

## FY03/17 Consolidated Financial Results For Fiscal Year Ended March 31, 2017 (Japan GAAP)

May 9, 2017

Company name: Digital Arts Inc. <Tokyo Stock Exchange- First Section>  
 Code no.: 2326 URL <http://www.daj.jp>  
 Representative: Toshio Dogu, Chief Executive Officer  
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 Scheduled date of annual general meeting of shareholders: June 23, 2017 Scheduled date of payment of cash dividends: June 26, 2017  
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 Additional materials of the Consolidated Financial Results: Yes  
 Briefing session of the Consolidated Financial Results: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded)

### 1. Consolidated Financial Results for Fiscal Year Ended March 2017 (April 1, 2016 through March 31, 2017)

<1> Consolidated operating results (cumulative)

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY03/2017	5,058	26.4	1,824	81.2	1,811	82.2	1,125	106.1
FY03/2016	4,000	17.6	1,006	16.4	994	9.2	545	2.8

(Note): Comprehensive income: 1,127 million yen for FY03/2017 (110.1%); 536 million yen for FY03/2016 (-0.9%)

	Net income per share-basic	Net income per share-diluted	Return on equity	Ordinary income to total assets	Operating margin
	Yen	Yen	%	%	%
FY03/2017	80.92	80.68	23.0	26.8	36.1
FY03/2016	39.26	39.14	12.4	16.7	25.2

(Reference): Equity in earnings (losses) of affiliates: — million yen for FY03/2017 and — million yen for FY03/2016

<2> Consolidated financial position

	Total assets	Net assets	Equity ratio	Net asset per share
	Millions of yen	Millions of yen	%	Yen
FY03/2017	7,380	5,270	70.2	357.07
FY03/2016	6,133	4,642	74.7	329.03

(Reference): Total equity: 5,184 million yen as of March 31, 2017; 4,583 million yen as of March 31, 2016

<3> Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY03/2017	2,012	(671)	(503)	3,298
FY03/2016	1,027	(441)	(187)	2,443

### 2. Dividends

	Annual cash dividends per share					Total cash dividends (Annual)	Payout ratio (Consolidated)	Dividend on equity (Consolidated)
	at 1Q end	at 2Q end	at 2Q end	at year-end	Total			
	yen	yen	yen	yen	yen	Millions of yen	%	%
FY03/2016	—	7.00	—	8.00	15.00	208	38.2	4.7
FY03/2017	—	10.00	—	14.00	24.00	332	29.7	6.8
FY03/2018 (forecast)	—	14.00	—	14.00	28.00		31.2	

### 3. Forecast of Consolidated Operating Results for Fiscal Year Ending March 2018 (April 1, 2017 through March 31, 2018)

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
At 2Q end (cumulative)	2,650	9.5	820	3.8	820	6.9	508	11.8	36.78
At FY end	5,600	10.7	2,000	9.6	2,000	10.4	1,240	10.2	89.71

※Notes

<1> Significant changes in scope of consolidation: None

In : — (Company Name: )

Out : — (Company Name: )

<2> Changes in accounting policies, accounting estimation change and restatement

<2>-1 Changes in accounting policies due to the revision of the accounting standards: Yes

<2>-2 Changes in accounting policies except for those in <2>-1: None

<2>-3 Changes due to accounting estimation change: None

<2>-4 Restatement: None

<3> Number of shares issued

(shares)

<3>-1 Number of shares issued at the end of the period (including treasury shares)

<3>-2 Number of treasury shares at the end of the period

<3>-3 Average number of shares issued during the fiscal year

FY03/17	14,133,000	FY03/16	14,133,000
FY03/17	311,175	FY03/16	201,800
FY03/17	13,903,526	FY03/16	13,905,940

**(Reference) Non-Consolidated Financial Results**

**1. Non-Consolidated Financial Results for Fiscal Year Ended March 2017 (April 1, 2016 through March 31, 2017)**

<1> Non-consolidated operating results

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY03/17	5,104	27.0	2,067	54.9	2,056	54.8	1,339	59.3
FY03/16	4,018	18.3	1,335	46.1	1,328	43.5	840	46.4

	Net income per share-basic	Net income per share-diluted
	Yen	Yen
FY03/17	96.31	96.02
FY03/16	60.45	60.25

<2> Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
FY03/17	7,948	5,882	73.1	420.53
FY03/16	6,633	5,063	75.5	359.28

(Reference): Total equity: 5,812 million yen as of March 31, 2017; 5,005 million yen as of March 31, 2016.

**2. Forecast of Non-Consolidated Operating Results for Fiscal Year Ending March 2018 (April 1, 2017 through March 31, 2018)**

(Percent indications show percentage of changes from corresponding figures for the previous period)

	Net sales		Operating income		Ordinary income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
At 2Q end (cumulative)	2,600	5.5	980	6.7	676	9.2	48.92
At FY end	5,550	8.7	2,350	14.3	1,621	21.1	117.31

※This Consolidated Financial Results is exempt from audit procedures under the Financial Instruments and Exchange Act.

**※Explanation of Appropriate Use of Performance Projections and Other Special Items**

(Forward Looking Statements)

Business forecasts contained in this report are based on information available to the Company and on a certain assumption the Company considers reasonable on the date of this report's announcement, and it does not constitute the Company's intention to promise the accomplishment of the forecasts. Due to unforeseen circumstances, actual results may differ significantly from such forecasts due to various risks and uncertainties which include, but are not limited to, global economic environment, intensified sales competition, fluctuations in exchange rate and interest rate.

(Obtaining Reference Slides for the Financial Results)

Materials are available at Digital Arts Inc. corporate website.

## 1. Qualitative Information on Consolidated Financial Results for Fiscal Year Ended March 31, 2017

### (1) Operation Results

In the current consolidated fiscal year (April 1, 2016 through March 31, 2017), the Japanese economy continued to show moderate recovery with continuing upturn in employment as a result of the government's aggressive economic policies and corporate performance holding firm. On the other hand, prospects of the world economy remained unclear with concerns of economic downturn, mainly due to decelerating economy in emerging countries, Brexit, and the uncertainties of the new Trump administration policies.

In the security industry where the Digital Arts Group (the "Group") engages its primary business, growing concerns over security incidents, such as large-scale leakage of personal data as a result of targeted attacks aimed at specific corporations and organizations, led not only security admins, but also corporate managers to become more aware of the importance of strengthening information security. Additionally, local governments actively improve their security under the guideline of fundamental strengthening of local government data security issued by the Ministry of Internal Affairs and Communications.

In such circumstances, the Group strengthened domestic marketing activities for large corporations and organizations that need relatively advanced security. Specifically, it created a department specializing in large domestic companies and organizations. The Group also created a consulting business subsidiary, Digital Arts Consulting Inc., to assist with security implementation and to provide high value added proposals for clients looking to implement security on a large scale and use its products as global tools.

In the public sector, the Group dramatically increased sales by developing and offering solutions that satisfy the level of security demanded in the Ministry of Internal Affairs and Communications' guidelines on strengthening local government security.

Overseas, US subsidiary FinalCode, Inc. and Asia-Pacific subsidiary FinalCode Asia Pacific Pte. Ltd. began to acquire contracts as a result of progress in partnerships with local sales partners and implementing concrete measures to drive sales. In Europe, FinalCode Europe Limited focused on hiring employees and developing partnerships with local sales partners.

Consolidated net sales for Fiscal Year 03/17 was JPY 5,058,685 thousand (+26.4% YoY). Despite increased expenses from hiring employees in Japan, the following contributed to the overall increase in earnings: operating income was JPY 1,824,248 thousand (+81.2% YoY), ordinary income was JPY 1,811,279 thousand (+82.2% YoY) and net income attributable to parent company shareholders was JPY 1,125,043 thousand (+106.1% YoY).

Business performance by segment is as follows.

#### Enterprise Sector

Net sales to the enterprise sector were JPY 2,573,918 thousand (+14.9% YoY).

Sales were favorable for the Group's main products in the enterprise sector, i-FILTER and m-FILTER, together with a surge in topline growth of FinalCode. Corporate managers are more aware of the importance of enhancing data security as targeted attacks on specific companies are causing increasingly more damage. In such environment, the Group saw continued implementation of i-FILTER and m-FILTER products that respond to a wide range of multifaceted security risks. FinalCode 5, an enterprise-wide advanced file security released in FY03/16, met the demands of corporations that handle large volumes of customer data, which firmly increased sales of FinalCode. With increasing awareness on data security measures, orders received by Digital Arts Consulting were also favorable, contributing to the Group's overall business growth.

#### Public Sector

Net sales to the public sector were JPY 2,125,191 thousand (+49.9% YoY).

In the public sector, sales surged for the Group's main offerings, i-FILTER and m-FILTER.

In accordance to a guideline issued by the Ministry of Internal Affairs and Communications on fundamental strengthening of local government data security, prefectures are consolidating their internet connections and strengthening surveillance (using cloud solutions for local government data security), while cities, wards, towns and

villages are actively improving security (using the model for improving local government data systems). The Company's solutions that incorporates "i-FILTER (or D-SPA) to centralize web access" and "m-FILTER to neutralize web email messages" captured the needs of clients seeking to respond to the above guidelines, and pushed up sales. Deployment of FinalCode Limited Edition for Local Government, an edition that responds to needs specific to prefectural, city and local municipality governments, has been favorable and contributed to the overall increase in sales.

#### Consumer Sector

Net sales in the consumer sector were JPY 359,575 thousand (+5.0% YoY).

In the consumer segment, the Group continued to enter tie-ups with mobile operators and other business partners in effort to expand sales and increase collaboration for the mobile device version of i-FILTER (Consumer) for Smartphones.

Sales were firm for the PC version of the i-FILTER (Consumer) due to OEM-driven sales, robust shipment of multi-year packaged products, and other positive factors, despite the continuous decline in the number of domestic consumer PC shipments. Sales also expanded thanks to robust direct sales of i-FILTER (Consumer) Multi-Device, which can be used on three operating systems (Windows, iOS, and Android) with a single serial ID.

#### [Forecast of Consolidated Financial Results for Fiscal Year Ending March 2018 (April 1, 2017 through March 31, 2018)]

In the security industry where the Group engages its primary business, conventional security means face a challenge to respond to external threats, including targeted attacks that are becoming increasingly multifaceted and diverse on a global level. On the other hand, usage of cloud computing, IoT, and AI continue to expand, calling for security products that are effective against new types of cyber threats.

In light of these circumstances, the Group leverages its capacity to develop products solely in-house to offer protection against enterprise data loss while also making a full-fledge entry into the external threat market, such as measure against targeted attacks. The Group anticipates an increase in demand for its products in response to legal reforms (i.e. Electronic Books Maintenance Act, Private Information Protection Law, etc.), local government security cloud framework, and plans by Ministry of Internal Affairs and Communications to place Wi-Fi in all public elementary and middle schools.

For the Consumer Sector, the Group continues to partner with mobile carriers to expand sales of the consumer edition of i-FILTER for smartphones and further drive the business.

For overseas business, the Group's U.S. regional office, FinalCode, Inc., takes the lead to drive aggressive sales in markets outside Japan. The level of interest for persistent file security is quite high, leading to more serious deals in both government and private companies. The Group works to quickly close visible deals in order to recoup investment as early as possible.

Based on these efforts, the Group anticipates net sales of JPY 5,600 million, ordinary income of JPY 2,000 million and JPY 1,240 million for net sales attributable to owners of parents for the consolidated fiscal year ending March 31, 2018.

Business forecasts contained in this report are based on information available to the Group as of the date of this report, and actual results may differ from such forecasts due to various risks and uncertainties. Updates on material information, if applicable, will be disclosed in a timely manner.

#### Forecast for Fiscal Year Ending March 2018 (Consolidated)

	Net Sales	Ordinary Income	Net Income Attributable to Owners of Parent
	Millions of yen	Millions of yen	Millions of yen
FY03/2018 (Forecast)	5,600	2,000	1,240
FY03/2017 (Actual)	5,058	1,811	1,125

#### Forecast for Fiscal Year 03/2018 (Non-consolidated)

	Net Sales	Ordinary Income	Net Income
	Millions of yen	Millions of yen	Millions of yen
FY03/2018 (Forecast)	5,550	2,350	1,621
FY03/2017 (Actual)	5,104	2,056	1,339

(Amounts less than one million yen are rounded)

Note: Business forecasts contained in this report are based on information available to Digital Arts as of the date of this report, and actual results may differ from such forecasts due to various risks and uncertainties.

(2) Financial Position

(Assets)

Current assets increased JPY 1,247,098 thousand to JPY 7,380,958 thousand compared to March 31, 2016. This was mainly attributable to increase in cash and deposits due to an increase in operating cash flow and increase in accounts receivable due to favorable sales.

(Liabilities)

Current liabilities increased JPY 618,792 thousand to JPY 2,110,618 thousand compared to March 31, 2016. This was mainly due to increase in advance received for unearned maintenance sales and increase in accrued income tax.

(Net Assets)

Net assets increased JPY 628,306 thousand to JPY 5,270,339 thousand compared to March 31, 2016. This was mainly due to increase in retained earnings by accounting net income attributable to owners of parent, although share buy-back contributed to a slight decline in net assets.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

	Preceding Cumulative Fiscal Year (As of March 31, 2016)	Current Cumulative Fiscal Year (As of March 31, 2017)
(thousands of yen)		
<b>Assets</b>		
Current assets		
Cash and deposits	2,942,965	3,898,836
Accounts receivable – trade	1,081,626	1,296,271
Securities	100,909	—
Finished goods	413	528
Deferred tax assets	73,813	87,921
Other	62,884	91,449
<b>Total current assets</b>	<b>4,262,613</b>	<b>5,375,007</b>
Non-current assets		
Property, plant and equipment		
Buildings	124,367	126,933
Accumulated depreciation	(80,277)	(87,874)
Buildings (net)	44,090	39,058
Vehicles	15,977	15,977
Accumulated depreciation	(5,362)	(8,897)
Vehicles (net)	10,614	7,080
Tools, furniture and fixtures	294,391	304,932
Accumulated depreciation	(221,838)	(225,744)
Tools, furniture and fixtures (net)	72,552	79,187
<b>Total Property, plant and equipment</b>	<b>127,257</b>	<b>125,326</b>
Intangible assets		
Software	821,395	893,870
Other	174,131	262,408
<b>Total intangible assets</b>	<b>995,526</b>	<b>1,156,279</b>
Investments and other assets		
Investment securities	404,099	403,724
Deferred tax assets	48,356	31,070
Shares of subsidiaries and affiliates	56,769	32,788
Other	239,237	256,761
<b>Investments and other assets</b>	<b>748,462</b>	<b>724,344</b>
<b>Total non-current assets</b>	<b>1,871,246</b>	<b>2,005,950</b>
<b>Total assets</b>	<b>6,133,859</b>	<b>7,380,958</b>

(thousands of yen)

	Preceding Cumulative Fiscal Year (As of March 31, 2016)	Current Cumulative Fiscal Year (As of March 31, 2017)
<b>Liabilities</b>		
Current liabilities		
Accounts payable – trade	5,844	18,068
Income taxes payable	283,949	475,013
Provision for bonuses	109,975	165,759
Advances received	721,033	1,017,071
Other	327,288	390,122
Total current liabilities	1,448,091	2,066,035
Non-current liabilities		
Asset retirement obligations	43,089	43,937
Other	645	645
Total non-current liabilities	43,734	44,582
Total liabilities	1,491,826	2,110,618
Net assets		
Shareholders' equity		
Capital stock	713,590	713,590
Capital surplus	766,234	778,435
Retained earnings	3,220,233	4,098,920
Treasury stock	(117,511)	(410,665)
Total shareholders' equity	4,582,547	5,180,280
Accumulated other comprehensive income		
Foreign currency translation adjustments	1,208	3,830
Total accumulated other comprehensive income	1,208	3,830
Subscription rights to shares	58,278	81,152
Non Controlling Interest	—	5,075
Total net assets	4,642,033	5,270,339
Total liabilities and net assets	6,133,859	7,380,958

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statements of Income

	(thousands of yen)	
	Preceding Cumulative Fiscal Year (From April 1, 2015 to March 31, 2016)	Current Cumulative Fiscal Year (From April 1, 2016 to March 31, 2017)
Net sales	4,000,620	5,058,685
Cost of sales	926,094	1,007,151
Gross profit	3,074,526	4,051,533
Selling, general and administrative expenses	2,067,600	2,227,284
Operating income	1,006,925	1,824,248
Non-operating income		
Interest income	1,366	1,206
Commission fees	170	200
Gain on forfeiture of unclaimed dividends	3,367	1,178
Insurance premiums refunded cancellation	1,836	—
Miscellaneous income	1,084	247
Total non-operating income	7,826	2,833
Non-operating expenses		
Interest expenses	8	—
Foreign exchange losses	20,432	14,299
Miscellaneous expenses	—	1,503
Total non-operating expenses	20,440	15,803
Ordinary income	994,311	1,811,279
Extraordinary income		
Gain on reversal of subscription rights to shares	3,701	318
Gain on sales of noncurrent assets	2,638	—
Total extraordinary income	6,340	318
Extraordinary loss		
Loss on retirement of noncurrent assets	1,960	1,902
Loss on valuation of golf club membership	—	6,700
Total extraordinary loss	1,960	8,602
Income before income taxes	998,691	1,802,995
Income taxes - current	447,392	674,697
Income taxes – deferred	5,314	3,178
Total income taxes	452,707	677,875
Net income	545,983	1,125,119
Net income attributable to non-controlling interests	—	75
Net income attributable to owners of parent	545,983	1,125,043



Quarterly Consolidated Statements of Comprehensive Income (Cumulative)

(thousands of yen)

	Preceding Cumulative Fiscal Year (From April 1, 2015 to March 31, 2016)	Current Cumulative Fiscal Year (From April 1, 2016 to March 31, 2017)
Net income	545,983	1,125,119
Other comprehensive income		
Foreign currency translation adjustments	(9,295)	2,622
Total other comprehensive income	(9,295)	2,622
Comprehensive income	536,688	1,127,741
(Breakdown)		
Comprehensive income attributable to owners of parent	536,688	1,127,666
Comprehensive loss attributable to non-controlling interests	—	75