

Digital Arts Inc. (2326)



FY03/18 Consolidated Financial Results
(1 April 2017 though 31 March 2018)

Reference Slides
27 June 2017

FY03/18 Q1 Financial Results Reference Slides

KEY FINANCIAL POINTS

- ① **Steady gains in projects related to the Local Government Security Enhancement initiatives**
 - Continued to obtain projects related to the local government security cloud structure, which greatly drove earnings in previous FY, contributing to the solid sales in the public sector
- ② **Rapid increase in sales of FinalCode due to the increased awareness of the necessity of security measures in the public sector**
 - Through the strengthening of security measures led by the national government , there has been an increase in the adoption of FinalCode, especially in local governments
- ③ **Solid sales of mainstay products i-FILTER, m-FILTER**
 - With the rise of targeted attacks against certain companies, there has been continued demand for i-FILTER and m-FILTER to satisfy companies' urgent security needs
- ④ **Steady growth in the consulting business**
 - Due to the increased awareness of information security measures, there has been steady sales by subsidiary Digital Arts Consulting, contributing to overall group sales

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CONSOLIDATED RESULTS HIGHLIGHTS

Consolidated Net Sales

JPY **1,158** Million (YoY JPY +241 million / +26.3%)

Continuing from the previous FY, sales in the public sector have continued to grow, leading the overall growth in sales

Operating Income

JPY **356** Million (YoY JPY +257 million / +258.9%)

The large increase was mainly due to the growth in sales, and the reduction in costs resulting from the completion of the initial investment costs connected to the commencement of overseas business centered on the US

Ordinary Income

JPY **360** Million (YoY JPY +281 million / +356.3%)

Due to the increase in operating income, the ordinary income also increased significantly

Net Income Attributable to Owners of Parent

JPY **258** Million (YoY JPY +244 million / — %)

The significant increase was due to the large increase in profits in Japan and the completion of investments in the offices abroad contributing to the relative reduction in taxes

Consolidated Results

(Unit: JPY million)

	FY03/17 Q1	FY03/18 Q1	YoY	FY03/18 Forecast
Net Sales	916	1,158	+26.3%	5,600
Gross Profits	676	925	+36.9%	4,450
Selling, General and Administration Expense	576	569	▲1.3%	2,450
Operating Income	99	356	+258.9%	2,000
Ordinary Income	78	360	+356.3%	2,000
Net Income attributable to owners of parent	13	258	—	1,240
ROE	0.3%	4.9%	—	—

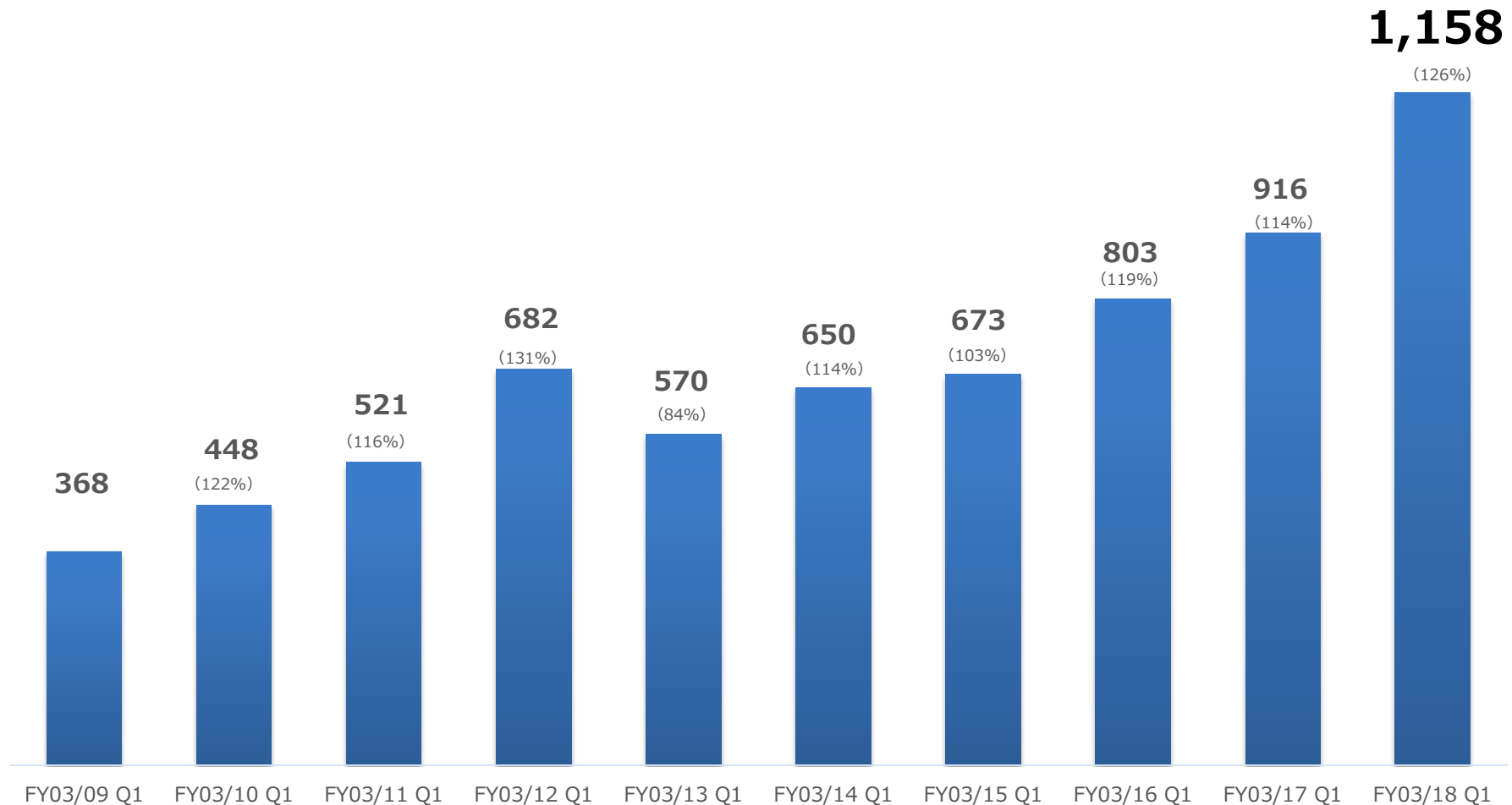
Non-Consolidated Results

(Unit: JPY million)

	FY03/17 Q1	FY03/18 Q1	YoY	FY03/18 Forecast
Net Sales	945	1,162	+23.0%	5,550
Gross Profit	688	907	+31.9%	4,450
Selling, General and Administration Expense	509	518	+1.7%	2,100
Operating Income	178	389	+118.0%	2,350
Ordinary Income	161	394	+143.9%	2,350
Net Income	102	299	+193.2%	1,621
ROE	2.0%	5.1%	—	—

(Unit: JPY million)

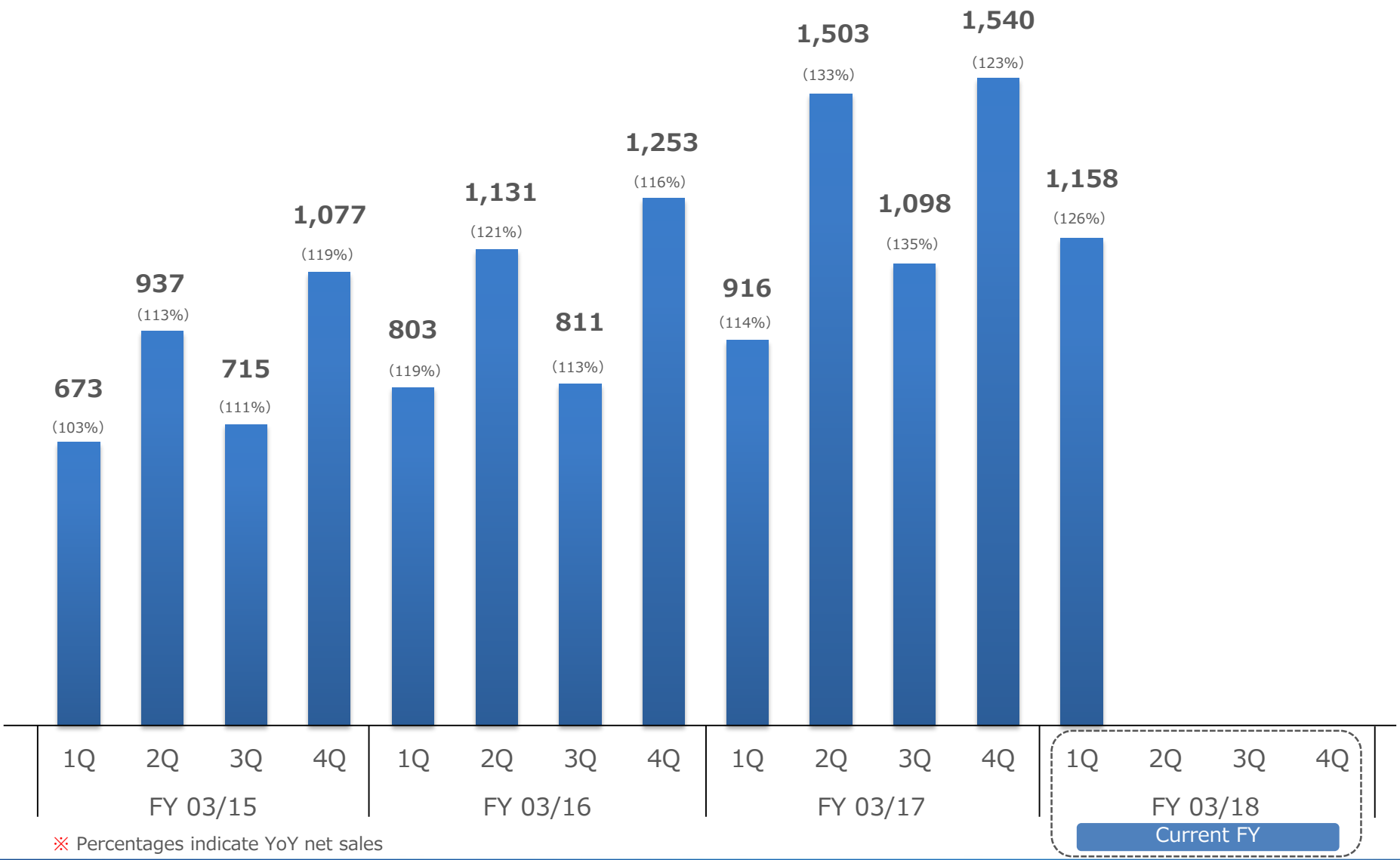
Continue to post **RECORD HIGH** sales



※ Percentages indicate YoY net sales

EXCEEDED FORCASTED SPEED

(Unit: Million Yen)



※ Percentages indicate YoY net sales

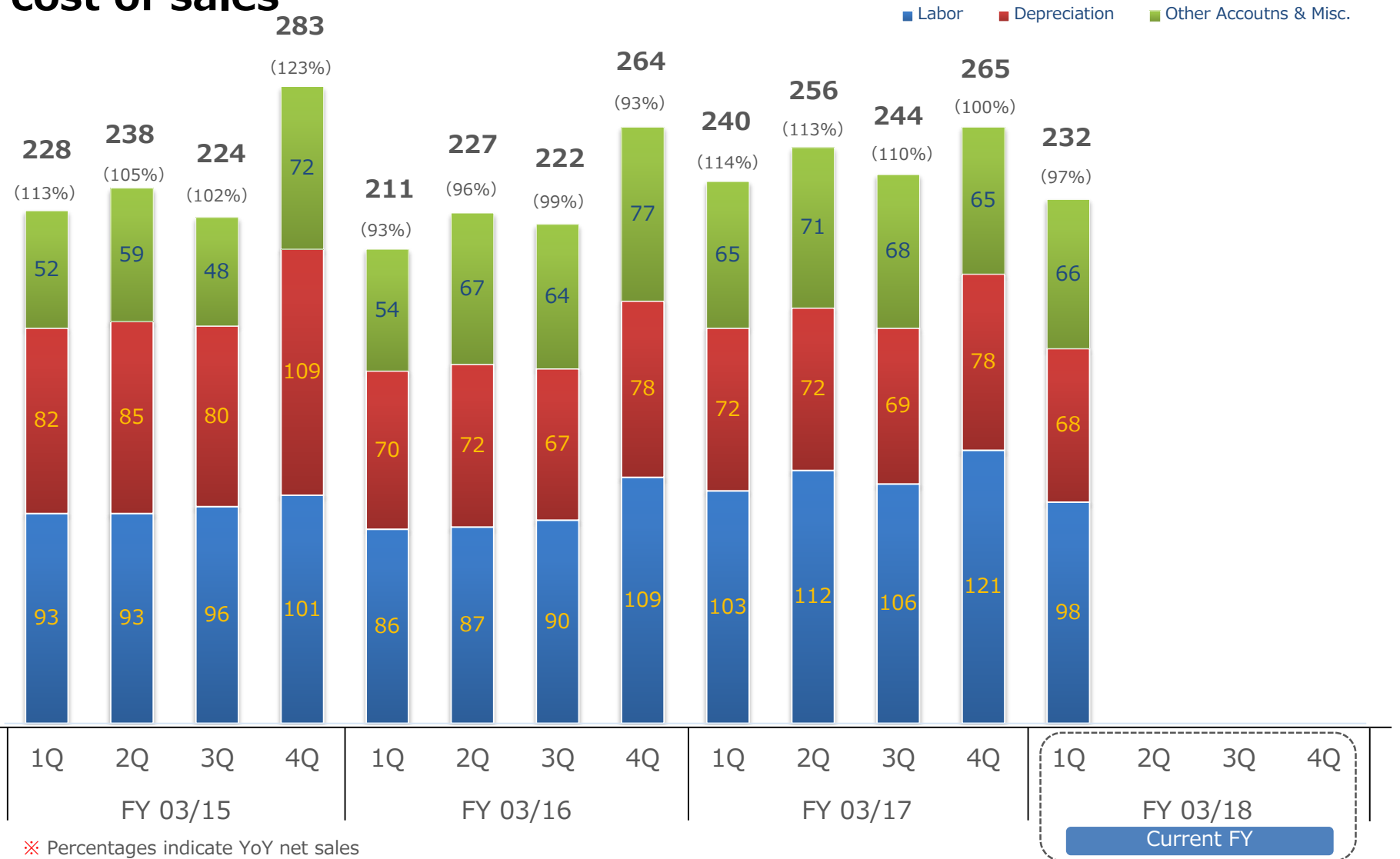
- The completion of initial investments connected to the commencement of overseas business contributed to the reduction in COS and SG&A

(Unit : JPY million)

	FY03/17 Q1	FY03/18 Q1	YoY Growth	Key Factors
Cost of Sales	240	232	-8	
Labor	103	98	-4	
Depreciation	72	68	-4	
Transfer to other accounts Misc production cost	65	66	+0	
Selling, General and Administrative Expenses	576	569	-7	
Personnel Expenses	286	275	-11	-13M in personnel expenses abroad
Publicity	101	98	-2	
Others	188	195	+6	+5M due to the increase in rent in conjunction with office relocation

Overseas costs leveled off, resulting in slight decline in cost of sales

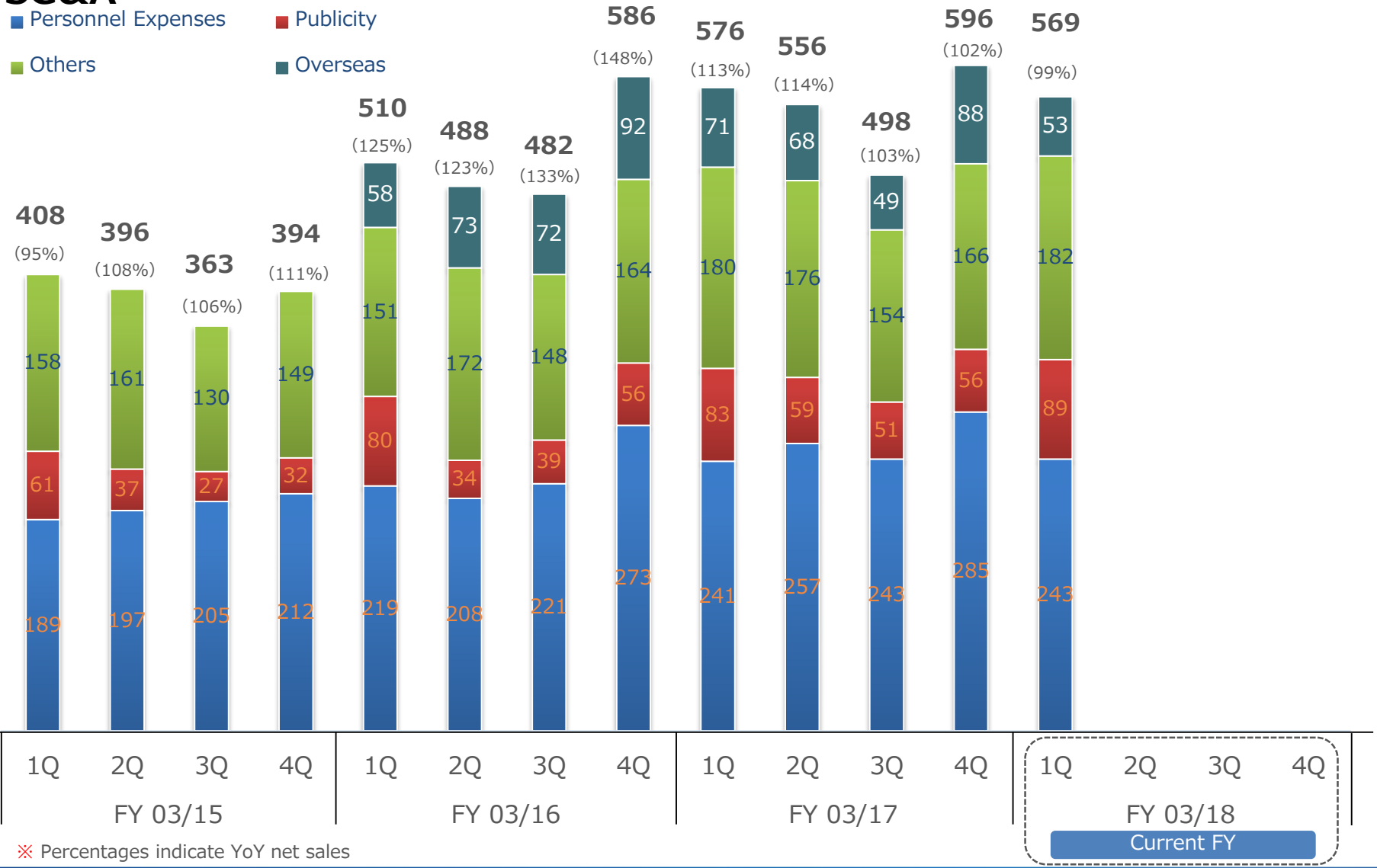
(Unit : Million JPY)



※ Percentages indicate YoY net sales

Completion of up-front investments abroad led to reduction in SG&A

(Unit : Million JPY)



※ Percentages indicate YoY net sales

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BY MARKET

- +26.3% YoY growth in consolidated sales
- Enterprise sector sales +20.8% · Public sector sales +43.1%; maintaining high growth rates
- Consumer sector continues to grow despite the large reduction in personal computer shipments in Japan

Consolidated
Net Sales

JPY 1,158 million (YoY +JPY241 million / +26.3%)

Enterprise

JPY 640 million (YoY +JPY110 million / +20.8%)

Public

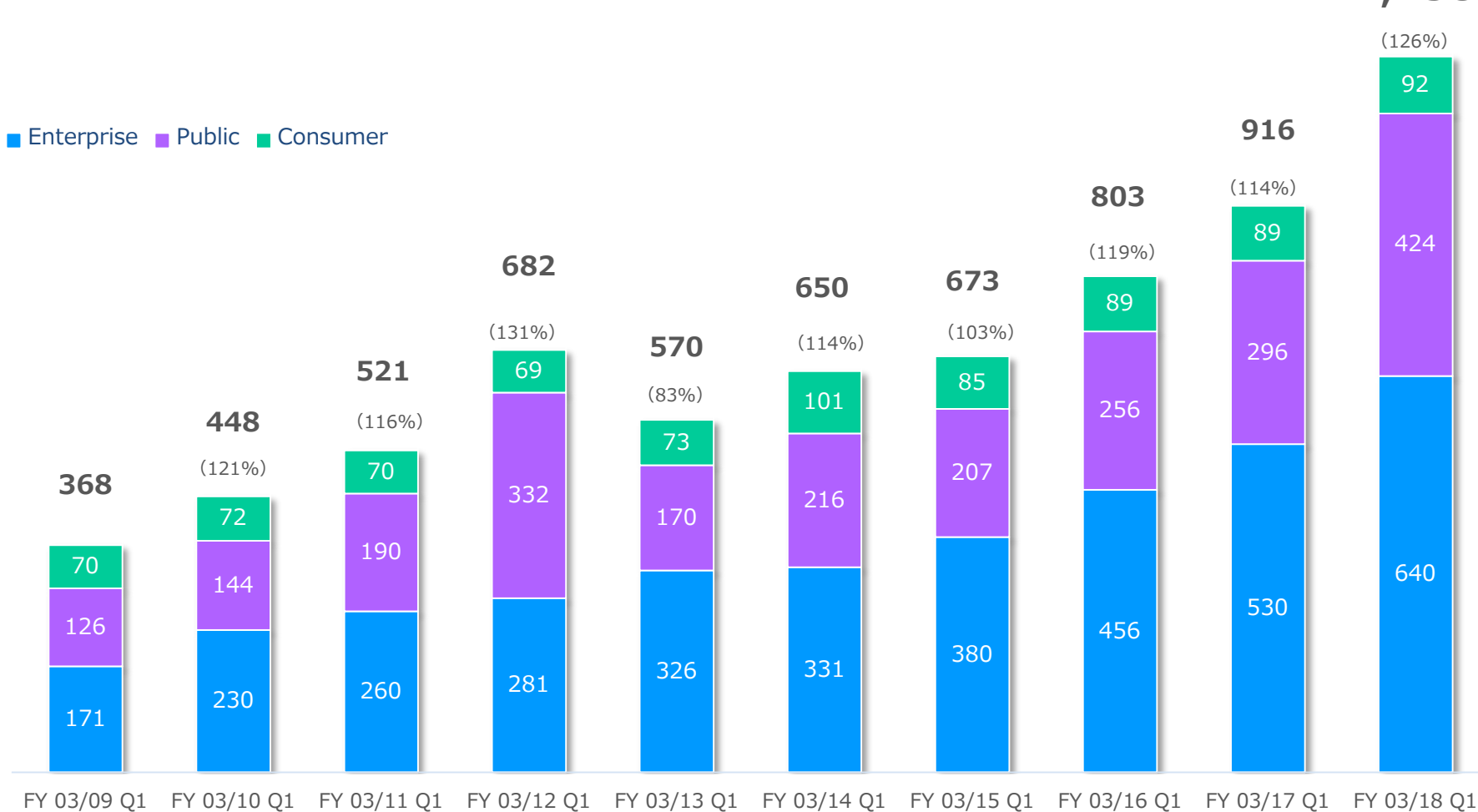
JPY 424 million (YoY +JPY128 million / +43.1%)

Consumer

JPY 92 million (YoY +JPY2 million / +3.3%)

Sales in the enterprise and public sectors continue to grow at a high rate, leading to record high sales

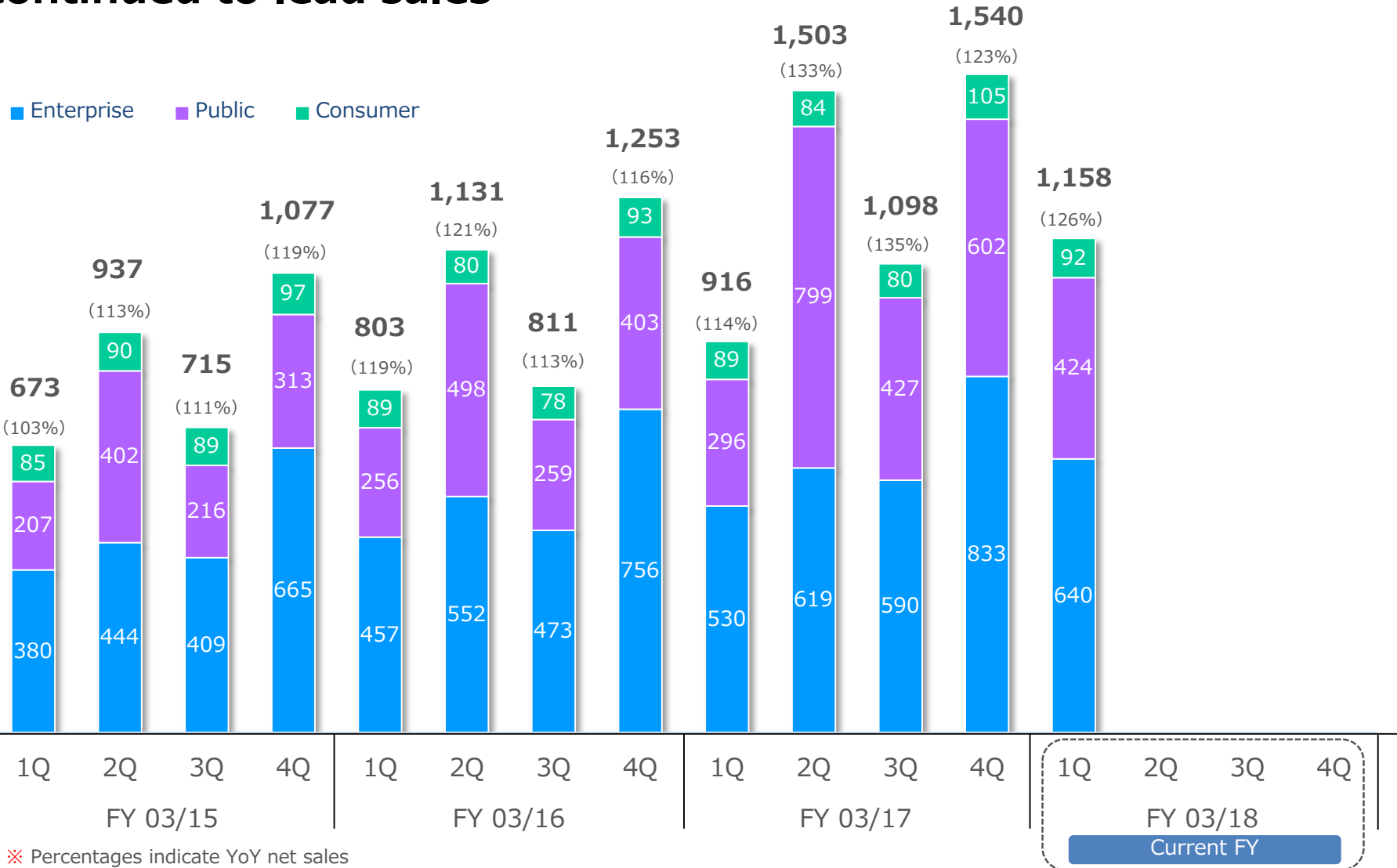
(Unit: million JPY)



※ Percentages indicate YoY net sales

High growth in sales in the public sector continued to lead sales

(Unit: million JPY)



※ Percentages indicate YoY net sales

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ENTERPRISE SECTOR

- Solid sales of mainstay i-FILTER series
- Recovery in sales of m-FILTER from the last FY, secured strong growth again
- Secured small-start and test deployment projects for FinalCode

i-FILTER
Series YoY **111.0** %



m-FILTER
Series YoY **135.2** %



FINALCODE YoY **106.0** %



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PUBLIC SECTOR

- Continued to obtain local government security cloud projects, which drove overall earnings in the previous FY, posted increases in sales both for i-FILTER and m-FILTER
- Due to the effects of the Ministry of Internal Affairs and Communications' guidelines on fundamental strengthening of local government security, local governments' awareness has increased, leading to the increased adoption of FinalCode

i-FILTER
Series

YoY **126.2** %



m-FILTER
Series

YoY **199.3** %



FINALCODE

YoY **459.1** %



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CONSUMER SECTOR

- Continued to expand partnerships and sales through mobile and MNVO operators for i-FILTER (Consumer), promoted expanded sales and expanded collaboration for mobile device version of i-FILTER for smartphone
- Despite the continued decline in PC shipments in Japan, and the otherwise challenging business environment, sales of multi-year packages and sales to internet cafes were solid, and direct sales for multi-devices were steady, contributing to solid sales

PC

YoY **103.3 %**

Game Console/TV

YoY **83.2 %**

Mobile Device

YoY **116.3 %**



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FY 03/18 FORECAST

Consolidated Forecast

- Japan: Anticipate continuous and stable growth with the launch of a new product in new market
- Subsidiaries: Conservative initial outlook

(Unit: million JPY, except where stated otherwise)

	FY 03/17 Actual	FY 03/18 Forecast	Growth Rate
Net Sales	5,058	5,600	10.7 %
Gross Profit	4,051	4,450	9.8 %
Selling, General and Administration Expense	2,227	2,450	10.0 %
Operating Income	1,824	2,000	9.6 %
Ordinary Income	1,811	2,000	10.4 %
Net Income Attributable to Owners of Parent	1,125	1,240	10.2 %
Dividend per Share	24 JPY	28 JPY	—

Non-Consolidated Forecast

- Japan: Anticipate continuous and stable growth with the launch of a new product in new market

(Unit: million JPY, except where stated otherwise)

	FY 03/17 Actual	FY 03/18 Forecast	Growth Rate
Net Sales	5,104	5,550	8.7 %
Gross Profit	4,028	4,450	10.5 %
Selling, General and Administration Expense	1,960	2,100	7.1 %
Operating Income	2,067	2,350	13.7 %
Ordinary	2,056	2,350	14.3 %
Net Income	1,339	1,621	21.1 %

■ Dividend Distribution

Digital Arts plans to return profit to its shareholders as follows:

Projected dividend payout ratio for the period ending March 2018:
31.2% of consolidated net income for current period

The annual dividend amount for the period ending March 2018:
Estimated at 28.00 yen per share

	Dividend per share (in JPY)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY 03/17	10.00	14.00	24.00	29.7%
FY 03/18 (Forecast)	14.00	14.00	28.00	31.2%

All statements herein, other than historical facts, contain forward-looking statements and are based on DA's current plans, strategies and financial forecasts. These forward -looking statements are based upon the management's current assumptions and beliefs in light of the information currently available to it. However, environmental changes and other important factors may cause actual results to differ materially from those expressed herein. All statements herein are not intended to express DA's commitment to fulfil any forward-looking statements. Updated information, if applicable, will be disclosed in a timely manner.

All numerical indications in this statement, unless stated otherwise, are rounded to the nearest million JPY

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