



Quarterly Consolidated Financial Results for First Three Months of Fiscal Year Ending March 31, 2020 (Japanese Accounting Standards)

July 31, 2019

Name of listed company:	Digital Arts Inc.	Listed on:	Tokyo Stock Exchange 1st Section		
Securities code:	2326	URL https://www.daj.jp/			
Representative:	(Title) Representative Director, President and CEO	(Name) Toshio Dogu			
	Director and General				
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Scheduled date for submission of quarterly report	August 9, 2019				
Preparation of supplementary explanatory documents for quarterly results	: Yes				
Holding of quarterly results briefing	: No				

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2020 (April 1, 2019 – June 30, 2019)

(1) Consolidated operating results (cumulative totals) (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three months of year ending March 31, 2020	1,249	2.6	413	40.0	411	39.8	280	60.2
First three months of year ended March 31, 2019	1,217	5.2	295	(17.1)	294	(18.2)	175	(32.1)
(Note) Comprehensive income:	First three months of year ending March 31, 2020	277million yen	(53.7%)	First three months of year ended March 31, 2019	180million yen	(-30.3%)		

	Profit per share (basic)	Profit per share (diluted)
First three months of year ending March 31, 2020	Yen 20.19	Yen 20.15
First three months of year ended March 31, 2019	12.61	12.59

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net Assets per share
As of June 30, 2019	Million yen 9,730	Million yen 7,667	% 78.4	Yen 548.59
As of March 31, 2019	9,859	7,802	78.7	558.33

(Reference:) Equity capital: As of June 30, 2019 7,630Million yen As of March 31, 2019 7,761Million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
Year ended March 31, 2019	Yen —	Yen 18.00	Yen —	Yen 30.00	Yen 48.00
Year ending March 31, 2020	—	—	—	—	—
Year ending March 31, 2020 (forecast)		25.00	—	25.00	50.00

(Note) Revisions to most recently announced dividend forecast : No

3. Forecast of consolidated financial results for the year ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentage figures represent changes from previous year for full year figures and from same period of previous year for interim period figures.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	3,100	12.2	1,340	29.3	1,340	28.8	924	(6.8)	66.52
Full year	6,800	16.4	3,300	25.5	3,300	25.4	2,277	16.1	163.83

(Note) Revisions to most recently announced results forecasts

: No

* Notes

(1) Changes in important subsidiaries during the first three months of fiscal year ending March 31, 2020 : None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)
New — (Company name), Excluding — (Company name)

(2) Application of special accounting methods to the preparation of consolidated quarterly financial statements : Yes

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)” on page 9 of the attached materials.

(3) Changes in accounting policies, changes of accounting estimates and restatement

- 1) Changes in accounting policies due to revisions of accounting standards, etc. : None
- 2) Changes in accounting policies due to reasons other than those stated in 1) : None
- 3) Changes in accounting estimates : None
- 4) Restatement : None

(4) Number of shares outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury shares)
- 2) Number of treasury shares
- 3) Average number of shares issued and outstanding in each period (cumulative total)

As of June 30, 2019	14,133,000	As of March 31, 2019	14,133,000
As of June 30, 2019	224,220	As of March 31, 2019	232,320
First three months of year ending March 31, 2020	13,906,554	First three months of year ended March 31, 2019	13,894,802

* Quarterly financial statements are not subject to quarterly audits by certified public accountants or audit corporations.

* Explanation concerning the appropriate use of financial result forecasts and other special notes (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 “I. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2020 (3) Explanation about information on future forecasts such as consolidated results forecasts” on page 5 of the attached materials.

(How to obtain supplementary materials for quarterly results)
The materials are posted on the Company's website.

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1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2020

(1) Explanation about business results

During the first three months of the consolidated fiscal year under review (April 1 through June 30, 2019), the Japanese economy continued to show a moderate recovery, chiefly because the employment conditions and income environment continued to improve, and corporate earnings remained steady against the backdrop of the government-led economic measures. On the other hand, the outlook of the global economy remained uncertain, mainly due to concerns over an economic slowdown attributable to intensifying US - China trade tensions that are likely to persist longer than expected, as well as mounting geopolitical risks.

In the security industry, in which the Digital Arts Group (the “Group”) operates, there is a growing number of challenges faced by companies and other organizations such as a shortage of security-related personnel, in addition to the diversification and sophistication in threats of targeted cyberattacks with a focus on specific companies, organizations and national institutions, not only in Japan but also on a global scale. There is also a sharp increase in the number of users who rely on cloud services for the outsourcing of security operations that they find difficult to deal with and reductions in the burden of security operations. In addition, with the gradual enforcement of the workstyle reform law from April 1, 2019, companies and other organizations are required to rectify long working hours and establish an environment in which operations can be performed more flexibly. Against this backdrop, the way workstyle reforms should be implemented while simultaneously maintaining security has surfaced as a new challenge because security needs to be improved urgently in out-of-office environments such as work from home and satellite offices.

Given these circumstances, with a view to offering solutions for a secure internet environment, regardless of the size of the businesses operated by the respective customers, the Group continued to improve i-FILTER Ver. 10 and m-FILTER Ver. 5 by enhancing performance and adding functions, and endeavored to increase sales of the products while also aiming to establish a higher level of security in conjunction with businesses for the enterprise sector and public sector markets. In addition, it began to supply FinalCode Ver. 6 in June 2019. Ver. 6 incorporates an automatic file encryption function, for which there is strong demand from existing users and potential customers, and creates a world in which there is no raw data. In addition, by introducing a free browsing function for internal users and volume discounts according to the number of licenses purchased, it offers more users an opportunity to utilize FinalCode more securely in more operation-friendly environments. Moreover, by including FinalCode@Cloud and Chat@Cloud in the lineup of DigitalArts@Cloud, it creates the world of a virus-free room as well, where users are not conscious of security in the cloud environment.

In the consumer sector market, efforts need to be stepped up to popularize filtering functions among young people as the amount of internet-linked damage is increasing due to the use of smartphones against the backdrop of the rising number of young people who use smartphones. Given these circumstances, the Group continued to engage in educational activities and work with mobile network carriers, among other parties, and contributed to popularizing the i-FILTER for smartphones.

As a result, consolidated net sales for the first three months of the consolidated fiscal year under review stood at 1,249,477 thousand yen, up 2.6% year on year. On the profit side, there were improvements in profitability thanks to the impact of the more focused application of management resources as a result of group reorganization based on the review of overseas strategies undertaken in the previous consolidated fiscal year. Consequently, operating profit rose 40.0% year on year, to 413,768 thousand yen, ordinary profit climbed 39.8% year on year, to 411,939 thousand yen, and profit attributable to owners of parent surged 60.2%, to 280,800 thousand yen.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, i-FILTER and FinalCode, the mainstay products, recorded steady sales because the Group continued to win projects mainly for renewals of contracts that had remained outstanding in the previous consolidated fiscal year. In particular, sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of the location or situation, expanded, reflecting a rise in the number of people who take out company-provided tablets, notebooks or other devices and work on their assignments on the go against the backdrop of diversifying workstyles. Meanwhile, with respect to FinalCode Ver. 6 that was released in the first quarter under review and i-FILTER Ver. 10 and m-FILTER Ver. 5 that support countermeasures against sophisticated targeted cyberattacks, the Group did not succeed in winning large-scale projects whose contribution to sales is significant, although progress was made in winning new orders to some extent. It will strive to expand sales in the second quarter

and beyond in earnest.

Net sales in this market reached 725,704 thousand yen, up 5.4% year on year.

Public Sector Market

In this market, progress was also made in winning projects, mainly for those that had remained outstanding in the previous consolidated fiscal year, resulting in steady sales of i-FILTER and FinalCode, the mainstay products. Nevertheless, overall sales for the public sector market were lower than the level in the same period of the previous year due to the absence of orders for projects with a high monetary value that contributed to sales in the previous year. Meanwhile, due to the progress of ICT, changes are taking place in the field of education, and efforts are underway to establish an environment in which one or a small number of students can use one tablet. Reflecting this, sales expanded for i-FILTER Browser and Cloud, which features the capability to implement sophisticated security measures for tablets as well as the addition of a service of providing information that creates the optimal environment for learning. With orders received mainly in the second quarter in the public sector market, the Group will move forward with efforts to expand sales of mainstay products including i-FILTER Ver. 10 and m-FILTER Ver. 5, not to mention i-FILTER Browser and Cloud, sales of which are expected to continue to increase.

As a consequence, net sales in this market stood at 383,198 thousand yen, down 6.3% year on year.

Consumer Sector Market

In this market, sales grew, mainly reflecting the progress in the introduction of filtering, as the number of young people who use smartphones continued to increase, and strong direct sales of multi-year package products and i-FILTER for Multiple Devices that can be used on more than one terminal device.

Net sales in this market amounted to 140,544 thousand yen, up 16.4% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the first quarter of the consolidated fiscal year under review decreased 128,919 thousand yen from the end of the previous consolidated fiscal year, to 9,730,427 thousand yen, mainly due to a decline in securities.

(Liabilities)

Total liabilities at the end of the first quarter of the consolidated fiscal year under review rose 6,050 thousand yen from the end of the previous consolidated fiscal year, to 2,062.503 million yen. This was due chiefly to a rise in advances received, despite a decline in income taxes payable.

(Net assets)

Net assets at the end of the first quarter of the consolidated fiscal year under review fell 134,969 thousand yen from the end of the previous consolidated fiscal year, to 7,667,924 thousand yen. This was mainly due to payments of dividends, which more than offset the posting of profit attributable to owners of parent.

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

Operating results for the first three 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, 2020 announced on May 9, 2019. The Company has determined the results forecasts based on information available on the day of these financial results for the first three months of the year ending March 31, 2020.

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 sheet

	(Thousand yen)	
	Fiscal 2019 (As of March 31, 2019)	First quarter of fiscal 2020 (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	6,169,172	6,430,648
Notes and accounts receivable - trade	1,172,515	998,213
Securities	299,968	—
Finished goods	290	215
Other	87,863	153,156
Total current assets	<u>7,729,809</u>	<u>7,582,234</u>
Non-current assets		
Property, plant and equipment	261,087	257,535
Intangible assets		
Software	1,044,163	1,370,759
Other	367,390	66,023
Total intangible assets	<u>1,411,553</u>	<u>1,436,782</u>
Investments and other assets	<u>456,896</u>	<u>453,875</u>
Total non-current assets	<u>2,129,537</u>	<u>2,148,193</u>
Total assets	<u>9,859,347</u>	<u>9,730,427</u>
Liabilities		
Current liabilities		
Accounts payable - trade	22,744	10,513
Income taxes payable	330,672	145,979
Provision for bonuses	128,192	79,740
Advances received	1,225,258	1,312,420
Other	303,494	467,532
Total current liabilities	<u>2,010,363</u>	<u>2,016,185</u>
Non-current liabilities		
Asset retirement obligations	45,444	45,552
Other	645	765
Total non-current liabilities	<u>46,089</u>	<u>46,317</u>
Total liabilities	<u>2,056,452</u>	<u>2,062,503</u>
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	827,730	825,015
Retained earnings	6,518,256	6,382,036
Treasury shares	(306,939)	(296,237)
Total shareholders' equity	<u>7,752,637</u>	<u>7,624,404</u>
Accumulated other comprehensive income		
Foreign currency translation adjustment	8,499	5,825
Total accumulated other comprehensive income	<u>8,499</u>	<u>5,825</u>
Share acquisition rights	23,587	20,329
Non-controlling interests	18,169	17,365
Total net assets	<u>7,802,894</u>	<u>7,667,924</u>
Total liabilities and net assets	<u>9,859,347</u>	<u>9,730,427</u>

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

Consolidated first three months

(Thousand yen)

	First three months of fiscal 2019 (from April 1, 2018 to June 30, 2018)	First three months of fiscal 2020 (from April 1, 2019 to June 30, 2019)
Net sales	1,217,767	1,249,447
Cost of sales	289,993	286,767
Gross profit	927,774	962,680
Selling, general and administrative expenses	632,314	548,911
Operating profit	295,460	413,768
Non-operating income		
Interest income	254	253
Commission income	53	15
Gain on forfeiture of unclaimed dividends	622	—
Miscellaneous income	482	115
Total non-operating income	1,413	384
Non-operating expenses		
Foreign exchange losses	2,047	2,214
Miscellaneous loss	107	—
Total non-operating expenses	2,155	2,214
Ordinary profit	294,718	411,939
Extraordinary income		
Gain on reversal of share acquisition rights	1,135	75
Total extraordinary income	1,135	75
Extraordinary losses		
Loss on retirement of non-current assets	—	0
Loss on valuation of golf club membership	2,200	—
Total extraordinary losses	2,200	0
Profit before income taxes	293,654	412,014
Income taxes	117,647	132,017
Profit	176,006	279,996
Profit (loss) attributable to non-controlling interests	727	(804)
Profit attributable to owners of parent	175,279	280,800

Consolidated statements of comprehensive income

Consolidated first three months

(Thousand yen)

	First three months of fiscal 2019 (from April 1, 2018 to June 30, 2018)	First three months of fiscal 2020 (from April 1, 2019 to June 30, 2019)
Profit	176,006	279,996
Other comprehensive income		
Foreign currency translation adjustment	4,463	(2,674)
Total other comprehensive income	4,463	(2,674)
Comprehensive income	180,470	277,322
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	179,742	278,126
Comprehensive income attributable to non-controlling interests	727	△804

(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a growing concern)

There are no applicable matters.

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

There are no applicable matters.

(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 quarter 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.