

Digital Arts Inc.  
(Securities Code: 2326)



Consolidated Financial Results for the Fiscal Year  
Ended March 31, 2019  
(From April 1, 2018 to March 31, 2019)

Supplementary Material  
Thursday, May 9, 2019

**Supplementary Material on Consolidated Financial Results  
for the Fiscal Year Ended March 31, 2019**

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# **Key Points**

## **(1) Increasing presence as a general security solution provider in the public sector market, achieving record high sales.**

- Being highly regarded for the track record and reliability we have accumulated as a security provider with a focus on internal data leakage, advanced security measures including those against targeted attacks, *i-FILTER Ver. 10* and *m-FILTER Ver. 5* made good sales.
- Earlier than in the enterprise sector market, we increased our presence as a general security solution provider in the public sector market.

## **(2) Also making progress in acquiring potential deals in the enterprise sector. Plan to properly expand sales in the 25<sup>th</sup> period.**

- Although we have made some progress in acquiring new deals in the enterprise sector, we have been quicker to acquire large-scale projects that make a significant sales contribution in the public sector market.
- We are also in the process of acquiring potential deals in the enterprise sector and we plan to learn from examples in the public sector market to properly expand sales in the enterprise sector during the 25<sup>th</sup> period.

## **(3) Filtering is being introduced through mobile carriers as a result of revision of legislation for the development of the Internet environment for young people**

- The Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. It toughened the enforcement of the introduction of filtering to young people, which had been compulsory before the revision.
- Filtering is being introduced through mobile carriers as a result of this revision.

**Supplementary Material on Consolidated Financial Results  
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# **Consolidated Results Highlights**

Consolidated  
net sales

Net Sales: **5,841** million yen (+724 million yen / +14.2% YoY)

Net sales rose considerably throughout the company following its increased presence as a general security solution provider in the public sector market and briskness in the consumer sector market.

Operating  
profit

Operating profit : **2,629** million yen (+726 million yen / + 38.2% YoY)

Profitability increased after the selection and concentration of management resources began to produce positive effects, despite reorganization expenses in the first half due to the revision of the Group's overseas strategy.

Ordinary  
profit

Ordinary profit: **2,630** million yen (+721 million yen / + 37.8% YoY)

As a result of growth in operating profit, ordinary profit also increased.

Profit  
attributable to  
owners of  
parent

Profit : **1,961** million yen (+679 million yen / + 53.0 % YoY)

The effect of curbing tax expenses associated with the liquidation of a subsidiary in the United States resulted in massive profit growth.

Consolidated Results

(In millions of yen )

	FY March 2018	FY March 2019	Change YoY
Net sales	5,116	<b>5,841</b>	+14.2%
Gross profit	4,041	<b>4,781</b>	+18.3%
Selling, general and administrative expenses	2,138	<b>2,152</b>	+0.7%
Operating profit	1,902	<b>2,629</b>	+38.2%
Ordinary profit	1,909	<b>2,630</b>	+37.8%
Profit attributable to owners of parent	1,281	<b>1,961</b>	+53.0%
ROE	22.5%	<b>28.1%</b>	—
Dividend per share	¥28.00	<b>¥48.00</b>	—

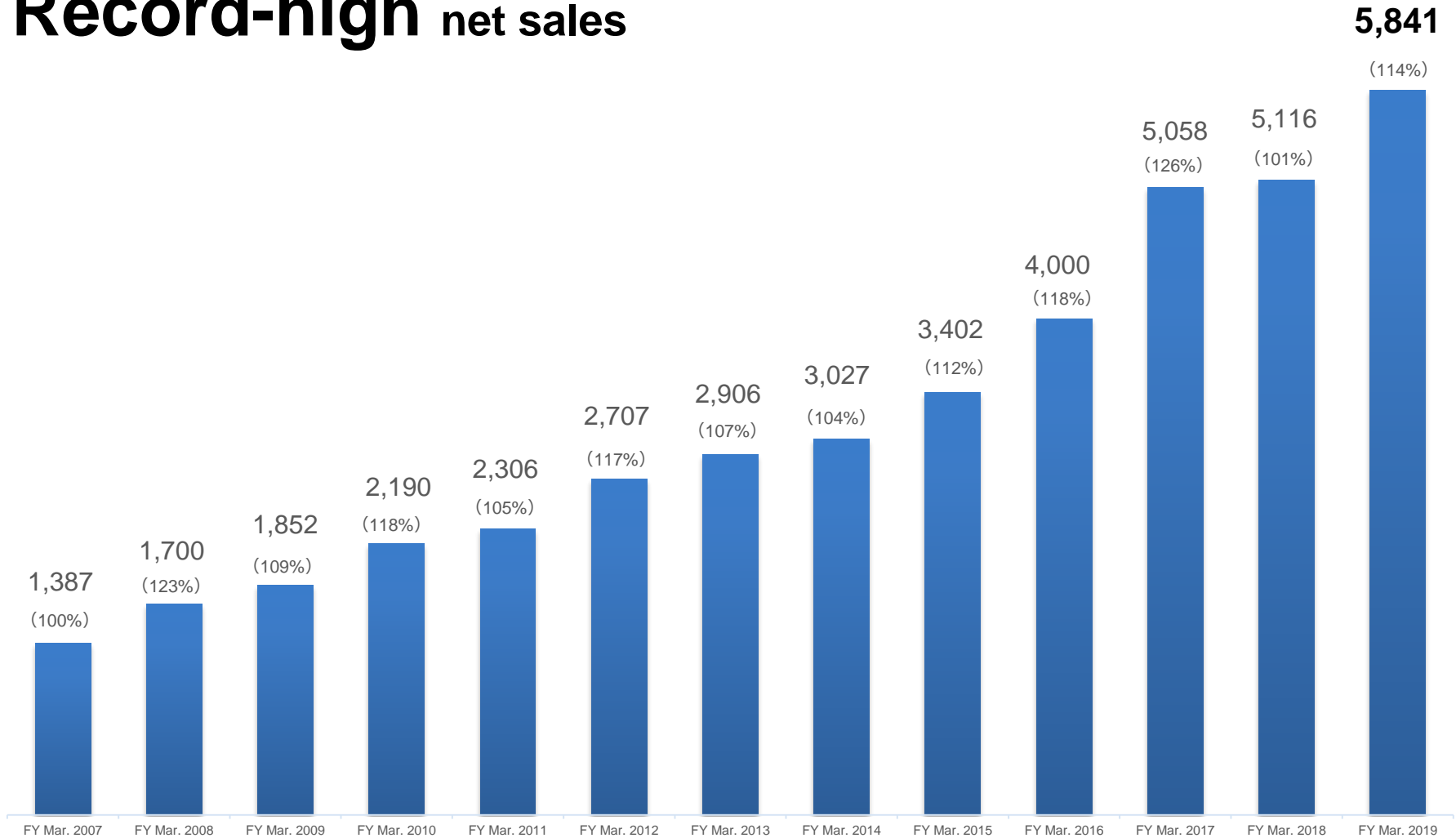
## Non-Consolidated Results

(In millions of yen)

	FY March 2018	FY March 2019	Change YoY
Net sales	5,046	<b>5,752</b>	+14.0%
Gross profit	3,986	<b>4,724</b>	+18.5%
Selling, general and administrative expenses	1,898	<b>1,949</b>	+2.7%
Operating profit	2,087	<b>2,774</b>	+32.9%
Ordinary profit	2,097	<b>2,777</b>	+32.4%
Profit	860	<b>1,784</b>	+107.4%
ROE	14.1%	<b>25.1%</b>	—

(In millions of yen)

# Record-high net sales

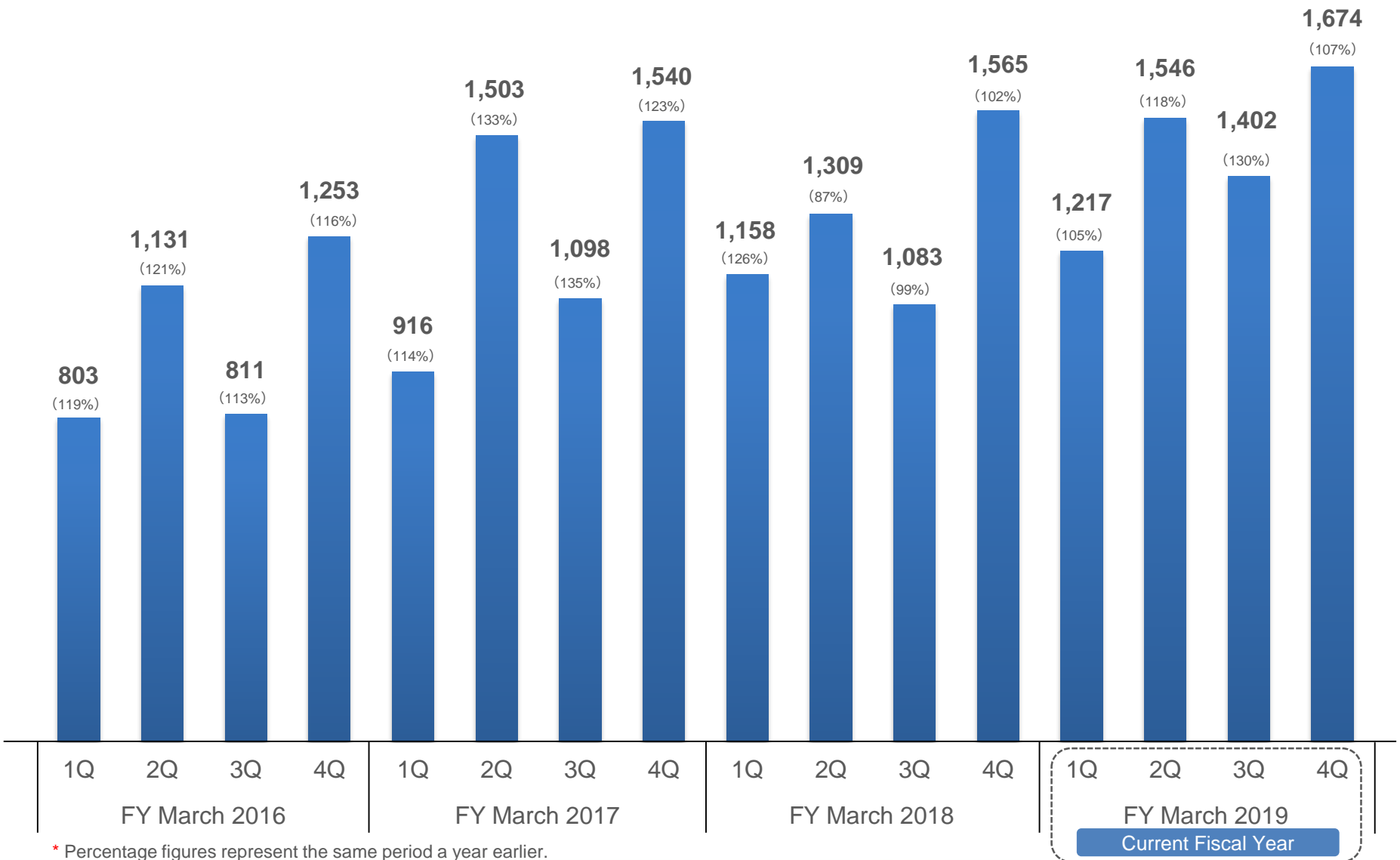


\* Percentage figures represent comparisons with the preceding quarter.



# Quarterly net sales have increased year on year in all quarters

(In millions of yen)



\* Percentage figures represent the same period a year earlier.

- Efficiency increased, reflecting the selection and concentration of management resources as a result of reorganization following revision of the Group's overseas strategy despite an increase in depreciation after the release of a new product.

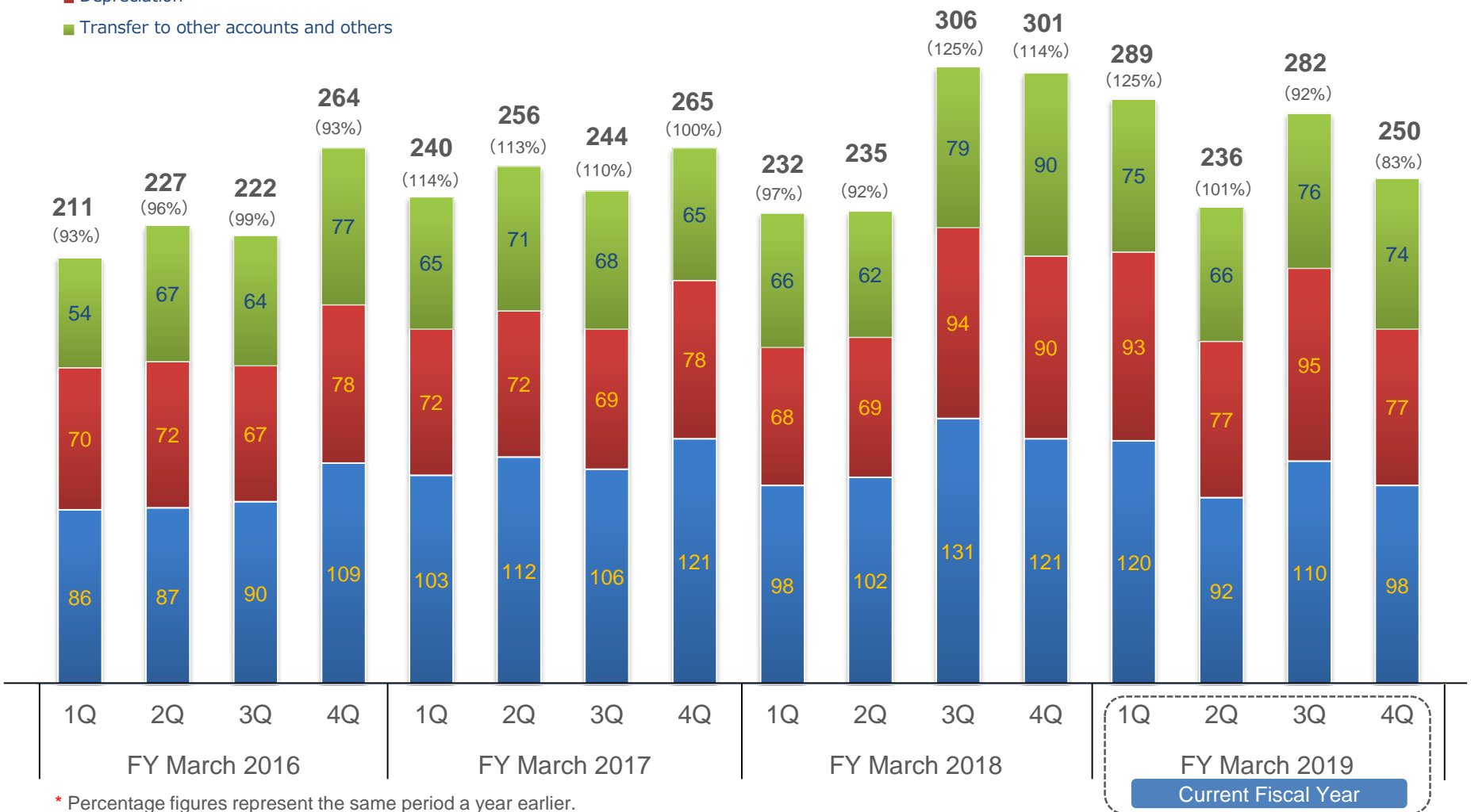
(In millions of yen)

	FY March 2018	FY March 2019	Change YoY	Main Factors for Change
<b>Cost of sales</b>	1,075	<b>1,059</b>	-15	
Labor	453	<b>421</b>	-32	
Depreciation	322	<b>343</b>	+21	Increase in depreciation after the release of a new product
Transfer to other accounts Other manufacturing costs	298	<b>294</b>	-4	
<b>Selling, general and administrative expenses</b>	2,138	<b>2,152</b>	+14	
Personnel expenses	1,050	<b>1,034</b>	-15	
Advertising expenses	287	<b>290</b>	+2	
Other	800	<b>828</b>	+27	Increase in fees paid to outside experts, etc.

(In millions of yen)

## Increase in depreciation after the release of a new product

- Labor
- Depreciation
- Transfer to other accounts and others

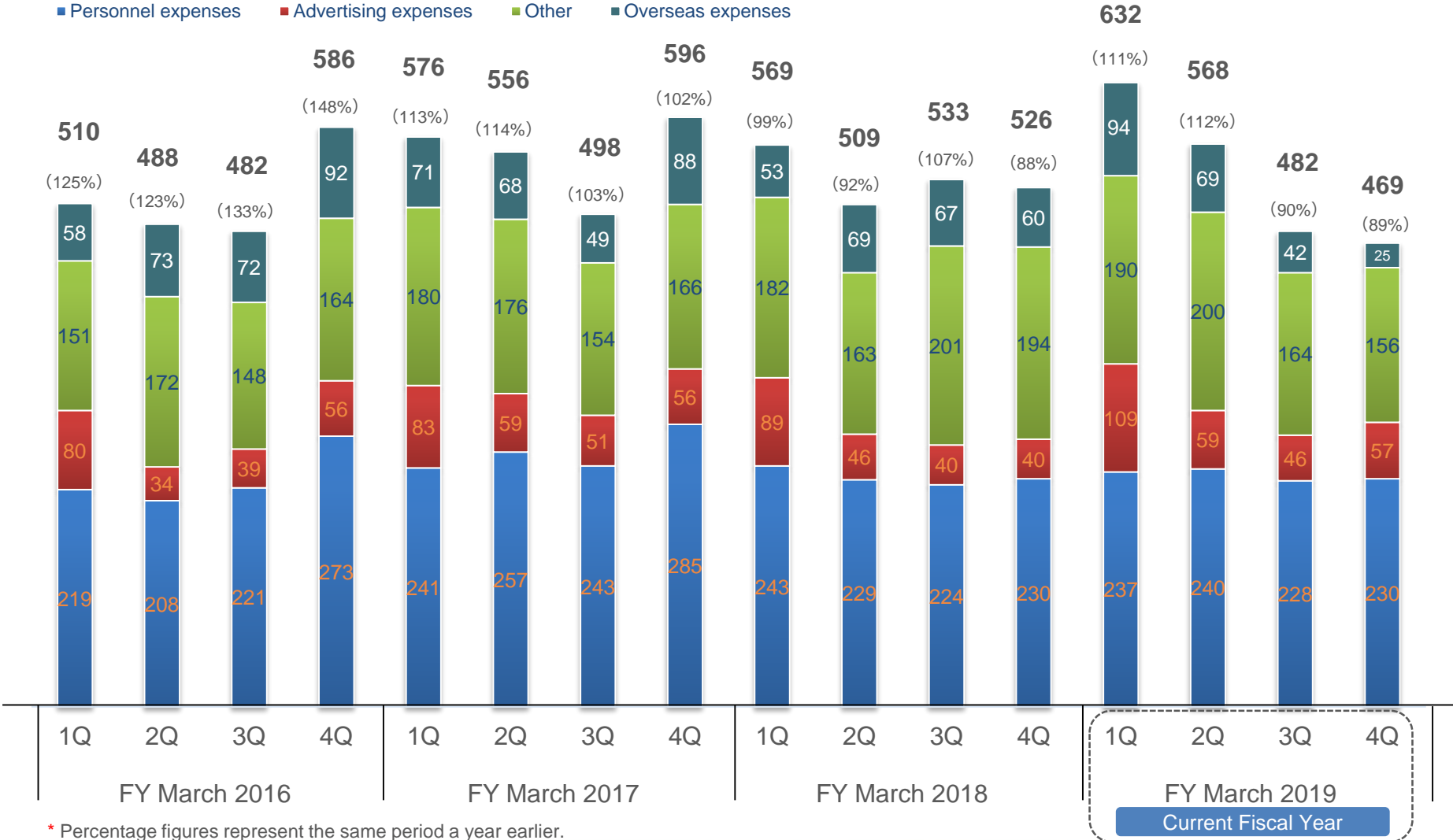


\* Percentage figures represent the same period a year earlier.

# Significant reduction in overseas expenses following revision of Group's overseas strategy

(In millions of yen)

■ Personnel expenses ■ Advertising expenses ■ Other ■ Overseas expenses



\* Percentage figures represent the same period a year earlier.

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# **By Market**

- Consolidated net sales increased +14.2%.
- In the enterprise sector market, net sales grew +4.1%, reflecting a rise in the sales ratio of cloud-based products.
- In the public sector market, net sales rose +26.5%, reflecting our stronger presence as a security solution provider.
- In the consumer sector market, net sales surged +37.4% due to progress in the introduction of filtering to young people.

Consolidated net sales

Net Sales: **5,841** million yen (+724 million yen / +14.2 % YoY)

Enterprise Sector

Net Sales: **3,133** million yen (+124 million yen / +4.1% YoY)

Public Sector

Net Sales: **2,191** million yen (+459 million yen / +26.5% YoY)

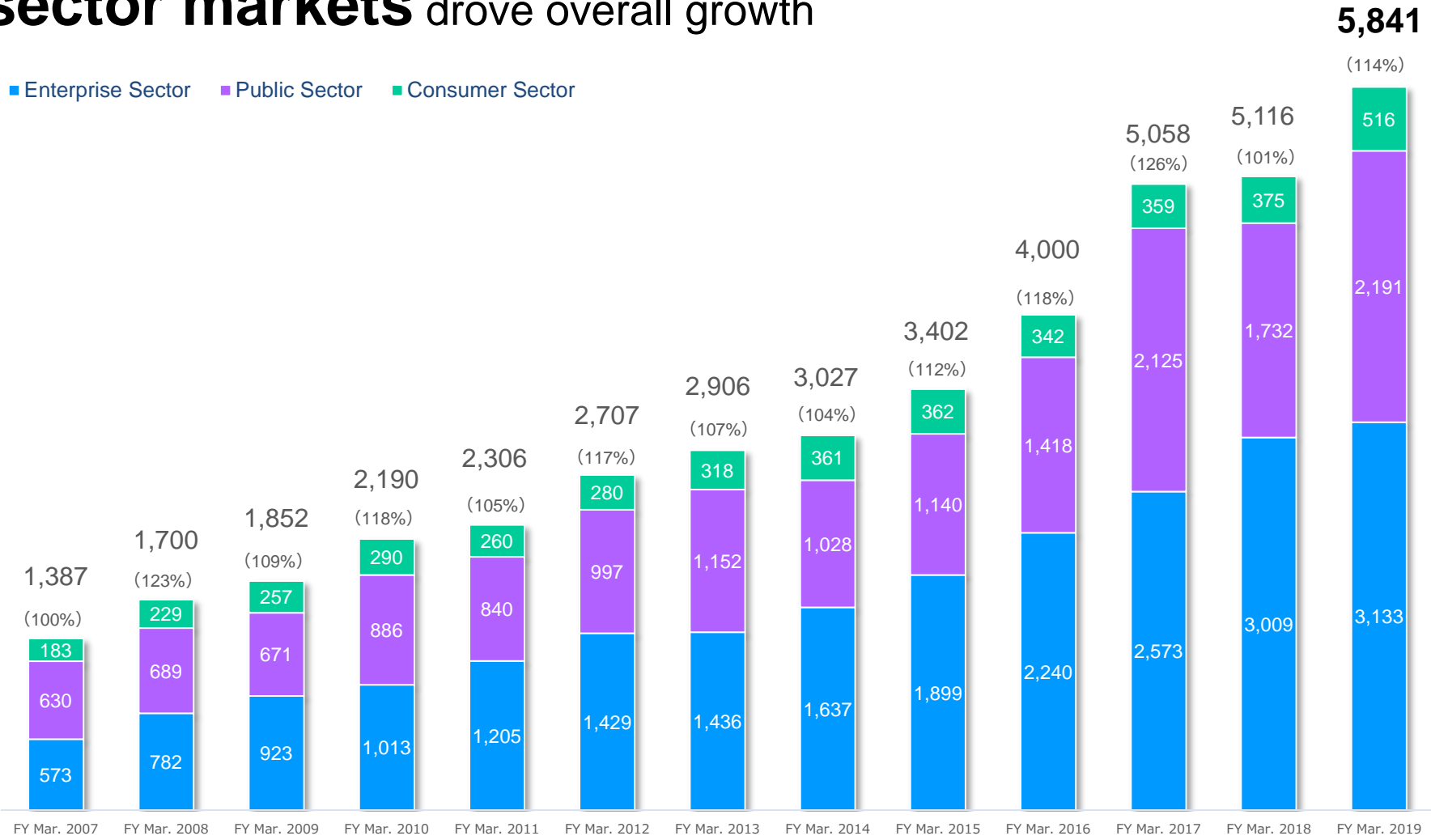
Consumer Sector

Net Sales: **516** million yen (+140 million yen / +37.4% YoY)

# Sales to the public sector and consumer sector markets drove overall growth

(In millions of yen)

■ Enterprise Sector ■ Public Sector ■ Consumer Sector

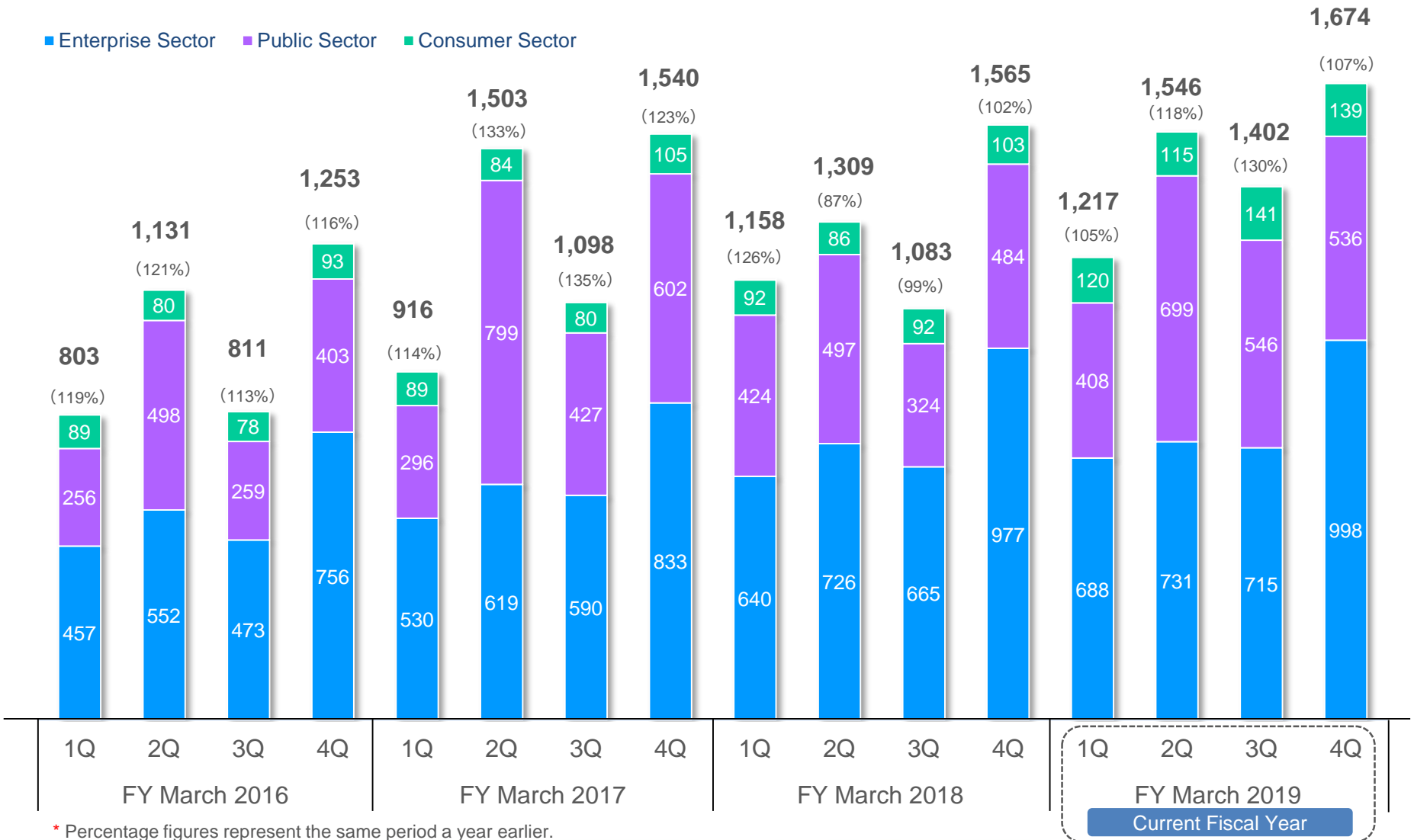


\* Percentage figures represent comparisons with the preceding quarter.

# Net sales have increased in all quarters, driven by the public sector and consumer sector markets

(In millions of yen)

■ Enterprise Sector ■ Public Sector ■ Consumer Sector



\* Percentage figures represent the same period a year earlier.



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# **Enterprise Sector**

- Sales of mainstay product *m-FILTER* were firm, reflecting the steady acquisition of projects, mainly renewals of contracts from the preceding consolidated fiscal year.
- *FinalCode* introduced the highly anticipated Browser View feature, which provided an impetus for the acquisition of deals after a temporary stagnation. It has secured one of the largest deals ever.\*
- The amount of orders received not yet recorded as sales increased due to a rise in the proportion of cloud service-type products in the *i-FILTER* Series.

\* Sales are apportioned in proportion to the contract duration.

**i-FILTER**  
Series **99.7% of the year-ago figure.**



**m-FILTER**  
Series **110.7% of the year-ago figure.**



**FINALCODE** **137.8% of the year-ago figure.**



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# **Public Sector**

- Being highly regarded for the track record and reliability we have accumulated as a security provider with a focus on internal data leakage, advanced security measures including those against targeted attacks, *i-FILTER Ver. 10* and *m-FILTER Ver. 5* made good sales.
- Earlier than in the enterprise sector market, we increased our presence as a general security solution provider in the public sector market.

**i-FILTER**  
Series

**115.7%** of the year-ago figure.



**m-FILTER**  
Series

**198.4%** of the year-ago figure.



**FINALCODE**

**77.2%** of the year-ago figure.



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# **Consumer Sector**

- The Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. It toughened the enforcement of the introduction of filtering to young people, which had been compulsory before the revision.
- Filtering is being introduced through mobile carriers as a result of this revision.

For computers

**108.2%** of the year-ago figure.

For game consoles  
and TVs

**98.6%** of the year-ago figure.

For mobile terminals

**199.8%** of the year-ago figure.

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# **Full-Year Financial Forecast for the Fiscal Year Ending March 2020**

## Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,841 million	<b>¥6,800 million</b>	16.4%
Gross profit	¥4,781 million	<b>¥5,450 million</b>	14.0%
Selling, general and administrative expenses	¥2,152 million	<b>¥2,150 million</b>	-0.1%
Operating profit	¥2,629 million	<b>¥3,300 million</b>	25.5%
Ordinary profit	¥2,630 million	<b>¥3,300 million</b>	25.4%
Profit attributable to owners of parent	¥1,961 million	<b>¥2,277 million</b>	16.1%
Dividend per share	¥48.00	<b>¥50.00</b>	—

\* In the “First Half of Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020” stated in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2019” announced on May 9, 2019, “Profit attributable to owners of parent” for the first six months of the fiscal year ending March 31, 2020 shows year-on-year profit decline because the results for the first six months of the fiscal year ended March 31, 2019 reflect a tax shield associated with the liquidation of a US subsidiary.

On a full-year basis, the impact of this will be absorbed and we expect to post a year-on-year increase in profit attributable to owners of the parent.



## Non-Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,752 million	<b>¥6,600 million</b>	14.7%
Gross profit	¥4,724 million	<b>¥5,400 million</b>	14.3%
Selling, general and administrative expenses	¥1,949 million	<b>¥2,100 million</b>	7.7%
Operating profit	¥2,774 million	<b>¥3,300 million</b>	18.9%
Ordinary profit	¥2,777 million	<b>¥3,300 million</b>	18.8%
Profit	¥1,784 million	<b>¥2,290 million</b>	28.3%

## ■ Dividends

We are planning to pay dividends as follows to return a portion of our earnings to our shareholders.

Target payout ratio for fiscal year ending March 31, 2020: 30.5 % (of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2020:

**50.00 yen per share**

	Dividend (in yen) per share			Consolidated payout ratio
	Interim	Year-end	Total	
FY March 2019	18.00	30.00	48.00	34.0%
FY March 2020 (forecast)	25.00	25.00	50.00	30.5%

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# **FY03/20 Initiatives**

## ■ Security Industry Environment

### **Increasingly diverse and sophisticated threats**

- Japan is facing increasingly diverse and sophisticated threats of attack, not only global cyber attacks but also attacks targeting specific companies and organizations or national agencies.
- New ways of addressing new threats are essential.

### **Growing needs to reduce security operations workload**

- In the environment described above, the outsourcing of security operations and the development of cloud-based security products to reduce the security operations workload are gathering speed.
- New needs associated with the Olympic and Paralympic Games, IoT, autonomous driving, etc. are also expanding.

## ■ Enterprise and Public Sector Initiatives

### **Further strengthen and expand sales of i-FILTER Ver.10, m-FILTER Ver.5 and FinalCode.**

- i-FILTER Ver.10 and m-FILTER Ver.5, which are the latest versions of both products, are being used by 2,800 companies (facilities) and 3.6 million users (as of March 31, 2019) and we are gathering many examples that show how both these products are effective in preventing increasingly diverse and sophisticated targeted attacks. We plan to draw on these examples to develop more customers.
- We are currently developing a new version of FinalCode to solve issues with introduction/operation and, on providing the new version, we will conduct a review of the provision method and price and step up efforts to develop more customers.

### **Raise recognition of DigitalArts@Cloud and step up activities to promote the service**

- Sales of DigitalArts@Cloud are expanding as the use of cloud-based services to reduce the security operations workload accelerates.
- We will expand sales by developing DigitalArts@Cloud into a high added value service, fully utilizing its advantage as a cloud service that can reduce the time and effort involved in construction and operation, integrating the strengths of i-FILTER, m-FILTER and FinalCode, and balancing enhanced convenience with a high level of security.

## ■ Consumer Sector Initiatives

### **Promote the introduction of filtering to prevent harmful effects of Internet usage from spreading**

- The harmful effects of Internet usage through smartphones, etc. are becoming more widespread with the proliferation of smart phones among young people.
- We will develop new customers by strengthening collaboration with other companies focusing on the provision of i-FILTER to consumers through mobile carriers.

Among the descriptions of plans, strategies and financial forecasts in this presentation material, those that are not historical facts are forward-looking statements. They reflect judgments made by the management of Digital Arts Inc. on the basis of information currently available to it. They may be subject to considerable change depending on changes in the environment and other factors, and the Company does not in any way guarantee the achievement of the projections. Digital Arts Inc. will disclose any significant changes that occur in the future as appropriate.

With some exceptions, the basic figures in this presentation are rounded down to the nearest million yen.

- デジタルアーツ, DIGITAL ARTS, i-FILTER, info board, ARS, ActiveRatingSystem, ACTIVE RATING, ZBRAIN, D-SPA, SP-Cache, NET FILTER, White Web, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER File Scan, Mail Detox, i-FILTER, DigitalArts@Cloud, D-Alert, and logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.
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*DigitalArts*®

- For internet convenience, safety and security-