of yen)

	For the nine months ended December 31, 2023	For the nine months ended December 31, 2024
Profit	2,165	2,174
Other comprehensive income		
Foreign currency translation adjustment	1	1
Total other comprehensive income	1	1
Comprehensive income	2,166	2,176
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,164	2,176
Comprehensive income attributable to non-controlling interests	2	-

(3) Notes to Quarterly Consolidated Financial Statements

(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 nine months 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.

(Notes on segment information, etc.)

Segment information

First nine months of fiscal 2024 (from April 1, 2023 to December 31, 2023) and first nine months of fiscal 2025 (from April 1, 2024 to December 31, 2024)

The Group has only one segment, which is the security business, and segment information is omitted.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters.

(Notes on the premise of a going concern)

There are no applicable matters.

(Notes on statement of cash flows)

The Company did not prepare quarterly consolidated statements of cash flows for the first nine months under review. Depreciation (including amortization of intangible assets) for the first nine months under review is as follows.

	First nine months of fiscal 2024 (from April 1, 2023 to December 31, 2023)	First nine months of fiscal 2025 (from April 1, 2024 to December 31, 2024)
Depreciation	658 million yen	685 million yen