

Digital Arts Inc. (2326)



FY 03/18 Second Quarter Consolidated Financial Results
(April 1, 2017 through September 30, 2017)

Reference Slides
October 30, 2017

FY 03/18 Q2 Financial Results Reference Slides

KEY FINANCIAL POINTS

- ① **Growth in the enterprise market made up for the non-recurrence of large projects for government agencies obtained in the same period of the previous FY, ensuring an increase in both sales and profits**
 - Growth in m-FILTER in the enterprise market made up for the non-recurrence of large projects for government agencies obtained in the same period of the previous FY, ensuring an increase in sales and profits
- ② **Release of i-FILTER Ver.10 and m-FILTER Ver. 5**
 - Released internet security solution i-FILTER Ver.10 and e-mail security solution m-FILTER Ver.5. With the increased ability to block malwares and data leakages, these contribute to the decrease in costs for data protection and employee training
 - Now prepared to obtain new projects in Q3
- ③ **Steady orders received in consulting**
 - Due to the increased awareness about information security, there has been steady sales by subsidiary Digital Arts Consulting, contributing to the overall group sales

FY03/18 Q2 Financial Results Reference Slides

CONSOLIDATED RESULTS HIGHLIGHTS

Consolidated
Net Sales

JPY **2,468** million (YoY +48 million / +2.0%)

Growth in the enterprise market made up for the non-recurrence of large orders to government agencies obtained in the year-earlier period, ensuring YoY increase in sales

Operating
Income

JPY **922** million (YoY +132 million / +16.8%)

The YoY growth in sales, and the reduction in costs due to the completion of up-front investment connected to the commencement of overseas business centered on the US contributed to the increase in profit

Ordinary
Income

JPY **932** million (YoY +165 million / +21.5%)

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

Net Income
Attributable to
Owners of Parent

JPY **618** million (YoY +164 million / +36.1%)

The 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 Q2	FY03/18 Q2	YoY	FY03/18 Forecast
Net Sales	2,420	2,468	+2.0%	5,600
Gross Profits	1,922	2,000	+4.0%	4,450
Selling, General and Administration Expense	1,132	1,078	▲4.8%	2,450
Operating Income	789	922	+16.8%	2,000
Ordinary Income	767	932	+21.5%	2,000
Net Income attributable to owners of parent	454	618	+36.1%	1,240
ROE	9.6%	11.3%	—	—

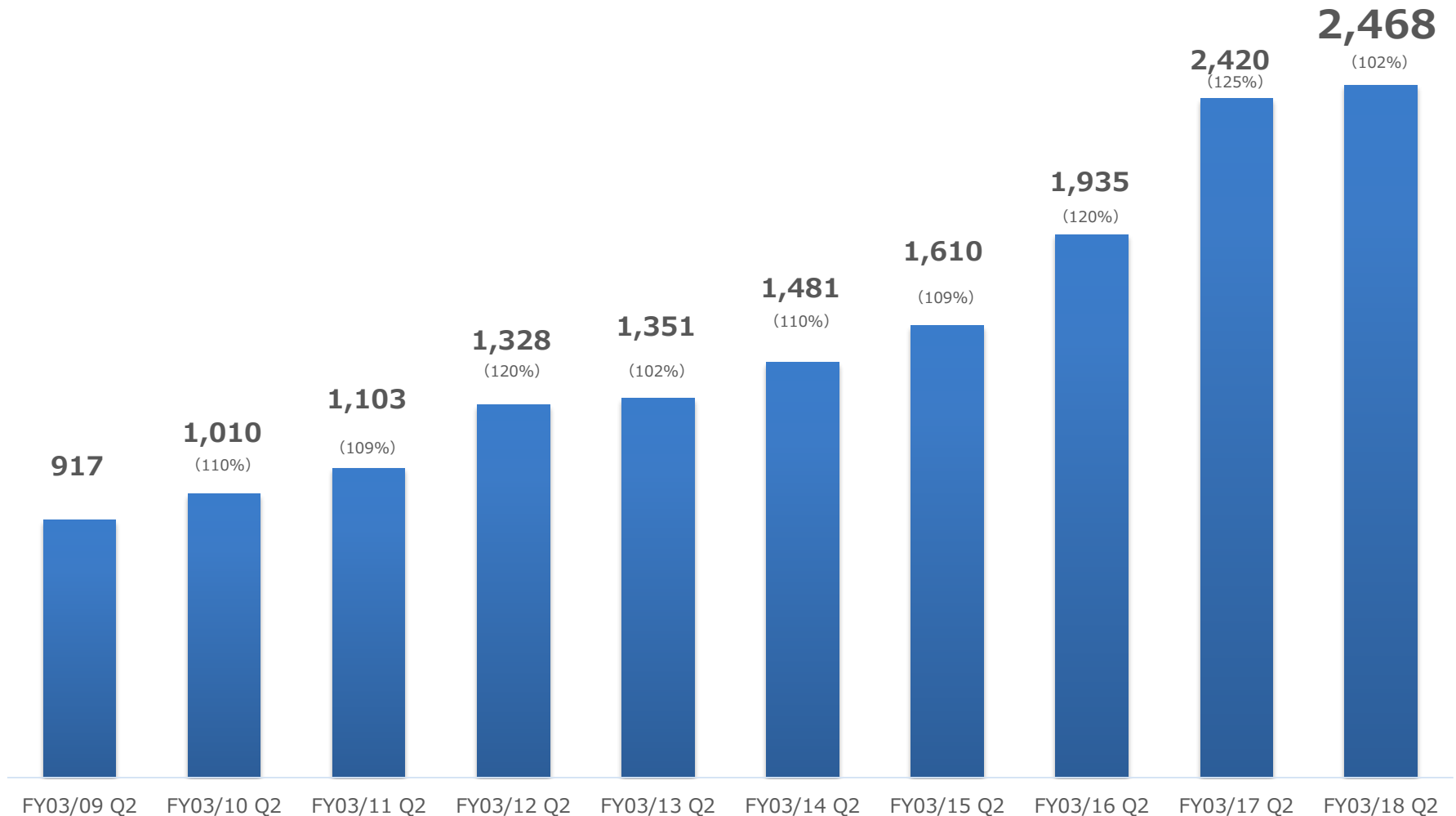
Non-Consolidated Results

(Unit: JPY million)

	FY03/17 Q1	FY03/18 Q2	YoY	FY03/18 Forecast
Net Sales	2,465	2,474	+0.4%	5,550
Gross Profits	1,938	1,978	+2.1%	4,450
Selling, General and Administration Expense	1,001	956	▲4.5%	2,100
Operating Income	936	1,021	+9.0%	2,350
Ordinary Income	918	1,030	+12.2%	2,350
Net Income	619	734	+18.5%	1,621
ROE	11.8%	12.0%	—	—

Continue to post **RECORD HIGH** sales

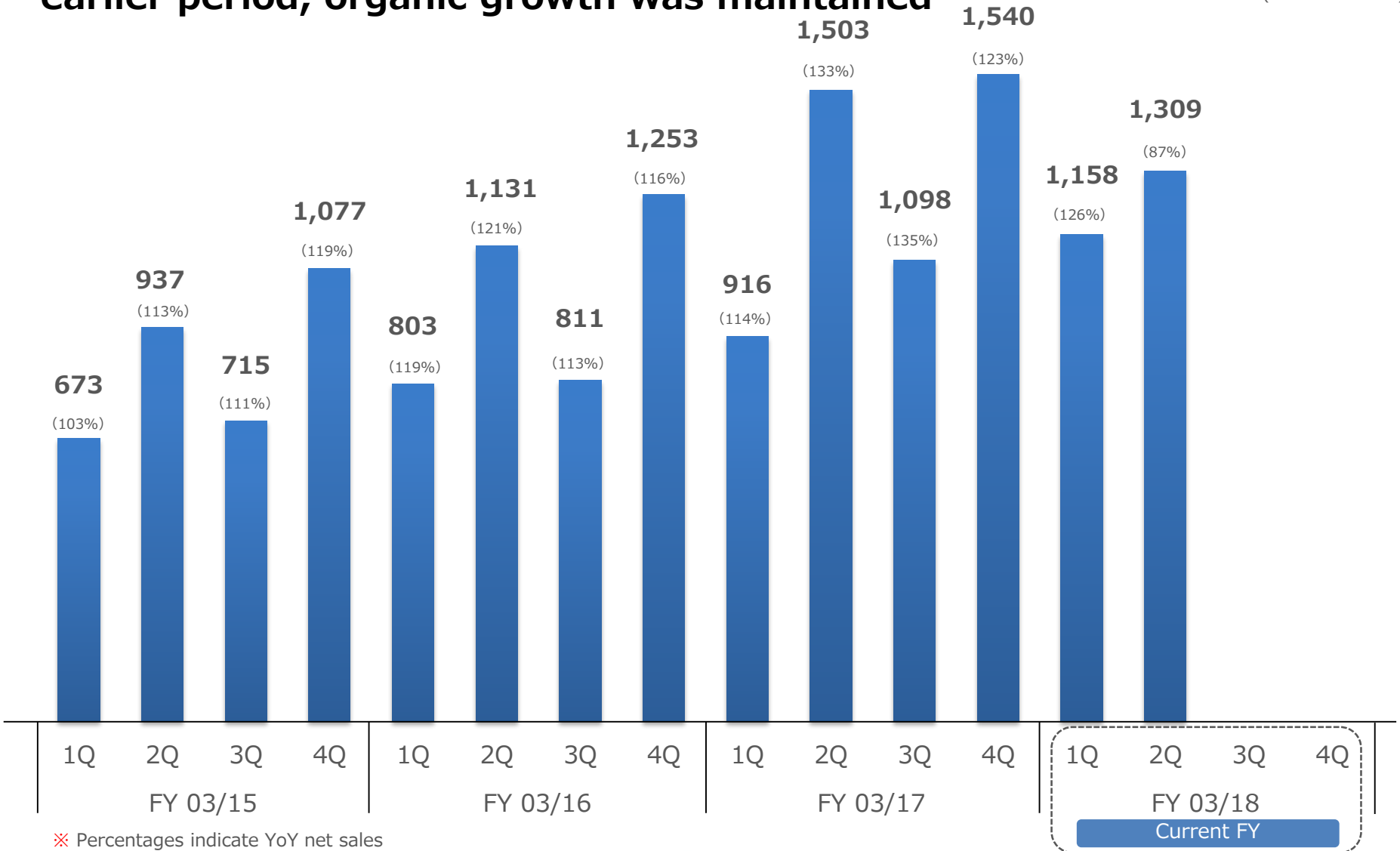
(Unit: JPY million)



※ Percentages indicate YoY net sales

Despite the non-recurrence of large projects obtained in the year-earlier period, organic growth was maintained

(Unit: JPY million)



※ Percentages indicate YoY net sales

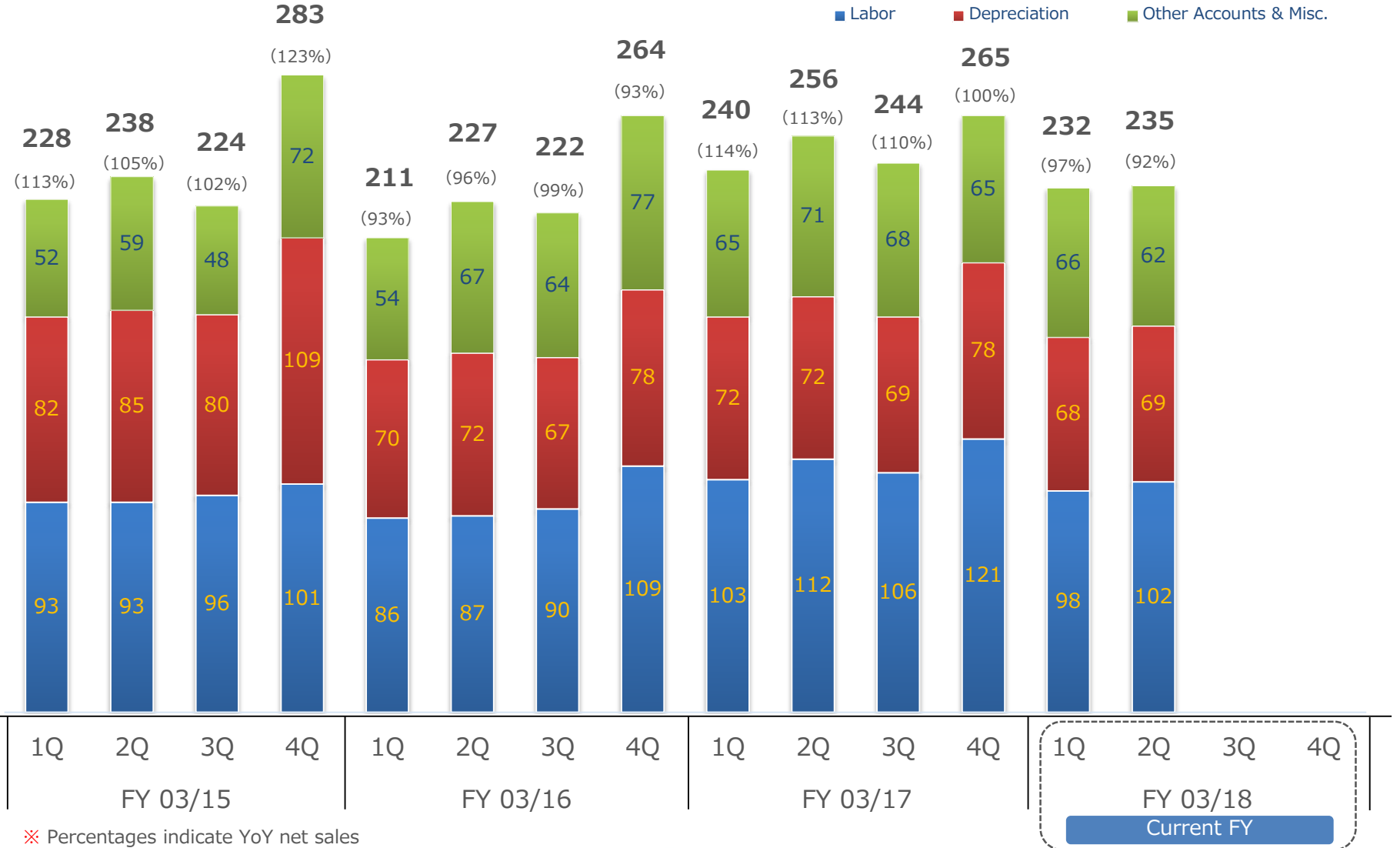
- The completion of initial investments connected to the commencement of overseas business contributed to the reduction in COS and SG&A

(Unit : JPY million)

	FY03/17 Q2	FY03/18 Q2	YoY Growth	Key Factors
Cost of Sales	497	467	▲29	
Labor	215	200	▲14	
Depreciation	144	137	▲6	
Transfer to other accounts Misc production cost	137	128	▲8	
Selling, General and Administrative Expenses	1,132	1,078	▲54	
Personnel Expenses	585	540	▲44	Personnel Expenses (Japan) -25M (Overseas) -25M
Publicity	174	163	▲11	Japan - 7 M Overseas - 7 M
Others	372	373	+1	

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

(Unit: million JPY)

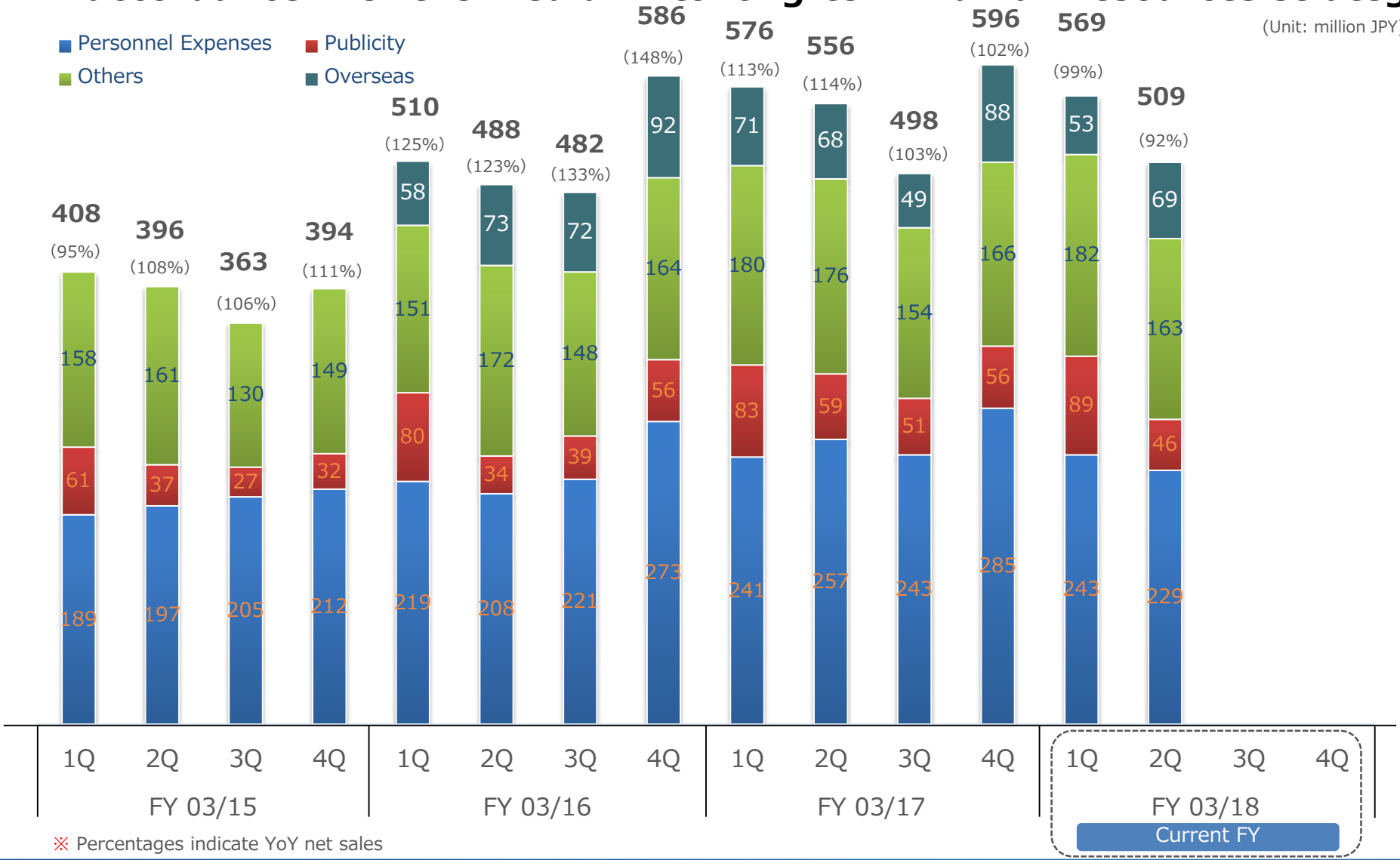


※ Percentages indicate YoY net sales

Revised the organizational structure, and effectively utilized resources in accordance with the medium- to long-term human resources strategy

- Personnel Expenses
- Publicity
- Others
- Overseas

(Unit: million JPY)



※ Percentages indicate YoY net sales

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BY MARKET

- Despite the lack of large projects such as those in the previous FY, managed to sustain +2.0% growth
- Attained +18.9% growth in the enterprise sector, offsetting the non-recurrence of large public sector projects
- Continued to attain solid sales in the consumer market, despite the decline in the PC market

Consolidated
Net Sales

JPY 2,468 million (YoY JPY +48 million / +2.0%)

Enterprise

JPY 1,366 million (YoY JPY +216 million / +18.9%)

Public

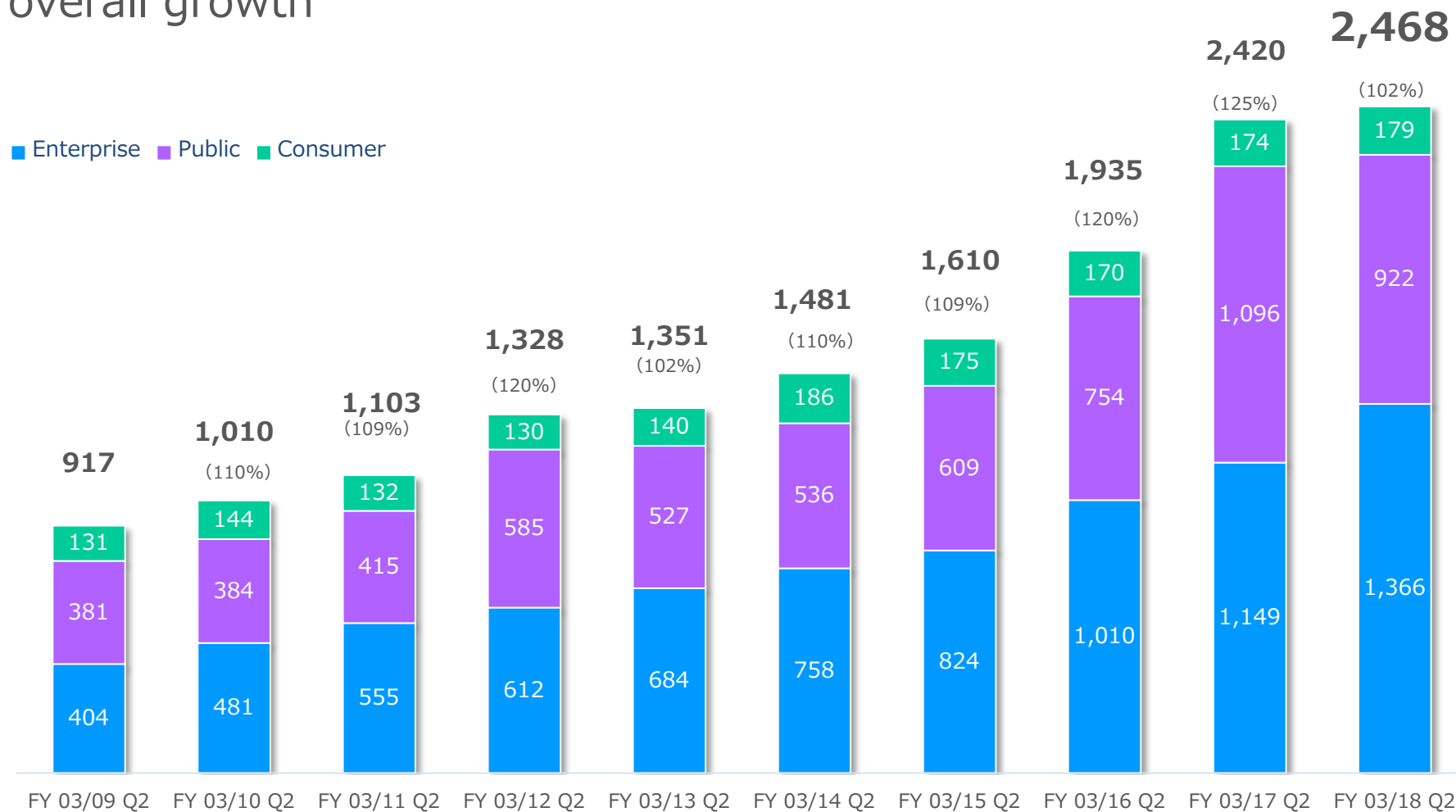
JPY 922 million (YoY JPY -173 million / -15.8%)

Consumer

JPY 179 million (YoY JPY +4 million / +2.7%)

Enterprise sales continue to support high overall growth

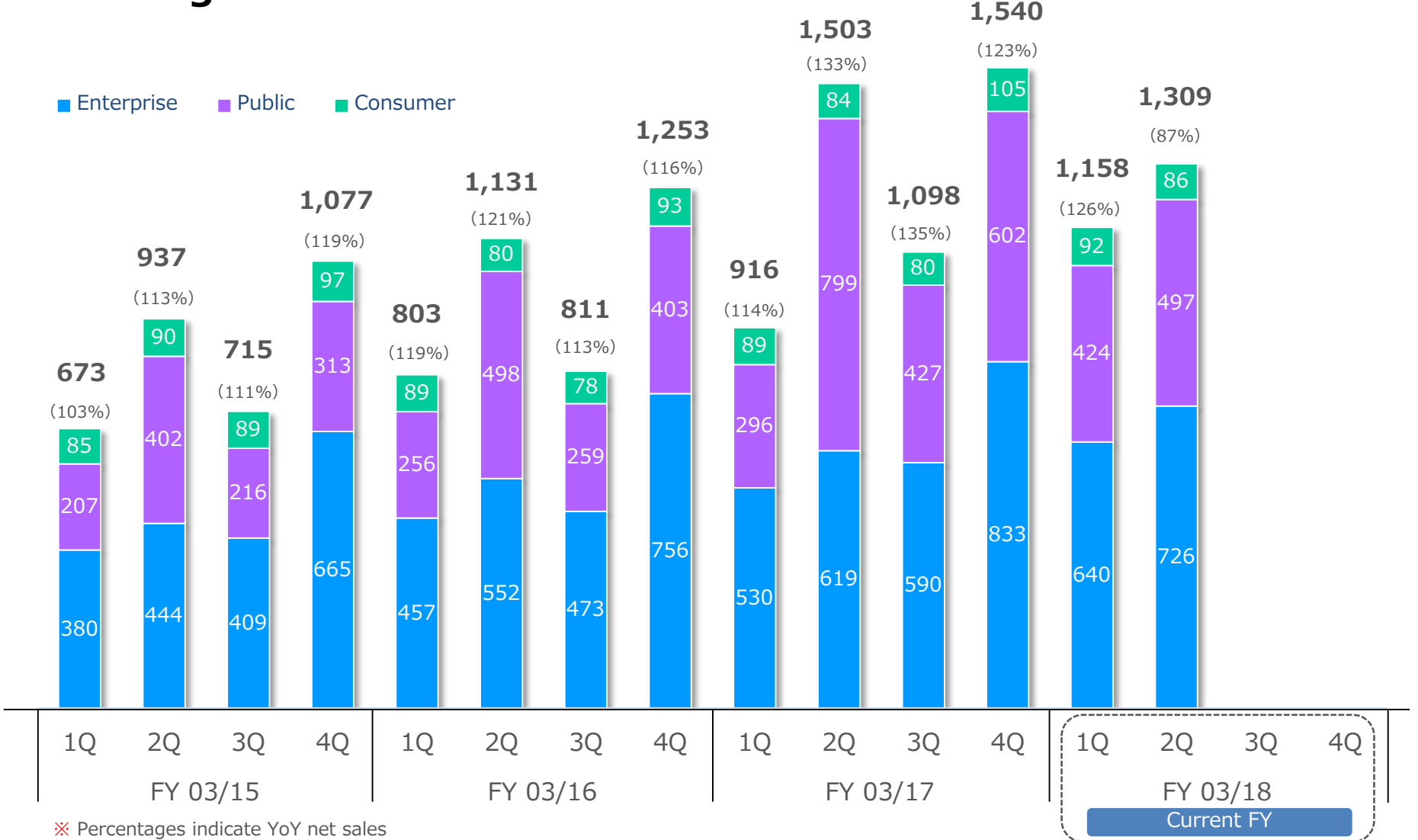
(Unit: million JPY)



※ Percentages indicate YoY net sales

Growth in the enterprise sector ensured stable overall growth

(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 **104.3 %**



m-FILTER
Series YoY **127.1 %**



FINALCODE YoY **134.5 %**



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PUBLIC SECTOR

- 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
- Although projects were attained, it was not enough to make up for the non-recurrence of the large government agency projects attained in the year-earlier period

i-FILTER
Series

YoY **78.2 %**



m-FILTER
Series

YoY **102.1 %**



FINALCODE YoY **347.5 %**



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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 **100.0 %**

Game Consol/TV

YoY **61.4 %**

Mobile Device

YoY **134.3 %**



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FY 03/18 FORECAST

Consolidated Forecast

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