



Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 [Japan GAAP]

May 8, 2020

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
 Contact: (Title) General Manager of the Administration Department (Name) Isao Konishi TEL: 03-5220-6045
 Scheduled date to hold the ordinary general meeting of shareholders: June 19, 2020 Scheduled date to start dividends distribution: June 22, 2020
 Scheduled date for filing annual financial report: June 22, 2020
 Supplementary materials prepared: Yes
 Results information meeting held: Yes (for institutional investors and financial analysts)

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

1. Consolidated financial results for the year ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Consolidated operating results

(Percentage figures represent changes from previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2020	5,641	(3.4)	2,328	(11.5)	2,326	(11.6)	1,590	(18.9)
Year ended March 31, 2019	5,841	14.2	2,629	38.2	2,630	37.8	1,961	53.0

(Note) Comprehensive income: Year ended March 31, 2020: 1,587 million yen (-19.7%) Year ended March 31, 2019: 1,977 million yen (55.1%)

	Profit per share (basic)	Profit per share (diluted)	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2020	113.69	110.83	19.4	22.5	41.3
Year ended March 31, 2019	141.11	140.80	28.1	29.6	45.0

Reference: Equity-method investment profit (loss): Year ended March 31, 2020: — million yen Year ended March 31, 2019: — million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2020	10,852	8,680	79.7	617.27
As of March 31, 2019	9,859	7,802	78.7	558.33

Reference: Equity capital: Year ended March 31, 2020: 8,652 million yen Year ended March 31, 2019: 7,761 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Year ended March 31, 2020	2,686	111	(709)	7,651
Year ended March 31, 2019	3,091	(908)	(429)	5,569

2. Dividends

	Annual dividends					Total dividends paid (annual) Million yen	Payout ratio (consolidated) %	Dividends to net assets (consolidated) %
	1Q-end Yen	2Q-end Yen	3Q-end Yen	Year-end Yen	Annual Yen			
Year ended March 31, 2019	—	18.00	—	30.00	48.00	667	34.0	9.6
Year ended March 31, 2020	—	25.00	—	25.00	50.00	701	44.0	8.5
Year ending March 31, 2021 (forecast)	—	25.00	—	30.00	55.00		31.5	

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

3. Forecast of consolidated financial results for the year ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(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	3,300	19.4	1,490	35.8	1,490	36.4	1,030	38.2	73.48
Full year	7,500	32.9	3,550	52.5	3,550	52.6	2,450	54.0	174.79

* Notes

(1) Changes in subsidiaries during the fiscal year

(Changes in specified subsidiaries resulting in changes in scope of consolidation): None

New—(Company name) , Excluding—(Company name)

(2) 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

(3) 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

As of March 31, 2020	14,133,000	As of March 31, 2019	14,133,000
As of March 31, 2020	116,042	As of March 31, 2019	232,320
Year ended March 31, 2020	13,991,859	Year ended March 31, 2019	13,898,934

(Reference) Overview of the non-consolidated business results

1. Non-consolidated financial results for the year ended March 31, 2020 (April 1, 2019 – March 31, 2020)

(1) Non-consolidated operating results (Percentage figures represent changes from previous year.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ended March 31, 2020	5,336	(7.2)	2,357	(15.0)	2,359	(15.1)	1,613	(9.6)
Year ended March 31, 2019	5,752	14.0	2,774	32.9	2,777	32.4	1,784	107.4
	Profit per share		Diluted profit per share					
	Yen		Yen					
Year ended March 31, 2020	115.29		112.39					
Year ended March 31, 2019	128.42		128.14					

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2020	10,839	8,714	80.2	620.45
As of March 31, 2019	9,870	7,804	78.8	559.74

Reference: Equity capital: As of March 31, 2020: 8,696 million yen

As of March 31, 2019: 7,780 million yen

2. Forecast of non-consolidated financial results for the year ending March 31, 2021 (April 1, 2020 – March 31, 2021)

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

	Net sales		Ordinary profit		Profit		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	3,100	17.0	1,480	32.4	1,020	32.5	72.77
Full year	7,000	31.2	3,500	48.4	2,420	50.0	172.65

* Summaries of financial results are not subject to audit.

* 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 relevant to business forecasts, refer to (4) *Outlook* in 1. *Overview of Business Results, Etc.* on page 4 of the Attached Document.

(Obtaining the Supplementary Material for the Financial Results)

The material is available at Digital Arts Inc. corporate website.

○Table of Contents for the Attached Document

1. Overview of Business Results, Etc.	2
(1) Overview of business results in the fiscal year under review.....	2
(2) Overview of financial position for the fiscal year under review.....	3
(3) Overview of cash flows in the fiscal year under review	3
(4) Outlook	4
2. Basic Approach to Selection of Accounting Standards	5
3. Consolidated Financial Statements and Major Notes.....	6
(1) Consolidated balance sheet	6
(2) Consolidated statement of income and consolidated statement of comprehensive income.....	8
Consolidated statement of income	8
Consolidated statement of comprehensive income.....	9
(3) Consolidated statement of changes in equity	10
(4) Consolidated statement of cash flows	12
(5) Notes to consolidated financial statements.....	13
(Notes on the premise of a going concern)	13
(Significant matters that serve as the basis for the preparation of consolidated financial statements).....	13
(Consolidated balance sheet)	14
(Consolidated statement of income)	14
(Consolidated statements of comprehensive income).....	15
(Consolidated statement of changes in equity)	16
(Consolidated statement of cash flows)	18
(Lease transactions)	18
(Financial instruments)	18
(Securities)	21
(Derivatives transactions)	22
(Retirement benefits)	22
(Stock options)	22
(Asset retirement obligations)	26
(Segment information, etc.)	26
(Related party information)	28
(Per share information)	28
(Significant subsequent events).....	29
4. Non-consolidated Financial Statements and Major Notes.....	30
(1) Balance sheet	30
(2) Statement of income	32
(3) Statement of changes in equity	34
(4) Notes to non-consolidated financial statements.....	33
(Notes on the premise of a going concern).....	35
5. Other.....	35

1. Overview of Business Results, Etc.

(1) Overview of business results in the fiscal year under review

During the consolidated fiscal year under review (April 1, 2019 – March 31, 2020), the Japanese economy saw a continued recovery in employment and corporate income amid the turnaround in consumer spending and capital investment. Meanwhile, the outlook on the world economy remained unclear amid intensification of the trade friction between the United States and China, anxiety over the political management of the U.S. administration and growing geopolitical risks. In addition, the impact of the COVID-19 coronavirus pandemic came to the surface to drag the global and Japanese economy down sharply.

In the security industry where the Digital Arts Group (hereinafter “the Group”) operates, demand is expanding amid successive cases of diversifying cyberattacks including ransomware and Emotet. Apart from demand from large-sized organizations as conventionally main sources of demand, demand for the new introduction of security measures is growing from medium- and small-sized enterprises, which are comparatively lagging in such measures. In addition, IoT, AI and other technologies were increasingly used and the practice of working from home spread quickly to stop the proliferation of the COVID-19 coronavirus, security personnel must now manage increasingly diversifying and advancing risks, and the demand for security services is expected to continuously grow. On the other hand, for the consolidated fiscal year under review, there was a surge in demand for the replacement purchases of computers due to the consumption tax increase and the termination of support for Windows 7. Our sales partners remained busy with negotiations on replacement purchases of computers.

Under these circumstances, the Group’s domestic operations continuously endeavored to expand sales of i-FILTER Ver. 10 and m-FILTER Ver. 5 in the enterprise sector and public sector markets in a bid to offer solutions for a secure Internet environment to customers of all sizes. Apart from that, as more and more people work from home, web services and e-mail environments are rapidly shifting to the cloud. Launched in May 2018, the Group’s cloud services of i-FILTER@Cloud and m-FILTER@Cloud were re-priced so that webpages could be viewed without worry and that e-mail messages could be opened without hesitation in the cloud environment. The Group also released Chat@Cloud. It is a business tool supporting not only text chat but also video chat to pave the way for online conferencing. The Group thus released a new product that is expected to be increasingly used under the current circumstances, in which teleworking, including working from home, is quickly expanded amid the COVID-19 coronavirus crisis.

In the consumer sector market, smartphones are increasingly used not only by senior high schoolers but by junior high schoolers or younger children. In view of that, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. This revision toughened enforcement of the introduction of filtering to young people, which had been compulsory before the revision. The Group continued to work with mobile network carriers and mobile virtual network operations (MVNOs) to further promote i-FILTER for smartphones.

As a result of the above, consolidated net sales for the fiscal year under review stood at 5,641,805 thousand yen, down 3.4% year on year, operating profit fell 11.5% year on year to 2,328,036 thousand yen, ordinary profit declined 11.6% to 2,326,930 thousand yen, and profit attributable to owners of parent decreased 18.9% to 1,590,784 thousand yen.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, the Group carried out active sales promotion activities for high-end models for which full-scale sales started in the consolidated fiscal year under review, specifically i-FILTER Ver. 10 and m-FILTER Ver. 5. They increased the recognition of the utility of both products and helped gain some new projects, but this achievement was smaller than expected as a result of the striking increase in demand for replacement purchases of computers due to the termination of support for Windows 7. Meanwhile, the shortage of security professionals and the spread of teleworking accelerated the use of cloud services to reduce the burden of security operations. The sales share of i-FILTER Browser & Cloud and other cloud service products among the Group’s products increased gradually and contributed to a sales rise. While license sales are recorded in a lump at the time of shipping, recorded sales of cloud services are apportioned on a monthly basis throughout the service provision period. As a result, the balance of advances received increased. The balance will be posted from the next consolidated fiscal year.

Net sales in this market reached 3,284,873 thousand yen, up 4.8% year on year.

Public Sector Market

In this market, the Group traditionally enjoyed high recognition and a large market share as a provider of Japan-made security solutions with a focus on internal data leakage. Highly regarded for its track record and reliability, it bolstered its presence as a general security solution provider in the market earlier than in the enterprise sector market as i-FILTER Ver. 10 and m-FILTER Ver. 5, which provide advanced security measures, including those against targeted attacks, sold well. As in the enterprise sector market, the cloud shift is seen in this market as well. The sales share of cloud service products is gradually increasing. The sales balance to be posted for the following and later consolidated fiscal years expanded. On the other hand, there was a reactionary sales decline following the large-scale project that helped increase net sales for the consolidated previous fiscal year. A supplementary budget proposal approved by the Japanese Cabinet in December 2019 included an amount of 231.8 billion yen for the GIGA School Concept envisioning integrated development of providing every school-aged child with a learning terminal and constructing high-speed and high-capacity communication networks. That led to the revision to the details of projects under negotiation, and these projects, which were expected to be ordered in the consolidated fiscal year under review, are now expected to be delayed until the following or later consolidated fiscal year.

As a consequence, net sales in this market stood at 1,911,173 thousand yen, down 12.8% year on year.

Consumer Sector Market

In this market, the Group focused its efforts on collaboration with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID. Advances in the introduction of filtering amid widespread use of smartphones among young people and strong sales of multi-year packages and i-FILTER for Multiple Devices contributed to an increase in licenses. However, net sales tumbled due to revisions to the prices for sales to mobile network carriers.

Net sales in this market amounted to 445,759 thousand yen, shrunk 13.6% year on year.

(2) Overview of financial position for the fiscal year under review

(Assets)

Total assets at the end of the consolidated fiscal year under review increased 992,887 thousand yen from the end of the previous consolidated fiscal year to 10,852,234 thousand yen, chiefly reflecting a rise in cash and deposits due to cash provided by operating activities.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review rose 115,557 thousand yen from the end of the previous fiscal year to 2,172,010 thousand yen. This was due chiefly to a rise in income taxes payable.

(Net assets)

Net assets at the end of the consolidated fiscal year under review climbed 877,329 thousand yen from the end of the previous consolidated fiscal year to 8,680,224 thousand yen. This was due mainly to an increase in retained earnings after posting of profit attributable to owners of parent, which more than offset a decrease due to the exercise of share acquisition rights.

(3) Overview of cash flows in the fiscal year under review

In the consolidated fiscal year under review, cash and cash equivalents increased 2,082,473 thousand yen from the end of the previous consolidated fiscal year to 7,651,645 thousand yen. Cash flows in each category are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities stood at 2,686,572 thousand yen (net cash provided of 3,091,862 thousand yen in the previous consolidated fiscal year), chiefly reflecting a profit before income taxes of 2,326,026 thousand yen and depreciation of 805,723 thousand yen.

(Cash flows from investing activities)

Net cash provided by investing activities reached 111,013 thousand yen (net cash used of 908,784 thousand yen in the previous consolidated fiscal year), due mainly to a decrease in time deposits and proceeds from the redemption of securities despite the acquisition of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 709,214 thousand yen (net cash used of 429,712 thousand yen in the previous consolidated fiscal year), primarily due to dividends paid and the purchase of treasury shares, although there were proceeds from disposal of treasury shares.

The table below shows trends of cash flow indicators.

	As of March 31, 2017	As of March 31, 2018	As of March 31, 2019	As of March 31, 2020
Equity ratio (%)	70.2	78.2	78.7	79.7
Equity ratio based on market value (%)	570.2	719.8	1,276.0	603.2

1. The methods to calculate the indicators are as follows:

- a) Equity ratio: Equity capital / Total assets
- b) Equity ratio based on market value: Market capitalization / Total assets

(Market capitalization is calculated by multiplying the closing stock price at the end of the fiscal year by the number of issued shares (excluding treasury shares).)

2. Each indicator is calculated based on consolidated financial numbers.

(4) Outlook

The outlook for the next fiscal year (April 1, 2020 to March 31, 2021) is as follows:

In the security industry where the Group operates, the challenges that companies and other entities face are expanding, including diversifying and sophisticating threats of attacks targeting specific companies, organizations and government institutions and other outside attacks, as well as shortages of security personnel. In this environment, security products will remain in demand. Accelerating are the outsourcing of security operations that are now difficult for users to accomplish and the utilization of cloud services to reduce the burden of security operations. In addition, as the impact of the COVID-19 coronavirus protracts, teleworking is rapidly spreading in the enterprise sector market. Demand is expected to rise not only for security products but also for software products that ensure efficient business operations in work-from-home conditions. In the public sector market, after the Japanese cabinet decision on the supplementary budget totaling 231.8 billion yen for the GIGA School Concept in December 2019, a supplementary budget proposal earmarking an extra 229.2 billion yen aimed at speeding up the concept was approved by the Japanese Cabinet in April 2020. It is urgent to swiftly create an environment using ICT to ensure all children's learning, even during an emergency, by rapidly providing every school-aged child with a terminal.

To provide solutions for customers regardless of their size to enjoy a secure Internet environment against this backdrop, the Group will continue to enhance i-FILTER Ver. 10 and m-FILTER Ver. 5 and add functions to them, thereby providing a more accurate security environment in the enterprise sector market and the public sector market. Meanwhile, the Group will increase the visibility of DigitalArts@Cloud, which was released in May 2018, and promote its sales to provide a cloud environment where webpages can be viewed without anxiety and e-mail messages can be opened without hesitation. In the enterprise sector market, the Chat@Cloud business tool for enhanced operational efficiency via text and video chat was added to the DigitalArts@Cloud lineup in line with the rapid expansion of teleworking in an effort to increase its user base as well as its sales. In the public sector market, the GIGA School Concept unveiled a policy to newly supply approximately 7.5 million tablets to school-aged children to realize an environment in which every child has a terminal. Accordingly, demand for new web filtering software is anticipated, which is worth nearly 1.9 billion yen, reflecting subscription fees for five years estimated based on the Company's selling price. The Company will build closer ties with sales partners to offer the extensive i-FILTER lineup at special prices in line with the acceleration of the GIGA School Concept and run a campaign offering services matched with the standard specifications that conform to the Guidelines on Education Information Security Policy free of charge. Through this, the Company aims to maintain and increase its current market share of around 60% in the market composed of 1,741 boards of education across the country. The Company will issue the results forecasts for the next fiscal year in consideration of the adverse impact of the COVID-19 coronavirus pandemic on supply, distribution, installation and other actions concerning tablets.

In the consumer sector market, as more and more young people are using smartphones, they are increasingly being affected by inappropriate Internet content chiefly via smartphone. Filtering needs to be promoted to protect young people. Amid the COVID-19 coronavirus crisis, the closures of schools and tutoring schools are protracted and use of computers and other terminals for online learning at home is increasing. Under such circumstances, the Company will continue to help promote i-FILTER through educational activities and collaborations with mobile network carriers.

As the Group pursues those initiatives, it expects to post net sales of 7,500 million yen, an ordinary profit of 3,550 million yen, and a profit attributable to owners of parent of 2,450 million yen in the next consolidated fiscal year.

The Company has determined the results forecasts based on information available on the day of publication of these financial results for the fiscal year ended 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.

Results forecasts for the next fiscal year (consolidated)

	Net sales	Ordinary profit	Profit attributable to owners of parent
	Million yen	Million yen	Million yen
Year ending March 31, 2021 (forecast)	7,500	3,550	2,450
Year ended March 31, 2020 (results)	5,641	2,326	1,590

Results forecasts for the next fiscal year (non-consolidated)

	Net sales	Ordinary profit	Profit
	Million yen	Million yen	Million yen
Year ending March 31, 2021 (forecast)	7,000	3,500	2,420
Year ended March 31, 2020 (results)	5,336	2,359	1,613

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

Note: The forecasts above are based on information available on the day of publication of these financial results for the fiscal year ended March 31, 2020. Actual results may be different from the forecasts due to a variety of factors.

2. Basic Approach to Selection of Accounting Standards

The Group will prepare consolidated financial statements based on the Japan GAAP for some time to come, considering a comparison with consolidated financial statements for the previous fiscal year and with financial statements of other companies.

The Group will make an appropriate decision about the application of the International Financial Reporting Standards (IFRS), considering circumstances in Japan and overseas.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated balance sheet

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	6,169,172	7,651,645
Notes and accounts receivable - trade	1,172,515	994,793
Securities	299,968	—
Finished goods	290	771
Raw materials and supplies	—	654
Other	87,863	85,614
Total current assets	7,729,809	8,733,479
Non-current assets		
Property, plant and equipment		
Buildings	205,990	215,806
Accumulated depreciation	(104,980)	(115,189)
Buildings, net	101,009	100,617
Vehicles	17,519	17,519
Accumulated depreciation	(9,816)	(12,881)
Vehicles, net	7,703	4,637
Tools, furniture and fixtures	416,174	443,078
Accumulated depreciation	(290,055)	(325,965)
Tools, furniture and fixtures, net	126,119	117,113
Land	26,254	26,284
Construction in progress	—	822
Total property, plant and equipment	261,087	249,474
Intangible assets		
Software	1,044,163	1,331,410
Other	367,390	79,251
Total intangible assets	1,411,553	1,410,661
Investments and other assets		
Investment securities	103,002	102,529
Deferred tax assets	80,886	85,282
Shares of subsidiaries and associates	1,097	1,097
Other	271,910	269,709
Total investments and other assets	456,896	458,619
Total non-current assets	2,129,537	2,118,755
Total assets	9,859,347	10,852,234

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	22,744	32,469
Income taxes payable	330,672	469,079
Provision for bonuses	128,192	119,788
Advances received	1,225,258	1,229,998
Other	303,494	274,151
Total current liabilities	2,010,363	2,125,487
Non-current liabilities		
Asset retirement obligations	45,444	45,877
Other	645	645
Total non-current liabilities	46,089	46,522
Total liabilities	2,056,452	2,172,010
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	827,730	972,058
Retained earnings	6,518,256	7,340,668
Treasury shares	(306,939)	(380,126)
Total shareholders' equity	7,752,637	8,646,190
Accumulated other comprehensive income		
Foreign currency translation adjustment	8,499	6,120
Total accumulated other comprehensive income	8,499	6,120
Share acquisition rights	23,587	18,049
Non-controlling interests	18,169	9,864
Total net assets	7,802,894	8,680,224
Total liabilities and net assets	9,859,347	10,852,234

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Net sales	5,841,287	5,641,805
Cost of sales	1,059,444	1,361,682
Gross profit	4,781,842	4,280,123
Selling, general and administrative expenses	2,152,750	1,952,086
Operating profit	2,629,092	2,328,036
Non-operating income		
Interest income	1,079	794
Commission income	198	15
Gain on forfeiture of unclaimed dividends	1,168	840
Miscellaneous income	1,759	2,354
Total non-operating income	4,204	4,005
Non-operating expenses		
Foreign exchange losses	2,224	4,812
Miscellaneous loss	108	299
Total non-operating expenses	2,333	5,111
Ordinary profit	2,630,963	2,326,930
Extraordinary income		
Gain on reversal of share acquisition rights	2,135	561
Total extraordinary income	2,135	561
Extraordinary losses		
Loss on retirement of non-current assets	4,374	65
Loss on valuation of golf club membership	2,200	1,400
Loss on liquidation of subsidiaries	56,135	—
Loss on valuation of shares of subsidiaries	7,156	—
Total extraordinary losses	69,866	1,465
Profit before income taxes	2,563,232	2,326,026
Income taxes - current	605,870	740,151
Income taxes - deferred	(7,001)	(4,396)
Total income taxes	598,869	735,755
Profit	1,964,363	1,590,271
Profit (loss) attributable to non-controlling interests	3,087	(513)
Profit attributable to owners of parent	1,961,276	1,590,784

Consolidated statement of comprehensive income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Profit	1,964,363	1,590,271
Other comprehensive income		
Foreign currency translation adjustment	13,203	(2,378)
Total other comprehensive income	13,203	(2,378)
Comprehensive income	1,977,567	1,587,892
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,974,480	1,588,405
Comprehensive income attributable to non-controlling interests	3,087	(513)

(3) Consolidated statement of changes in equity

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602
Changes in items during period										
Dividends of surplus			(444,592)		(444,592)					(444,592)
Change in ownership interest of parent due to transactions with non-controlling interests					—					—
Profit attributable to owners of parent			1,961,276		1,961,276					1,961,276
Change in scope of consolidation			9,641		9,641					9,641
Disposal of treasury shares		2,170		20,741	22,912					22,912
Purchase of treasury shares				(10)	(10)					(10)
Net changes in items other than shareholders' equity						13,203	13,203	(10,225)	3,087	6,065
Total changes in items during period	—	2,170	1,526,325	20,731	1,549,227	13,203	13,203	(10,225)	3,087	1,555,292
Balance at end of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894
Changes in items during period										
Dividends of surplus			(768,372)		(768,372)					(768,372)
Change in ownership interest of parent due to transactions with non-controlling interests		(123)			(123)					(123)
Profit attributable to owners of parent			1,590,784		1,590,784					1,590,784
Change in scope of consolidation					—					—
Disposal of treasury shares		144,451		226,542	370,994					370,994
Purchase of treasury shares				(299,730)	(299,730)					(299,730)
Net changes in items other than shareholders' equity						(2,378)	(2,378)	(5,538)	(8,305)	(16,222)
Total changes in items during period	—	144,327	822,412	(73,187)	893,552	(2,378)	(2,378)	(5,538)	(8,305)	877,329
Balance at end of period	713,590	972,058	7,340,668	(380,126)	8,646,190	6,120	6,120	18,049	9,864	8,680,224

(4) Consolidated statement of cash flows

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before income taxes	2,563,232	2,326,026
Depreciation	662,496	805,723
Loss on valuation of golf club membership	2,200	1,400
Increase (decrease) in provision for bonuses	15,911	(8,404)
Interest income	(1,079)	(794)
Foreign exchange losses (gains)	2,878	3,974
Gain on reversal of share acquisition rights	(2,135)	(561)
Loss on valuation of shares of subsidiaries	7,156	—
Loss on retirement of non-current assets	4,374	65
Decrease (increase) in trade receivables	298,266	181,825
Decrease (increase) in inventories	404	(1,135)
Increase (decrease) in trade payables	450	9,839
Increase (decrease) in accounts payable - other	(34,743)	(7,081)
Decrease (increase) in other current assets	85,102	5,860
Increase (decrease) in other current liabilities	45,582	(31,077)
Other	19,598	11,944
Subtotal	3,669,697	3,297,605
Interest and dividends received	1,390	1,267
Income taxes paid	(579,225)	(612,300)
Net cash provided by (used in) operating activities	3,091,862	2,686,572
Cash flows from investing activities		
Decrease (increase) in time deposits	—	600,000
Purchase of property, plant and equipment	(167,827)	(45,178)
Purchase of intangible assets	(741,907)	(740,170)
Proceeds from redemption of securities	—	300,000
Other	950	(3,638)
Net cash provided by (used in) investing activities	(908,784)	111,013
Cash flows from financing activities		
Proceeds from disposal of treasury shares	14,822	366,017
Purchase of treasury shares	(10)	(300,029)
Purchase of shares from non-controlling shareholders	—	(7,916)
Dividends paid	(444,524)	(767,286)
Net cash provided by (used in) financing activities	(429,712)	(709,214)
Effect of exchange rate change on cash and cash equivalents	(2,267)	(5,897)
Net increase (decrease) in cash and cash equivalents	1,751,098	2,082,473
Cash and cash equivalents at beginning of period	3,826,443	5,569,172
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(8,369)	—
Cash and cash equivalents at end of period	5,569,172	7,651,645

(5) Notes to consolidated financial statements

(Notes on the premise of a growing concern)

There are no applicable matters.

(Significant matters that serve as the basis for the preparation of consolidated financial statements)

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

Digital Arts Consulting Inc.

Digital Arts America, Inc.

Digital Arts Asia Pacific Pte. Ltd.

Digital Arts Europe Limited

(2) Names, etc. of non-consolidated subsidiaries

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is a small company. Its total assets, net sales, profit, retained earnings or other items do not have any significant effect on the consolidated financial statements.

2. Matters related to the application of the equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applied: —

(2) Names, etc. of non-consolidated subsidiaries to which the equity method is not applied

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason why the equity method is not applied)

The non-consolidated subsidiary's effect on profit, retained earnings and other items is minor and insignificant. The non-consolidated subsidiary as a whole is not significant.

3. Fiscal years of consolidated subsidiaries

The fiscal year end of all consolidated subsidiaries is the same as the end of the consolidated fiscal year.

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

a. Securities

(a) Bonds held for maturity

The amortized cost method (interest method) is applied.

(b) Shares in subsidiaries

The moving average cost method is applied.

b. Inventories

(a) Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method based on reduction in profitability.)

(2) Depreciation/amortization method for significant depreciable/amortizable assets

a. Property, plant and equipment

The declining balance method is applied.

The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act. The straight-line method is applied for facilities attached to buildings and structures acquired from April 1, 2016.

b. Intangible assets

The straight-line method is applied.

The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.

c. Long-term prepaid expenses

The straight-line method is applied.

The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.

(3) Standards for recognition of significant allowances

a. Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the consolidated fiscal year under review is posted.

(4) Standards for translating significant assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the consolidated settling day, and translation adjustments are treated as a profit or loss. Assets and liabilities at overseas subsidiaries, etc. are translated into yen using the spot exchange rate on the consolidated settling day. Revenue and expense are translated into yen using the average rate during the period, and translation adjustments are included in the foreign currency translation adjustment in net assets.

(5) Scope of funds in the consolidated statement of cash flows

Funds in the consolidated statement of cash flows (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn as needed, and short-term investments that can be realized easily and only have insignificant value fluctuation risk and whose redemption date arrives within three months of the acquisition date.

(6) Other significant matters that serve as a basis for the preparation of consolidated financial statements

a. Treatment of consumption tax

Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the consolidated fiscal year under review.

(Consolidated balance sheet)

*1 The item related to non-consolidated subsidiaries is as follows.

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Shares of subsidiaries and associates	1,097 thousand yen	1,097 thousand yen

(Consolidated statement of income)

*1 The major items of selling, general and administrative expenses and the amounts are as follows.

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Advertising expenses	290,527 thousand yen	207,266 thousand yen
Salaries and allowances	626,386	580,044
Provision for bonuses	70,766	64,292
Commission expenses	108,709	108,522

*2 Total amount of research and development expenses included in general and administrative expenses are as follows.

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
	13,176 thousand yen	873 thousand yen

*3 The details of loss on retirement of non-current assets are as follows.

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Tools, furniture and fixtures	3,163 thousand yen	65 thousand yen
Software	1,211	—

*4 The details of loss on liquidation of subsidiaries are as follows.

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

The loss on liquidation of subsidiaries resulted from the completion of the liquidation of FinalCode, Inc.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

There are no applicable matters.

(Consolidated statements of comprehensive income)

*1 Reclassification adjustment and tax effect related to other comprehensive income

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	2,214 thousand yen	(2,378) thousand yen
Reclassification adjustment	10,989	—
Before tax effect adjustment	13,203	(2,378)
Tax effect	-	-
Foreign currency translation adjustment	13,203	(2,378)
Total other comprehensive income	13,203	(2,378)

(Consolidated statement of changes in equity)

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

1. Class and number of issued shares and class and number of treasury shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	248,018	2	15,700	232,320
Total	248,018	2	15,700	232,320

(Note) An increase in the number of common shares in treasury shares, 2, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 15,700, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	23,587
Total		—	—	—	—	—	23,587

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2018	Common shares	194,389	14	March 31, 2018	June 25, 2018
Board of Directors meeting on October 30, 2018	Common shares	250,203	18	September 30, 2018	December 4, 2018

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	Retained earnings	30	March 31, 2019	June 25, 2019

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

1. Class and number of issued shares and class and number of treasury shares

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	232,320	49,422	165,700	116,042
Total	232,320	49,422	165,700	116,042

(Note) An increase in the number of common shares in treasury shares, 49,422, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 165,700, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	18,049
Total		—	—	—	—	—	18,049

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	30	March 31, 2019	June 25, 2019
Board of Directors meeting on October 29, 2019	Common shares	351,352	25	September 30, 2019	December 3, 2019

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 19, 2020	Common shares	350,423	Retained earnings	25	March 31, 2020	June 22, 2020

(Consolidated statement of cash flows)

*1 Cash and cash equivalents at the end of the fiscal year and their relationships with items in the consolidated balance sheets

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Cash and deposit account	6,169,172 thousand yen	7,651,645 thousand yen
Time deposits whose deposit period is more than three months	(600,000)	—
Securities	—	—
Cash and cash equivalents	5,569,172	7,651,645

(Lease transactions)

There are no applicable matters.

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

The Group's fund management is centered on short-term deposits. The Group also invests in government bonds, which are very safe and highly rated corporate and other bonds.

(2) Description of financial instruments and their risks

Notes and accounts receivable-trade, operating receivables, are exposed to customers' credit risk.

Securities and investment securities are short-term investments in investment trusts and public and corporate bonds and are exposed to the market price fluctuation risk.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract non-performance) management

The sales management section and administrative department of the Company regularly monitor the status of operating receivables at the main trading partners under the Company's credit management regulations and control the due dates and balances for individual partners. In this way, the Company strives to identify concerns over collections caused by deterioration in partners' financial situation early and mitigate them. The Company conducts similar credit management at consolidated subsidiaries under its credit management regulations.

As for short-term fund management, the Company only uses bank deposits and investments in highly rated funds to avoid as much credit risk as possible.

(ii) Market risk (interest-rate fluctuation risk, etc.) management

The Company determines its fund management portfolio while expecting its financing needs, and avoids market risk as much as possible.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company manages liquidity risk chiefly by having the administrative department create financial plans in a timely manner.

(4) Additional information on matters related to the market prices of financial instruments, etc.

The market prices of financial instruments are based on market prices and rationally calculated prices if no market prices are available. The calculated prices include variable factors, which may change if different assumptions are used.

2. Matters related to the market prices of financial instruments, etc.

Consolidated balance sheet amounts, market prices and differences between them are as follows:

Fiscal 2019 (As of March 31, 2019)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	6,169,172	6,169,172	—
(2) Notes and accounts receivable - trade	1,172,515	1,172,515	—
(3) Securities and investment securities			
Bonds held to maturity	402,971	404,079	1,107
Total assets	7,744,658	7,745,766	1,107
(1) Income taxes payable	330,672	330,672	—
Total liabilities	330,672	330,672	—

Fiscal 2020 (As of March 31, 2020)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	7,651,645	7,651,645	—
(2) Notes and accounts receivable - trade	994,793	994,793	—
(3) Securities and investment securities			
Bonds held to maturity	102,529	101,805	(724)
Total assets	8,748,969	8,748,244	(724)
(1) Income taxes payable	469,079	469,079	—
Total liabilities	469,079	469,079	—

(Note) 1. Matters related to calculation methods for the market prices of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

These are settled in the short term, and their market prices are close to their book values. Thus, their market prices are deemed to be their book values.

(3) Securities and investment securities

The market prices of public and corporate bonds are presented by financial institutions, etc. As for investment trusts, the market prices are similar to the book values, because their yields are similar to those of deposits and their investment results are distributed in the short term. Thus, their market prices are close to their book values and are deemed to be their book values.

For information on securities according to holding purposes, refer to the note on securities.

Liabilities

(1) Income taxes payable

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

2. Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date

Fiscal 2019 (As of March 31, 2019)

	Within a year (thousand yen)	More than a year, within five years (thousand yen)	More than five years, within 10 years (thousand yen)	More than 10 years (thousand yen)
Cash and deposits	6,169,172	—	—	—
Notes and accounts receivable - trade	1,172,515	—	—	—
Securities and investment securities				
Bonds held to maturity				
(1) Government bonds, local government bonds	300,000	—	—	—
(2) Corporate bonds	—	—	100,000	—
Total	7,641,687	—	100,000	—

Fiscal 2020 (As of March 31, 2020)

	Within a year (thousand yen)	More than a year, within five years (thousand yen)	More than five years, within 10 years (thousand yen)	More than 10 years (thousand yen)
Cash and deposits	7,651,645	—	—	—
Notes and accounts receivable - trade	994,793	—	—	—
Securities and investment securities				
Bonds held to maturity				
(1) Government bonds, local government bonds	—	—	—	—
(2) Corporate bonds	—	—	100,000	—
Total	8,646,439	—	100,000	—

(Securities)

Bonds held for maturity

Fiscal 2019 (As of March 31, 2019)

	Type	Consolidated balance sheet amount (thousand yen)	Market value (thousand yen)	Difference (thousand yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,968	300,180	211
	(2) Corporate bonds	103,002	103,899	896
	(3) Other	—	—	—
	Subtotal	402,971	404,079	1,107
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		402,971	404,079	1,107

Fiscal 2020 (As of March 31, 2020)

	Type	Consolidated balance sheet amount (thousand yen)	Market value (thousand yen)	Difference (thousand yen)
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	102,529	101,805	(724)
	(3) Other	—	—	—
	Subtotal	102,529	101,805	(724)
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		102,529	101,805	(724)

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019) and consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

The Group did not conduct any derivatives transactions.

(Retirement benefits)

1. Outline of the retirement benefits system

The Company and its consolidated subsidiaries have a defined contribution pension plan.

2. Retirement benefit expenses

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

The amount that was required for contribution to the defined contribution pension plan was 19,928 thousand yen.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

The amount that was required for contribution to the defined contribution pension plan was 22,285 thousand yen.

(Stock options)

1. Amount posted as profit due to the forfeiture of unexercised stock options

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Gain on reversal of share acquisition rights	2,135	561

2. Description of stock options, their scale and changes

(1) Description of stock options

	2010 stock options	2015 stock options
Company	Reporting company	Same as left
Classification and number of persons subject to grants	Three directors 80 employees	Four directors 151 employees
Stock options by class of shares (Note)	Common stock 99,300 shares	Common stock 350,100 shares
Grant date	June 8, 2010	November 27, 2015
Vesting conditions	<p>Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or a subsidiary or an associate of the reporting company from the grant date (June 8, 2010) to the vesting date (May 26, 2012)</p> <p>The vesting dates are as follows:</p> <p>(i) May 26, 2012 for a third of the stock options</p> <p>(ii) May 26, 2013 for a third of the stock options</p> <p>(iii) May 26, 2014 for a third of the stock options</p>	<p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (November 27, 2015) to the vesting date (July 1, 2017)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2017, the fiscal year ending March 31, 2018, or the fiscal year ending March 31, 2019.</p> <p>(i) If operating profit exceeds ¥1.5 billion, 20% of share acquisition rights can be exercised</p> <p>(ii) If operating profit exceeds ¥2.0 billion, 50% of share acquisition rights can be exercised</p> <p>(iii) If operating profit exceeds ¥2.5 billion, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p>
Requisite service period	<p>(i) May 26, 2010 to May 25, 2012 for a third of the stock options</p> <p>(ii) May 26, 2010 to May 25, 2013 for a third of the stock options</p> <p>(iii) May 26, 2010 to May 25, 2014 for a third of the stock options</p> <p>These periods correspond to (i), (ii), and (iii) of the vesting conditions.</p>	No requisite service periods are determined.
Exercise period	From the vesting date to June 24, 2019. The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.	From the vesting date to May 31, 2027. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.

	2016 stock options	2018 stock options
Company	Reporting company	Same as left
Classification and number of persons subject to grants	Three directors 96 employees	Three directors 151 employees
Stock options by class of shares (Note)	Common stock 848,000 shares	Common stock 1,413,300 shares
Grant date	December 13, 2016	March 5, 2018
Vesting conditions	<p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (December 13, 2016) to the vesting date (July 1, 2018)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2018, the fiscal year ending March 31, 2019, or the fiscal year ending March 31, 2020.</p> <p>(i) If operating profit exceeds ¥2.0 billion, 20% of share acquisition rights can be exercised</p> <p>(ii) If operating profit exceeds ¥2.5 billion, 50% of share acquisition rights can be exercised</p> <p>(iii) If operating profit exceeds ¥2.8 billion, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p>	<p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (March 5, 2018) to the vesting date (July 1, 2021)</p> <p>Each holder of share acquisition rights can exercise the share acquisition rights allocated to them only if operating profit exceeds ¥4.0 billion in the fiscal year ending March 31, 2021.</p> <p>To determine whether the condition above is met, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p>
Requisite service period	No requisite service periods are determined.	No requisite service periods are determined.
Exercise period	From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.	From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights.

(Note) The Company conducted a 100-for-1 common stock split on April 1, 2013. In the description above, the number of shares has been converted to the number of shares after the stock split.

(2) Scale of stock options and related changes

The stock options below are those that existed in the fiscal year under review (fiscal year ended March 31, 2020). The number of stock options has been converted to the number of shares.

(i) Number of stock options

	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Before vesting (shares)				
As of March 31, 2019	—	218,000	775,400	1,294,000
Granted	—	—	—	—
Forfeited	—	—	18,500	105,700
Vested	—	218,000	384,600	—
Yet to be vested	—	—	372,300	1,188,300
After vesting (shares)				
As of March 31, 2019	8,100	32,400	—	—
Vested	—	218,000	384,600	—
Exercised	8,100	90,400	67,200	—
Forfeited	—	—	500	—
Yet to be exercised	—	160,000	316,900	—

(Note) The Company conducted a 100-for-1 stock split on April 1, 2013. The number of stock options is the number after the stock split.

(ii) Unit price information

	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Exercise price (yen)	593	2,034	2,639	3,400
Average stock price when exercised (yen)	9,570	10,607	10,340	—
Fair unit value (grant date) (yen)	(i) 375 yen (ii) 386 yen (iii) 396 yen (Note) 1	2 yen	24 yen	1 yen

(Note) 1. The vesting conditions and requisite service period for each fiscal year in (1) Description of stock options in the Description of stock options, their scale and changes correspond to (i), (ii) and (iii) above.

2. The Company conducted a 100-for-1 stock split on April 1, 2013. The numbers in the unit price information are those after the stock split.

3. Method for estimating the number of stock options vested

It is basically difficult to reasonably estimate the number of stock options to be forfeited, and only the actual number of stock options forfeited is reflected.

(Additional information)

The Company continues to implement conventional accounting treatment in accordance with Paragraph 10 (3) of the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36: January 12, 2018; hereinafter "PITF No. 36") for transactions granting employees and others share acquisition rights, which involve considerations, with vesting conditions prior to the day on and after which PITF No. 36 applies.

1. Outline of share acquisition rights, which involve considerations, with vesting conditions

The note is omitted, given that identical descriptions are found in 2. Description of stock options, their scale and changes above.

2. Outline of accounting treatment adopted

When a share acquisition right is issued, the amount of the payment for the issuance of the right is posted as share acquisition rights in the section of net assets. When a new share is issued in response to the exercise of a share acquisition right, the amount of the payment for the issuance of the right and the amount of the payment associated with the exercise of the right are transferred to share capital and legal capital surplus.

When a share acquisition right is forfeited, the amount associated with the forfeiture is treated as profit for the accounting period when the forfeiture is confirmed.

(Asset retirement obligations)

Asset retirement obligations posted in the consolidated balance sheets

(1) Outline of the asset retirement obligations

Obligations of restoration related to lease agreements at the head office and other offices

(2) Method for calculation of the asset retirement obligations

The period of use is estimated to be eight to 15 years from the acquisition. The discount rate is 0.12% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

(3) Increase/decrease in the asset retirement obligations

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Balance at beginning of fiscal year	44,360 thousand yen	45,444 thousand yen
Increase due to purchase of property, plant and equipment	655	—
Adjustment due to passage of time	428	433
Balance at end of fiscal year	45,444	45,877

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2018 to March 31, 2019) and consolidated fiscal year under review (from April 1, 2019 to March 31, 2020)

The Group has only one segment, which is the security business, and segment information is omitted.

Related information

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

1. Information by product/service

The Group has only one product and service classification, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Thousand yen)

Customer name	Net sales
SB C&S Corp.	1,247,566
Daiwabo Information System Co., Ltd.	1,160,228

(Note) The name of SoftBank Commerce & Service Corp. changed to SB C&S Corp. on January 1, 2019.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

1. Information by product/service

The Group has only one product and service classification, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Thousand yen)

Customer name	Net sales
SB C&S Corp.	1,166,937
Daiwabo Information System Co., Ltd.	1,109,164

Information on impairment loss in non-current assets by reporting segment

There are no applicable matters.

Information on amortization of goodwill and unamortized balance by reporting segment

There are no applicable matters.

Information on gain on bargain purchase by reporting segment

There are no applicable matters.

(Related party information)

Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

Officers and major individual shareholders of the company submitting consolidated financial statements

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

There are no applicable matters.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

There are no applicable matters.

(Per share information)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Net assets per share	558.33 yen	617.27 yen
Profit per share	141.11 yen	113.69 yen
Diluted profit per share	140.80 yen	110.83 yen

(Note) Base for calculating profit per share and diluted profit per share

Item	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Profit per share		
Profit attributable to owners of parent (thousand yen)	1,961,276	1,590,784
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent related to common shares (thousand yen)	1,961,276	1,590,784
Average number of common shares during the term	13,898,934	13,991,859
Diluted profit per share		
Adjustment of profit attributable to owners of parent (thousand yen)	—	—
Increase in the number of common shares	30,455	361,483
(Of the increase, the number of share acquisition rights) (shares)	30,455	361,483
Outline of potential shares that are not included in the calculation of the diluted profit per share because they do not have any diluting effects	Share acquisition rights Resolution on November 12, 2015 Number of potential shares: 218,000 Resolution on November 10, 2016 Number of potential shares: 775,400 Resolution on February 16, 2018 Number of potential shares: 1,294,000	Share acquisition rights Resolution on November 10, 2016 Number of potential shares: 372,300 Resolution on February 16, 2018 Number of potential shares: 1,188,300

(Significant subsequent events)

There are no applicable matters.

4. Non-consolidated Financial Statements and Major Notes

(1) Balance sheet

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	5,982,081	7,517,412
Notes and accounts receivable - trade	1,143,621	916,532
Securities	299,968	—
Finished goods	290	771
Supplies	—	654
Advance payments - trade	807	—
Prepaid expenses	65,278	63,535
Other	20,523	3,395
Total current assets	7,512,572	8,502,301
Non-current assets		
Property, plant and equipment		
Buildings	101,009	100,617
Vehicles	7,703	4,637
Tools, furniture and fixtures	124,985	112,947
Land	26,254	26,284
Construction in progress	—	822
Total property, plant and equipment	259,953	245,308
Intangible assets		
Software	1,043,645	1,331,822
Software in progress	367,199	79,060
Telephone subscription right	190	190
Other	15	—
Total intangible assets	1,411,051	1,411,073
Investments and other assets		
Investment securities	103,002	102,529
Shares of subsidiaries and associates	168,585	153,635
Investments in capital	10	10
Long-term prepaid expenses	28,890	26,948
Leasehold and guarantee deposits	182,990	186,271
Deferred tax assets	145,913	154,887
Other	57,426	56,139
Total investments and other assets	686,818	680,421
Total non-current assets	2,357,823	2,336,803
Total assets	9,870,395	10,839,105

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	Fiscal 2020 (As of March 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	19,236	7,067
Accounts payable - other	151,964	126,723
Accrued expenses	52,604	41,438
Income taxes payable	329,703	469,079
Accrued consumption taxes	99,125	77,337
Advances received	1,215,782	1,223,090
Deposits received	23,273	13,122
Provision for bonuses	128,192	119,788
Total current liabilities	2,019,882	2,077,649
Non-current liabilities		
Asset retirement obligations	45,444	45,877
Other	645	645
Total non-current liabilities	46,089	46,522
Total liabilities	2,065,972	2,124,171
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus		
Legal capital surplus	700,222	700,222
Other capital surplus	129,682	274,134
Total capital surplus	829,905	974,357
Retained earnings		
Other retained earnings		
Retained earnings brought forward	6,544,279	7,389,064
Total retained earnings	6,544,279	7,389,064
Treasury shares	(306,939)	(380,126)
Total shareholders' equity	7,780,835	8,696,884
Share acquisition rights	23,587	18,049
Total net assets	7,804,423	8,714,933
Total liabilities and net assets	9,870,395	10,839,105

(2) Statement of income

(Thousand yen)

	Fiscal 2019 (from April 1, 2018 to March 31, 2019)	Fiscal 2020 (from April 1, 2019 to March 31, 2020)
Net sales	5,752,991	5,336,838
Cost of sales		
Beginning finished goods inventory	695	290
Cost of Internet service	1,028,520	1,098,585
Total	1,029,215	1,098,875
Transfer to other account	14	24
Ending finished goods inventory	290	771
Cost of finished goods sold	1,028,910	1,098,080
Gross profit	4,724,081	4,238,758
Selling, general and administrative expenses	1,949,449	1,881,313
Operating profit	2,774,631	2,357,444
Non-operating income		
Interest income	182	193
Interest on securities	896	600
Commission income	2,598	3,615
Gain on forfeiture of unclaimed dividends	1,168	840
Miscellaneous income	834	2,312
Total non-operating income	5,678	7,562
Non-operating expenses		
Foreign exchange losses	2,878	5,555
Commission for purchase of treasury shares	—	299
Total non-operating expenses	2,878	5,854
Ordinary profit	2,777,431	2,359,152
Extraordinary income		
Gain on reversal of share acquisition rights	2,135	561
Distribution from the liquidation of subsidiaries	37,257	—
Total extraordinary income	39,393	561
Extraordinary losses		
Loss on retirement of non-current assets	4,374	10
Loss on valuation of golf club membership	2,200	1,400
Loss on valuation of shares of subsidiaries	219,860	14,949
Total extraordinary losses	226,434	16,360
Profit before income taxes	2,590,390	2,343,353
Income taxes – current	596,476	739,171
Income taxes – deferred	209,047	(8,974)
Total income taxes	805,523	730,196
Profit	1,784,866	1,613,156

Detailed statement of cost of Internet service

Classification	Note number	Fiscal 2019 (from April 1, 2018 to March 31, 2019)		Fiscal 2020 (from April 1, 2019 to March 31, 2020)	
		Amount (thousand yen)	Composition rate (%)	Amount (thousand yen)	Composition rate (%)
I Material cost		179,986	10.6	32,483	1.8
II Labor cost	*1	668,153	39.4	691,909	37.1
III Expenses	*2	848,375	50.0	1,138,653	61.1
Total expenses		1,696,515	100.0	1,863,046	100.0
Transfer to other account	*3	667,995		764,461	
Cost of Internet service		1,028,520		1,098,585	

(Notes)

Fiscal 2019 (from April 1, 2018 to March 31, 2019)		Fiscal 2020 (from April 1, 2019 to March 31, 2020)	
*1 Major items in labor cost		*1 Major items in labor cost	
Salaries and allowances	425,274 thousand yen	Salaries and allowances	429,138 thousand yen
Legal welfare expenses	88,208 thousand yen	Legal welfare expenses	88,538 thousand yen
Bonuses	57,372 thousand yen	Bonuses	71,749 thousand yen
Provision for bonuses	57,425 thousand yen	Provision for bonuses	55,495 thousand yen
Other salaries	33,372 thousand yen	Other salaries	35,028 thousand yen
*2 Major items in expenses		*2 Major items in expenses	
Outsourcing expenses	100,459 thousand yen	Outsourcing expenses	92,616 thousand yen
Depreciation	484,645 thousand yen	Depreciation	753,165 thousand yen
Rent expenses	93,946 thousand yen	Rent expenses	93,950 thousand yen
*3 Major items in transfer to other account		*3 Major items in transfer to other account	
Selling, general and administrative expenses	34,115 thousand yen	Selling, general and administrative expenses	32,020 thousand yen
Non-current assets	633,880 thousand yen	Non-current assets	732,441 thousand yen
Total	667,995 thousand yen	Total	764,461 thousand yen
4 Costing method		4 Costing method	
The job order cost system based on actual costs is employed for the Company's costing.		Same as left	

(3) Statement of changes in equity

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473
Changes in items during period										
Dividends of surplus					(444,592)	(444,592)		(444,592)		(444,592)
Profit					1,784,866	1,784,866		1,784,866		1,784,866
Disposal of treasury shares			2,170	2,170			20,741	22,912		22,912
Purchase of treasury shares							(10)	(10)		(10)
Net changes in items other than shareholders' equity									(10,225)	(10,225)
Total changes in items during period	—	—	2,170	2,170	1,340,273	1,340,273	20,731	1,363,175	(10,225)	1,352,950
Balance at end of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings				
Balance at beginning of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423
Changes in items during period										
Dividends of surplus					(768,372)	(768,372)		(768,372)		(768,372)
Profit					1,613,156	1,613,156		1,613,156		1,613,156
Disposal of treasury shares			144,451	144,451			226,542	370,994		370,994
Purchase of treasury shares							(299,730)	(299,730)		(299,730)
Net changes in items other than shareholders' equity									(5,538)	(5,538)
Total changes in items during period	—	—	144,451	144,451	844,784	844,784	(73,187)	916,048	(5,538)	910,510
Balance at end of period	713,590	700,222	274,134	974,357	7,389,064	7,389,064	(380,126)	8,696,884	18,049	8,714,933

(4) Notes to non-consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

5. Other

There are no applicable matters.