



**Consolidated Financial Results for the
Fiscal Year Ended March 31, 2021**
(From April 1, 2020 to March 31, 2021)

Supplementary Material
May 7, 2021

Digital Arts Inc.
(Securities Code: 2326)

- **Consolidated Results Highlights**
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**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Consolidated Results Highlights

(1) Contracts and net sales for the fiscal year under review hit **record high**

Contracts amounted to 11,469 million yen (up 103.1% year on year).

Consolidated net sales were 6,825 million yen (rising 21.0% year on year).

(2) Operating profit for the fiscal year under review also achieved **a record high**.

- Operating profit reached 2,977million yen (an increase of 27.9% year on year) .

Contracts

11,469 million yen

(+5,820 million yen / +103.1% YoY)

- Orders received for the i-FILTER series increased in the public sector market, due to the GIGA School Concept.
- Orders received increased as DAC gained new customers.

Net sales

6,825 million yen

(+1,183 million yen / +21.0% YoY)

- The spread of teleworking in the enterprise sector market helped boost sales.
- Sales grew after DAC gained new customers.

Operating profit

2,977 million yen

(+649 million yen / +27.9% YoY)

- In cost of sales, labor expenses soared after DAC increased staff.
- Among SG&A expenses, advertising expenses contracted after the cancellation of events and expenses declined due to the shift to working from home.

Consolidated Results Summary (Full Year)



(Million yen)	FY March 2020	FY March 2021	Change YoY	FY March 2021 Full-Year Forecast
Contracts	5,648	11,469	+103.1%	—
Net sales	5,641	6,825	+21.0%	7,500
Cost of sales	1,361	1,946	+42.9%	1,850
Gross profit	4,280	4,878	+14.0%	5,650
Selling, general and administrative expenses	1,952	1,900	-2.6%	2,100
Operating profit	2,328	2,977	+27.9%	3,550
Operating margin	41.3%	43.6%	—	47.3%
Ordinary profit	2,326	2,991	+28.6%	3,550
Profit attributable to owners of parent	1,590	2,059	+29.5%	2,450
EBITDA	3,197	3,908	+22.3%	—

※ Financial Forecast is the consolidated financial forecast announced on May 8, 2020.

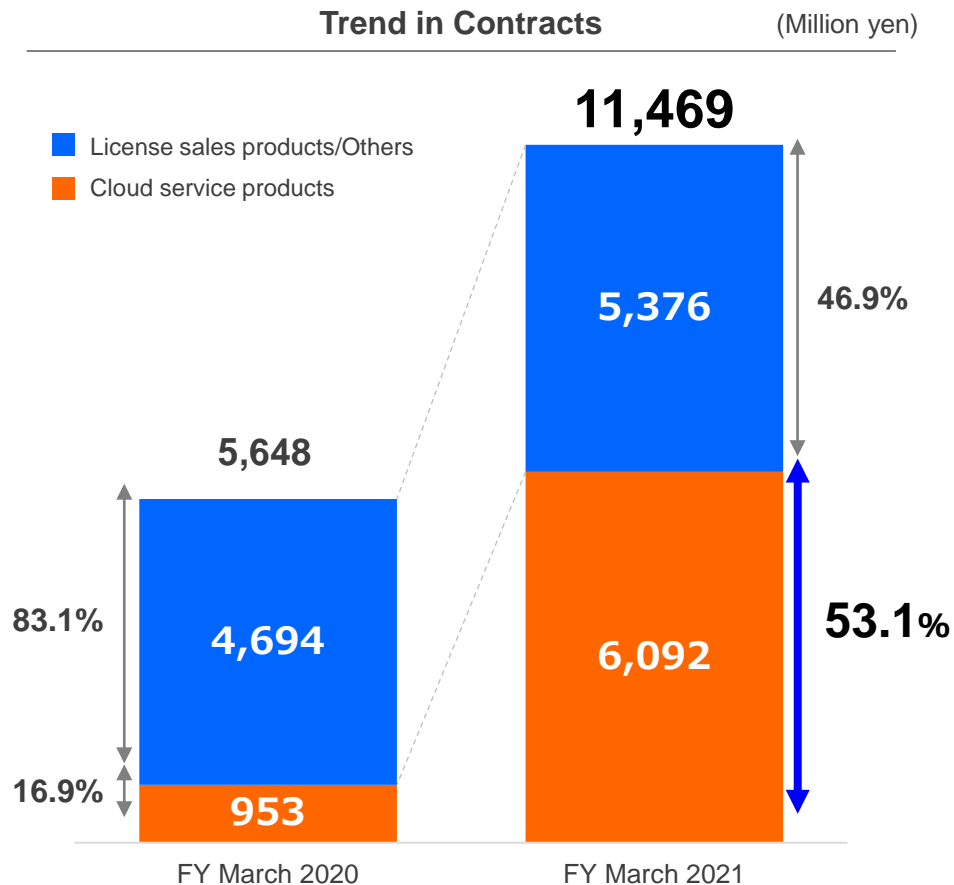
※ EBITDA = Operating profit + Depreciation + Tax expenses included in operating expenses

Consolidated Results Summary (Quarter)



(Million yen)	Fourth Quarter FY March 2020	Fourth Quarter FY March 2021	Change YoY	FY March 2020	FY March 2021	Change YoY
Contracts	1,639	3,906	+138.3%	5,648	11,469	+103.1%
Net sales	1,500	2,074	+38.2%	5,641	6,825	+21.0%
Cost of sales	377	584	+54.7%	1,361	1,946	+42.9%
Gross profit	1,123	1,490	+32.7%	4,280	4,878	+14.0%
Selling, general and administrative expenses	443	485	+9.6%	1,952	1,900	-2.6%
Operating profit	679	1,004	+47.7%	2,328	2,977	+27.9%
Operating margin	45.3%	48.4%	—	41.3%	43.6%	—
Ordinary profit	677	1,008	+48.8%	2,326	2,991	+28.6%
Profit attributable to owners of parent	461	696	+50.8%	1,590	2,059	+29.5%

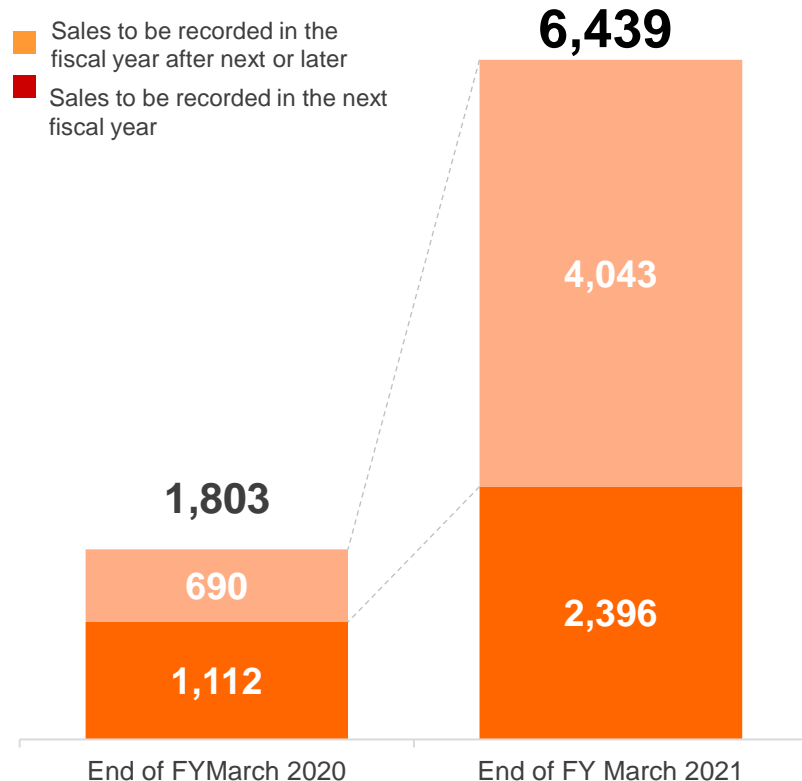
Cloud service products accounted for 53.1% of the total contract amount, considerably increasing their share.



- The cloud shift continued, and the percentage of contracts accounted for by cloud service type products rose from 16.9% the previous fiscal to **53.1% in the fiscal year under review.**

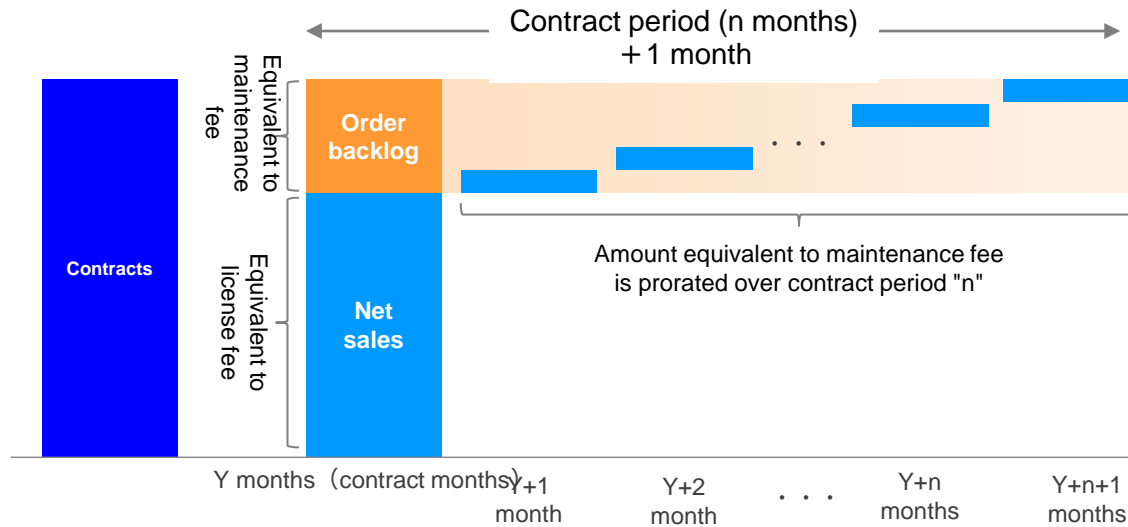
The order backlog grew considerably, reaching 6,439 million yen (an increase of 257.2%), reflecting expansion in the contract share of cloud service products.

Trend in Order Backlog (Million yen)



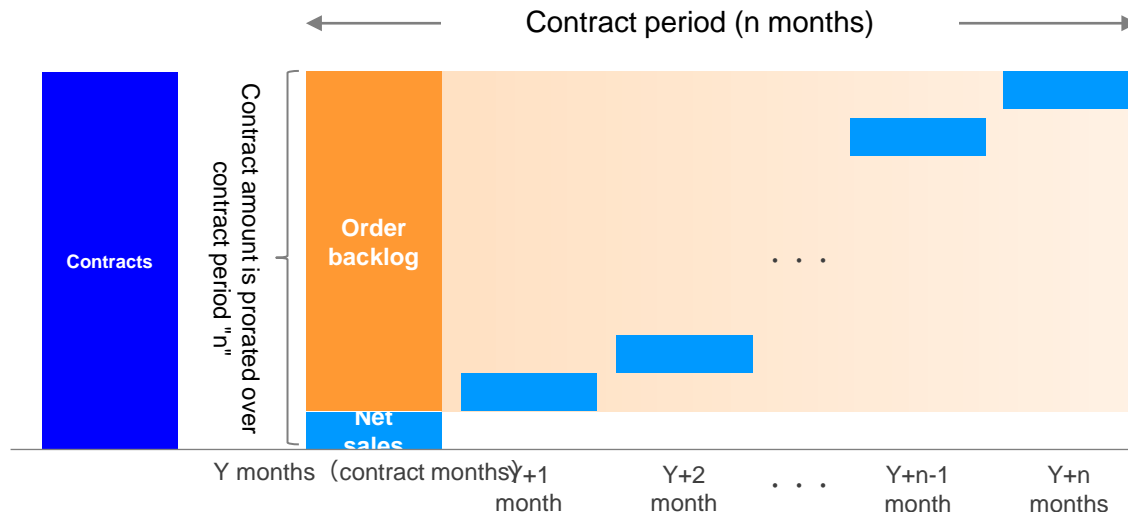
- Cloud service products cause **net sales deferred to the next fiscal year or later (order backlog) to go up** because the amount of sales recorded in the short period is small. **(See Supplement on p.10.)**
- Since the contracts for cloud service products are renewable **at fixed prices** (whereas the renewal price for license sales products **is half the contract price** for the first year), **this recurring revenue business model creates a stable profit base.**

License sales products



- License fees make up a large proportion of the contract amount. This portion is recorded in a lump sum as sales in the month when the contract is obtained.
- Amount equivalent to maintenance fee is recorded on a pro rata basis over the contract period.

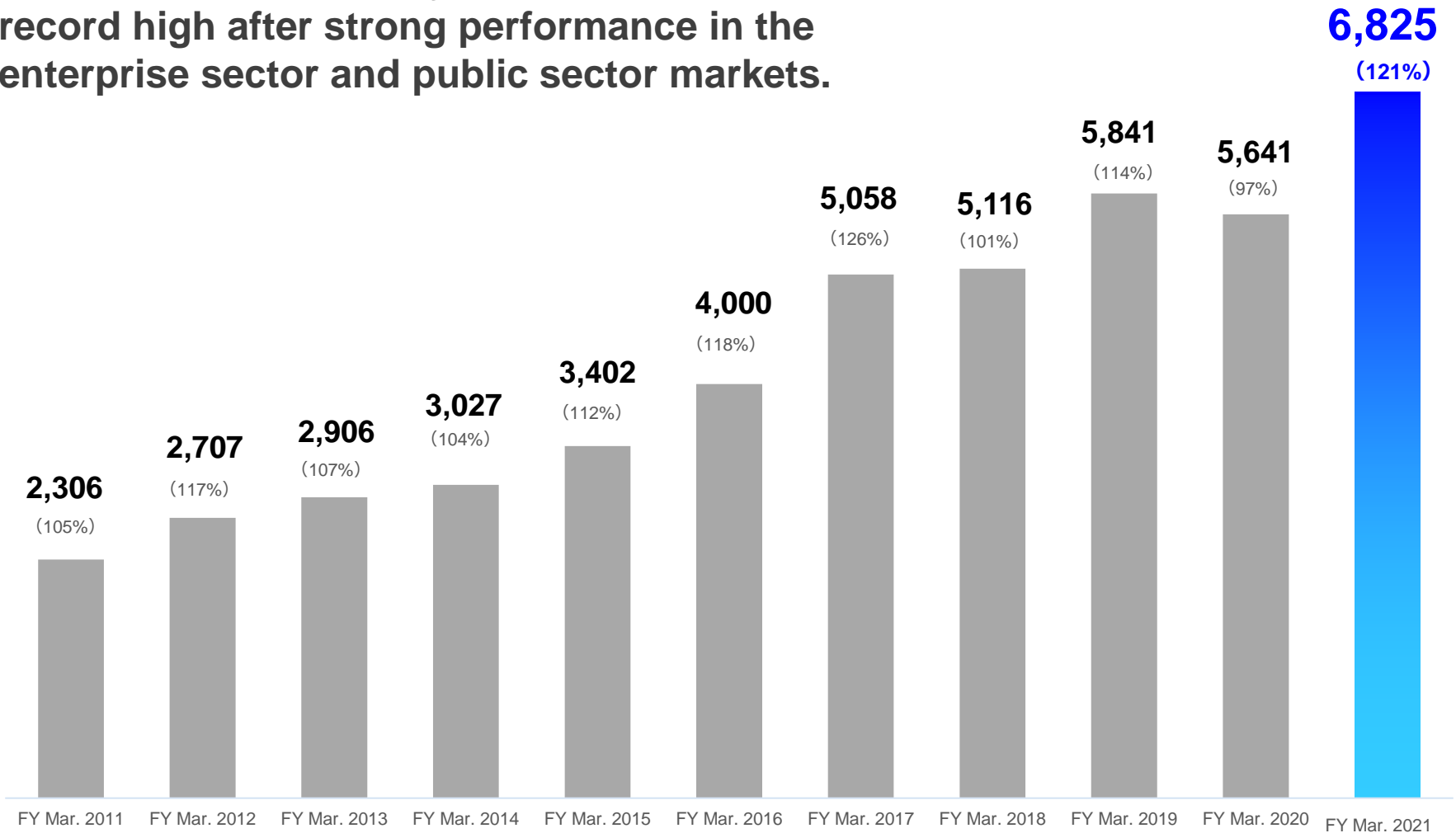
Cloud service products



- Contract amount is recorded as sales on a pro rata basis over the contract period (split into equal monthly amounts).
- As the contract amount of cloud service products rises, the contract amount that is deferred (order backlog) increases.

Net sales for the fiscal year under review reached a record high after strong performance in the enterprise sector and public sector markets.

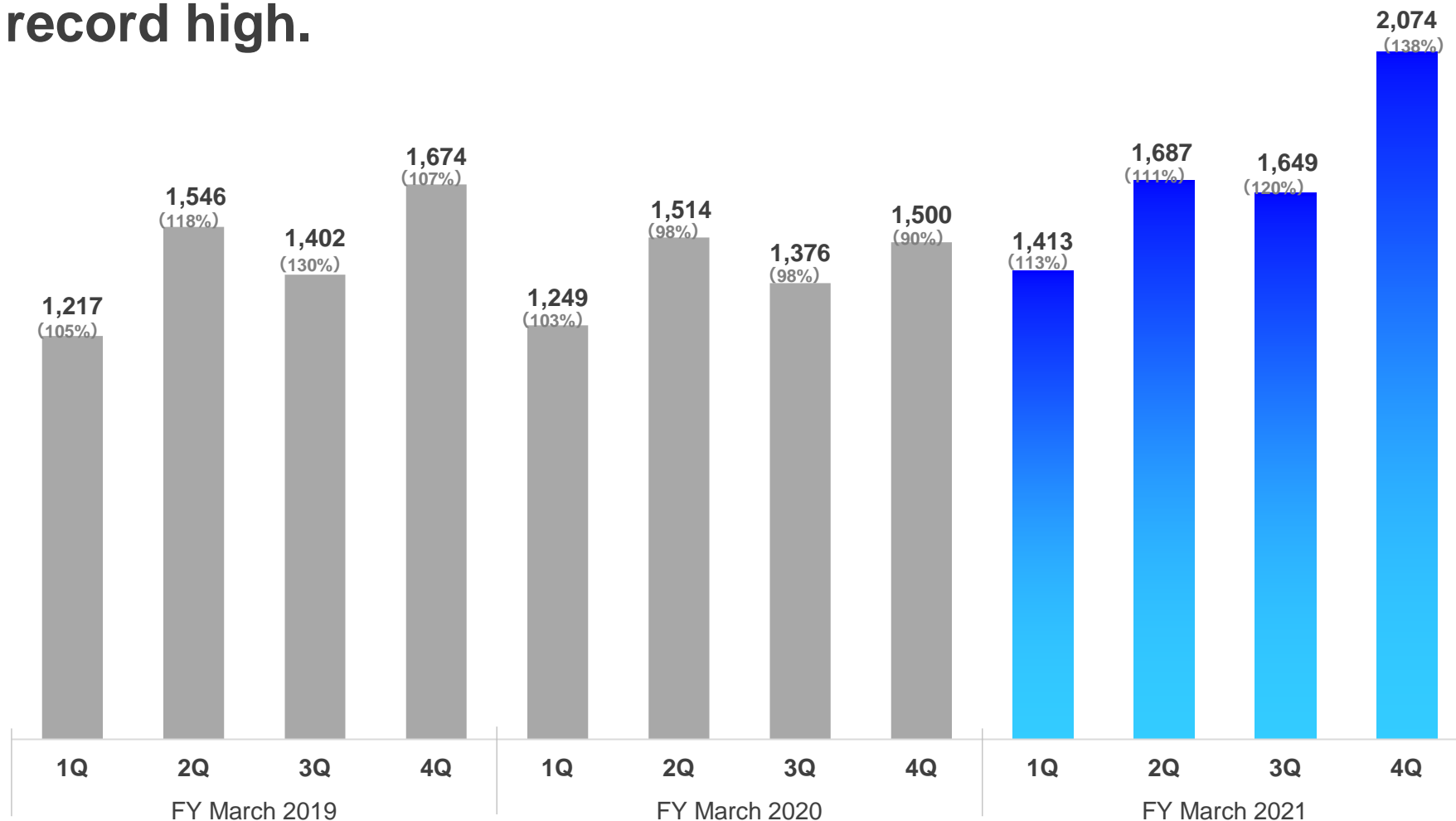
(Million yen)



* Percentage figures represent comparisons with the preceding year.

(Million yen)

Sales for the fourth quarter also hit a record high.



* Percentage figures represent comparisons with same period of the preceding year.

Consolidated Cost of Sales and Selling, General and Administrative Expenses



(Million yen)	FY March 2020	FY March 2021	Change YoY	Main Factors for Change
Cost of sales	1,361	1,946	+584	
Labor	847	1,192	+344	DAC increased consultants.
Depreciation	754	810	+56	Depreciation of cloud products and other software started from the second quarter of the previous fiscal year.
Other	524	751	+227	Service expenses increased as a result of sales expansion of cloud products. Outsourcing expenses soared after DAC obtained more orders.
Transfer to other accounts	-764	-808	-43	Transfer to software in progress increased as a result of the increase in development projects.
Selling, general and administrative expenses	1,952	1,900	-51	
Personnel expenses	984	1,055	+70	Personnel expenses rose reflecting the employment of new graduates.
Advertising expenses	207	168	-39	Decrease due to the voluntary decision to refrain from holding the Partner Conference and other events
Other	760	677	-82	Transportation expenses fell for reason of working from home and online sales activities.

Quarterly Trend in Consolidated Cost of Sales

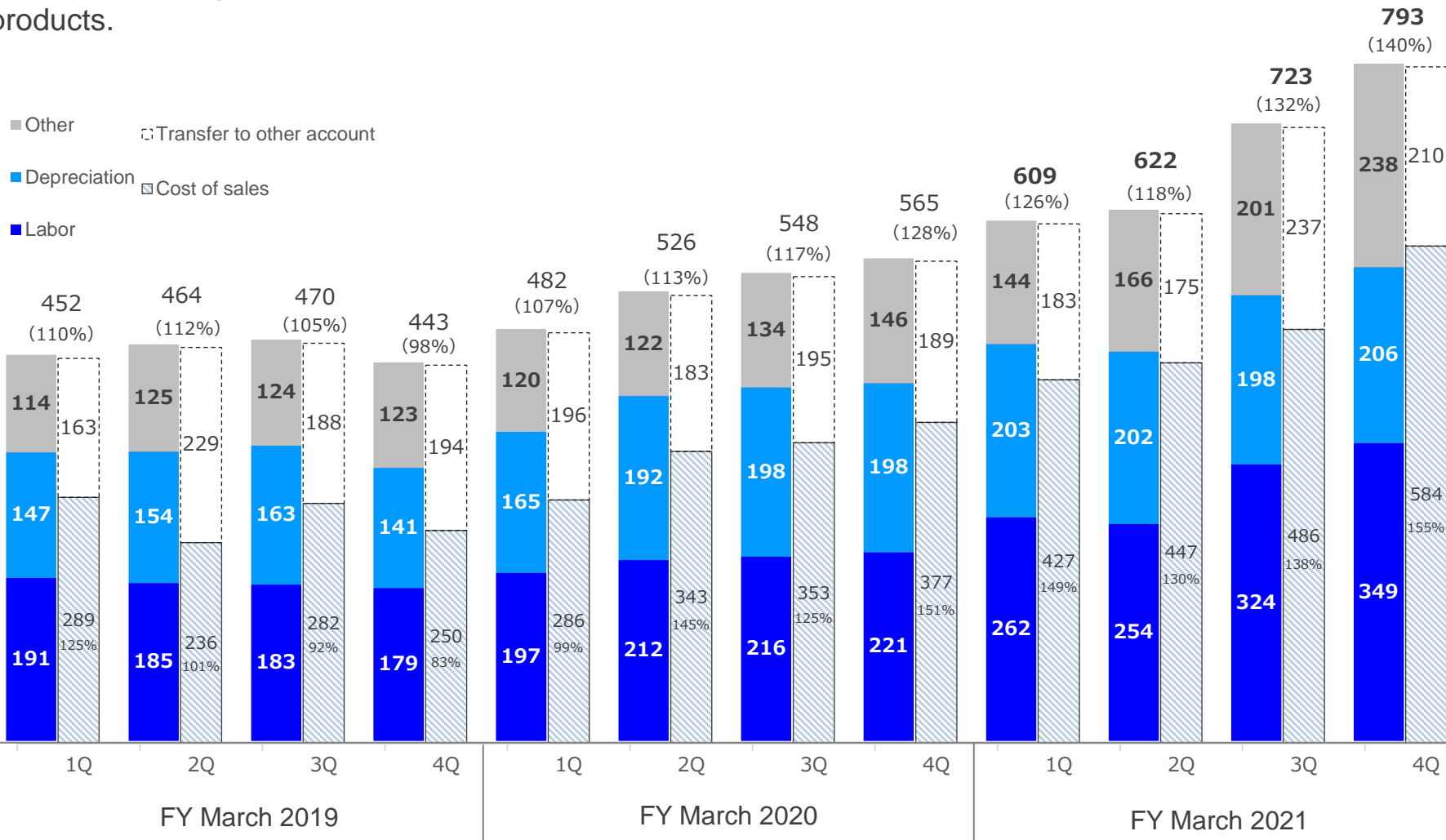


Labor expenses swelled after DAC increased consultants.

Other expenses grew due to cloud server expenses associated with sales expansion of cloud service products.

(Million yen)

- Other
- Depreciation
- Labor
- ▨ Transfer to other account
- ▨ Cost of sales



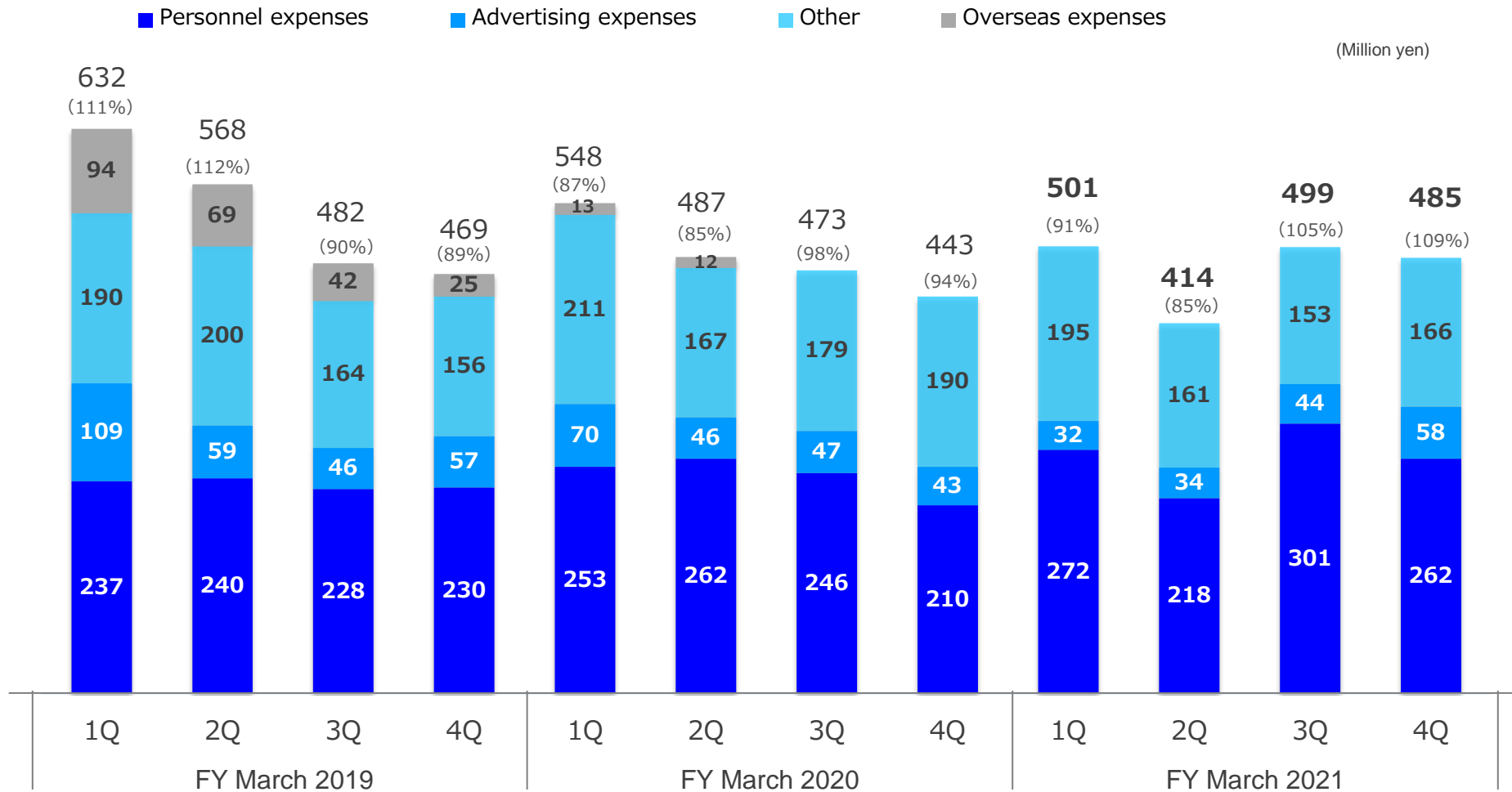
* Percentage figures represent comparisons with the same period a year earlier.

Quarterly Trend in Consolidated Selling, General and Administrative Expenses



Advertising expenses contracted due to voluntary restraint of the Partner Conference and other outside events.

Decrease in transportation expenses due to shift to working from home and online sales activities to work to control COVID-19



* Percentage figures represent comparisons with same period of the preceding year.

Capital efficiency was good, with improvement in both ROE and ROA. Although the equity ratio fell due to an increase in advances received, strong financial health was maintained.

(Million yen)	As of end of FY March 2020	As of end of FY March 2021	% Change
Current assets	8,733	12,725	+45.7%
(Cash and deposits)	7,651	11,382	+48.8%
Non-current assets	2,118	2,130	+0.6%
Total assets	10,852	14,856	+36.9%
Current liabilities	2,125	4,743	+123.2%
(Advanced received)	1,229	3,370	+174.1%
Non-current liabilities	46	50	+7.7%
Equity capital	8,652	10,041	+16.1%
Net assets	8,680	10,062	+15.9%
Equity ratio	79.7%	67.6%	—
ROE	19.4%	22.0%	—
ROA	15.4%	16.0%	—

**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Non-consolidated Results Highlights

Summary of Non-consolidated Results (Full-Year)

(Million yen)	FY March 2020	FY March 2021	Change YoY	FY March 2021 Full-Year Forecast
Contracts	5,376	10,693	+98.9%	—
Net sales	5,336	6,074	+13.8%	7,000
Cost of sales	1,098	1,273	+16.0%	1,450
Gross profit	4,238	4,801	+13.3%	5,550
Selling, general and administrative expenses	1,881	1,854	-1.4%	2,050
Operating profit	2,357	2,947	+25.0%	3,500
Operating margin	44.2%	48.5%	—	50.0%
Ordinary profit	2,359	2,964	+25.6%	3,500
Profit	1,613	2,044	+26.7%	2,420

*Financial Forecast is the non-consolidated financial forecast announced on May 8, 2020.

Summary of Non-consolidated Results (Quarterly)

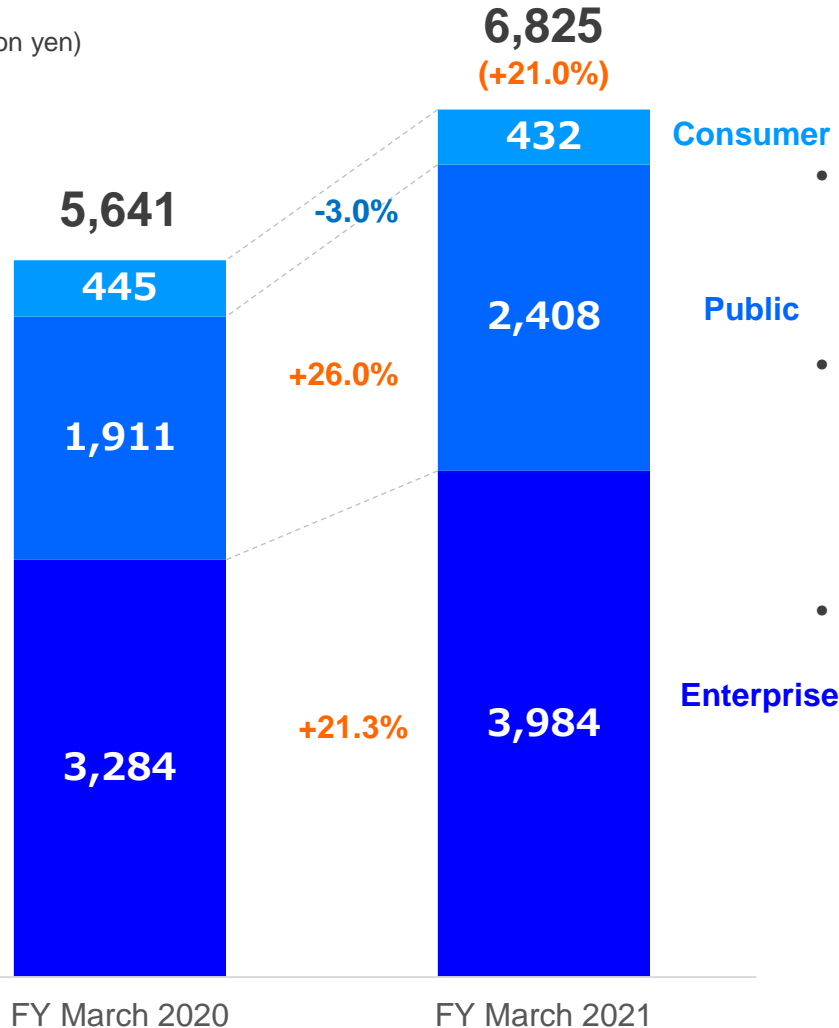


(Million yen)	Fourth Quarter FY March 2020	Fourth Quarter FY March 2021	Change YoY	FY March 2020	FY March 2021	Change YoY
Contracts	1,523	3,687	+142.0%	5,376	10,693	+98.9%
Net sales	1,346	1,856	+37.9%	5,336	6,074	+13.8%
Cost of sales	237	355	+49.5%	1,098	1,273	+16.0%
Gross profit	1,109	1,501	+35.4%	4,238	4,801	+13.3%
Selling, general and administrative expenses	435	487	+12.0%	1,881	1,854	-1.4%
Operating profit	673	1,013	+50.5%	2,357	2,947	+25.0%
Operating margin	50.0%	54.6%	—	44.2%	48.5%	—
Ordinary profit	671	1,018	+51.6%	2,359	2,964	+25.6%
Profit	450	696	+54.5%	1,613	2,044	+26.7%

Supplementary Material on Consolidated Financial Results for the Fiscal Year Ended March 31, 2021

By Market

(Million yen)

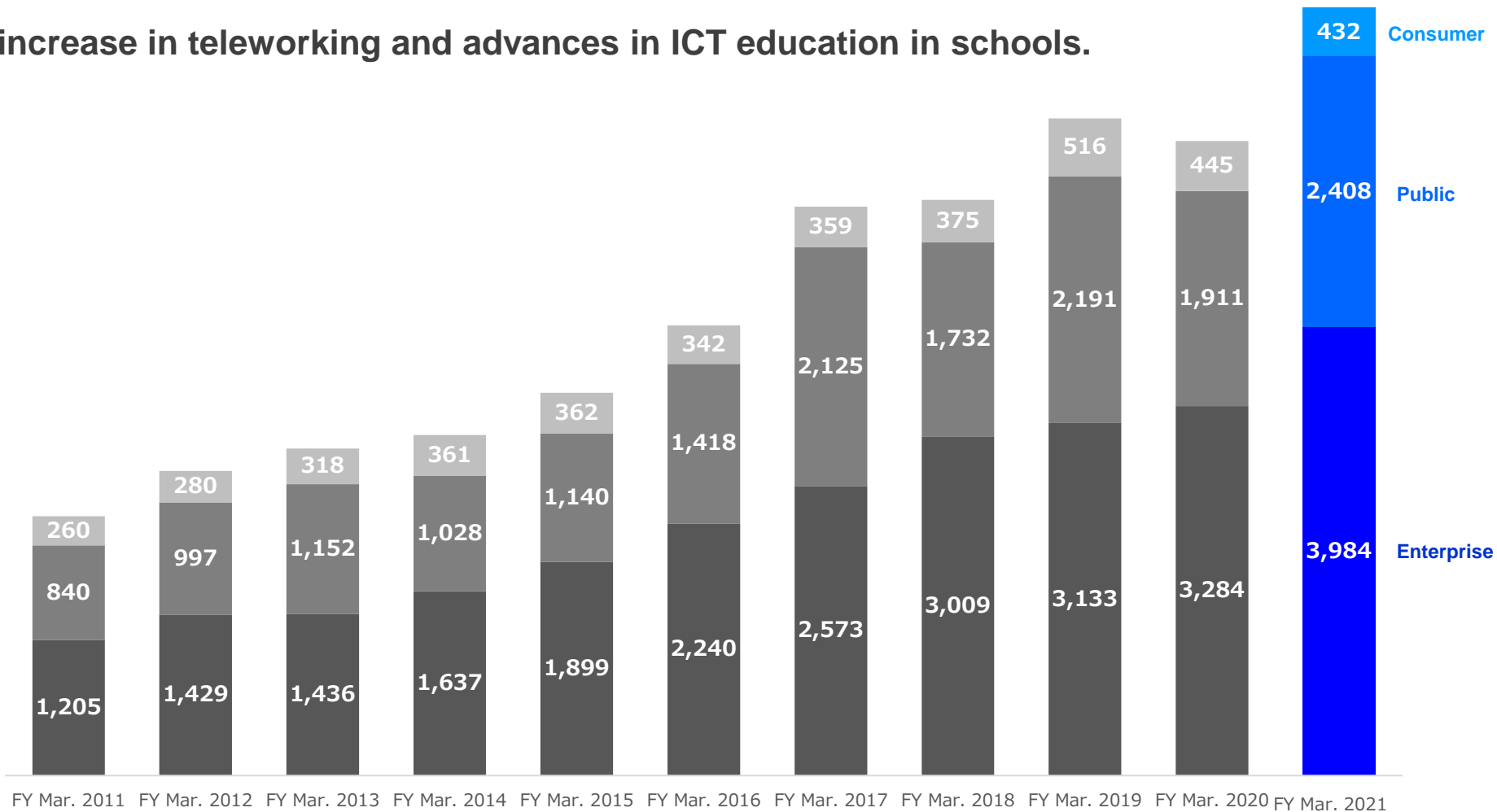


- In the enterprise sector market, net sales were up 699 million yen or 21.3% due to orders received for i-FILTER series and the growth of DAC.
- In the public sector market, net sales were up 497 million yen or 26.0% due to orders received for the i-FILTER series as the government furthered the GIGA School Concept.
- In the consumer sector market, net sales were down 13 million yen or 3.0% due to reduction in prices for carriers despite a rise in the introduction of filtering among young people.

Trend in Consolidated Net Sales by Market

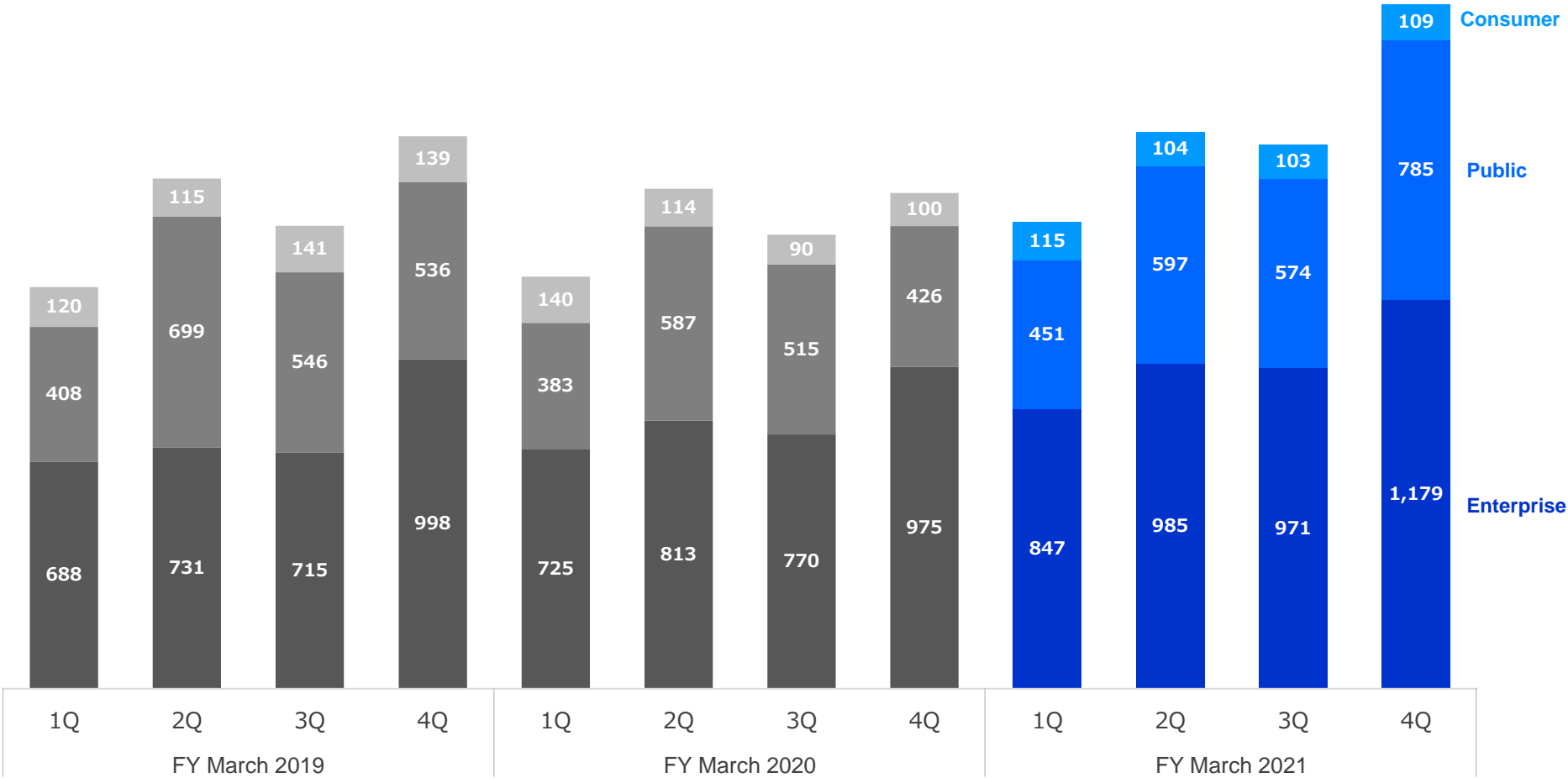
Record-setting net sales were attained with bullish performances in the enterprise sector and public sector markets, favored by the increase in teleworking and advances in ICT education in schools.

(Million yen)



Net sales for the fourth quarter reached a record high.

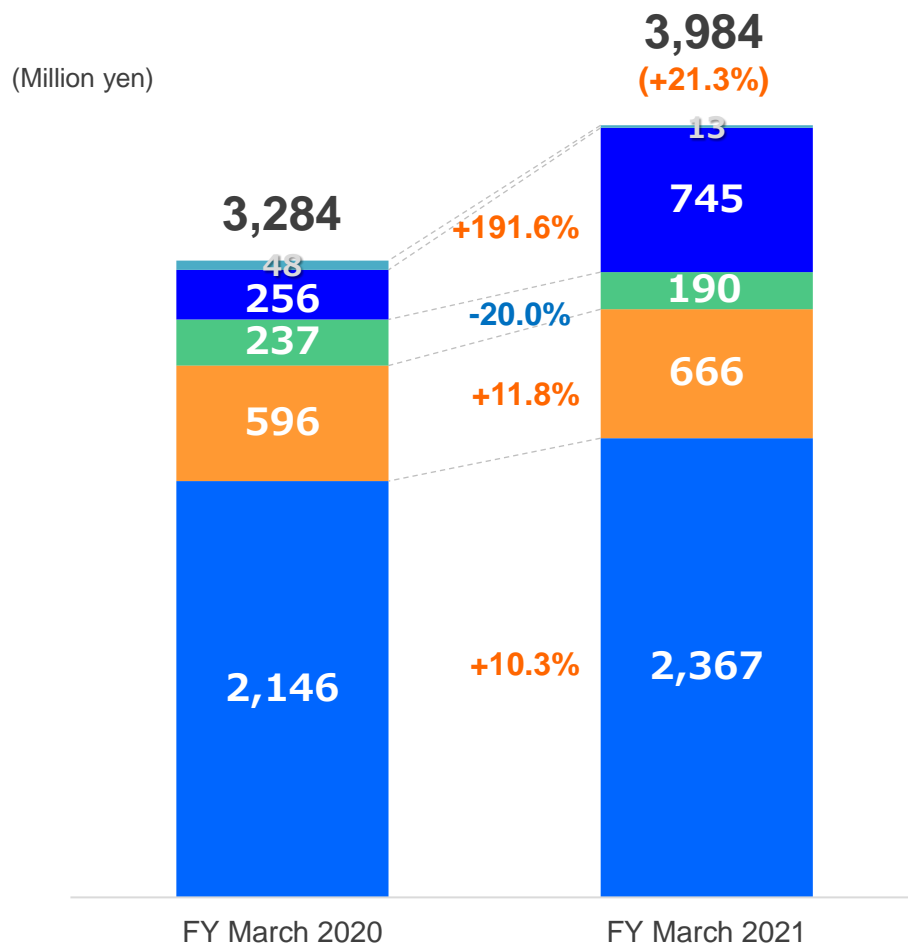
(Million yen)



**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Enterprise Sector

■ i-FILTER series
 ■ m-FILTER series
 ■ FinalCode
 ■ DAC
 ■ Other



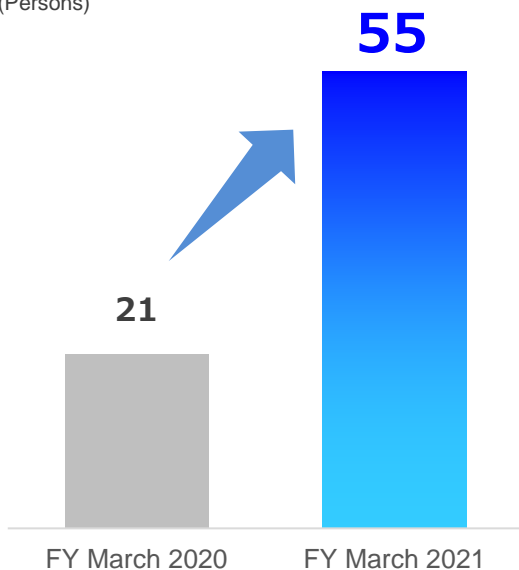
- Sales of i-FILTER@Cloud were strong (rising 221 million yen or 10.3%), reflecting growing cyber security demand among enterprises due to increased teleworking.
- DAC made good progress acquiring new clients and achieved substantial sales growth (up 489 million yen or 191.6%), reflecting growing DX needs and demand for security measures among enterprises.

Net Sales Growth and Expansion of DAC on a Non-consolidated Basis



Number of consultants

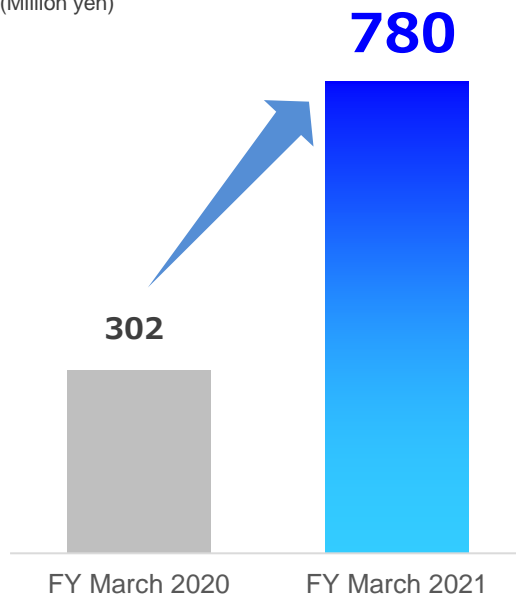
(Persons)



- DAC actively hired talent, focusing on those from leading consulting firms and leading systems integrators.

Consulting sales*

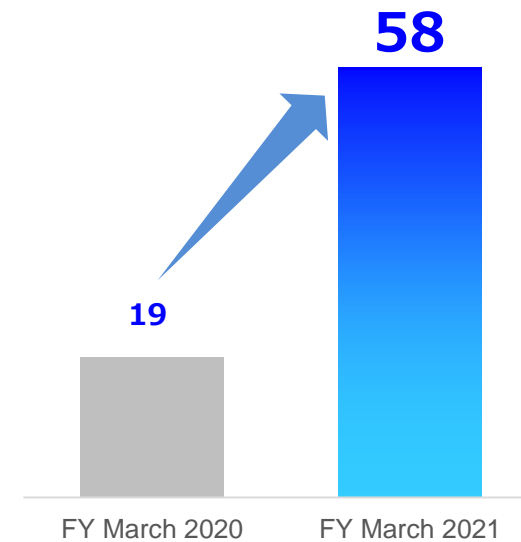
(Million yen)



- Consulting sales grew 258% year on year, reflecting the development of new clients.
- DAC steadily met DX demand and demand for cyber security measures.

Solution sales*

(Million yen)



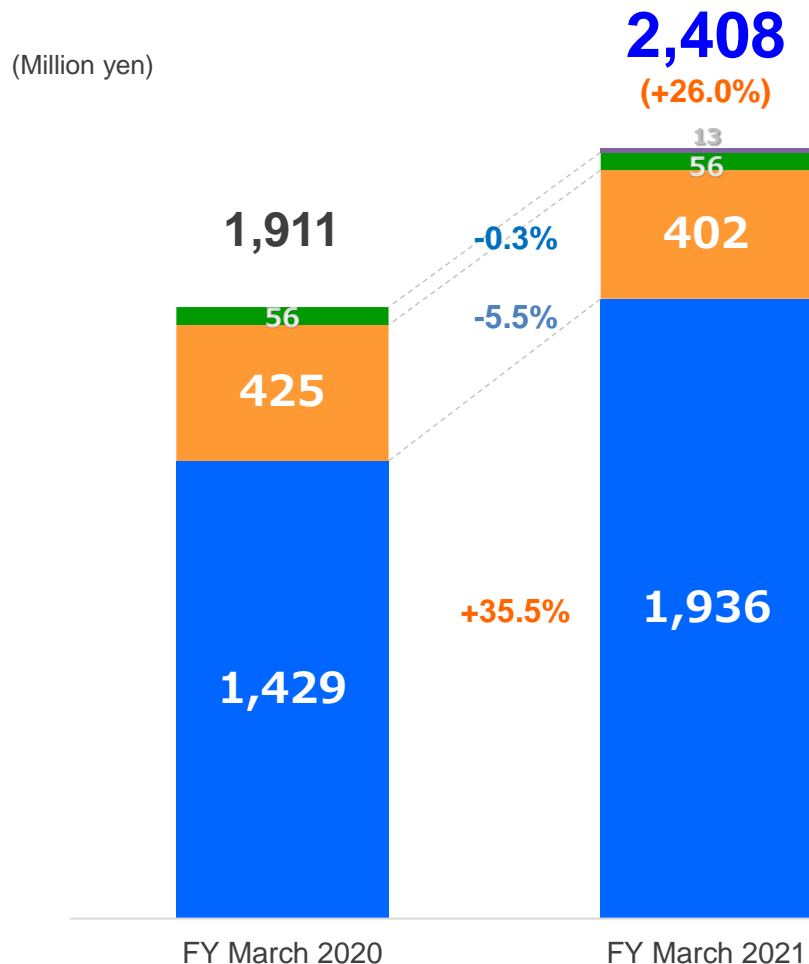
- Sales of solutions incorporating Digital Arts products also soared, increasing 298% year on year.

* : DAC's non-consolidated net sales

Supplementary Material on Consolidated Financial Results for the Fiscal Year Ended March 31, 2021

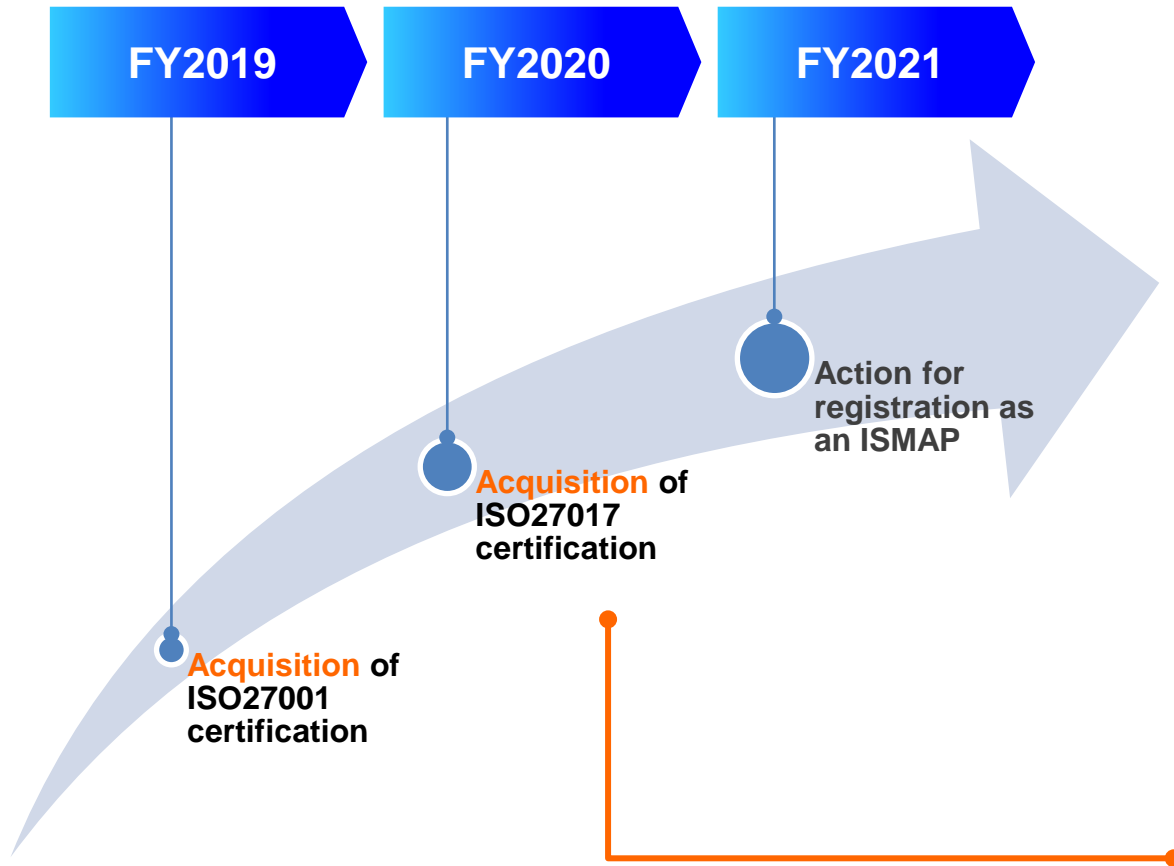
Public Sector

■ i-FILTER series ■ m-FILTER series ■ FinalCode ■ Other



- Sales of i-FILTER series grew 507 million yen (up 35.5%) due to orders received in connection with promotion of ICT education in line with the GIGA School Concept.

DigitalArts@Cloud received ISO certification as a cloud service which meets the ISO criteria.



DigitalArts@Cloud

ISMAP = Aiming for registration as a system (cloud service) that satisfies the Japanese government's security requirements

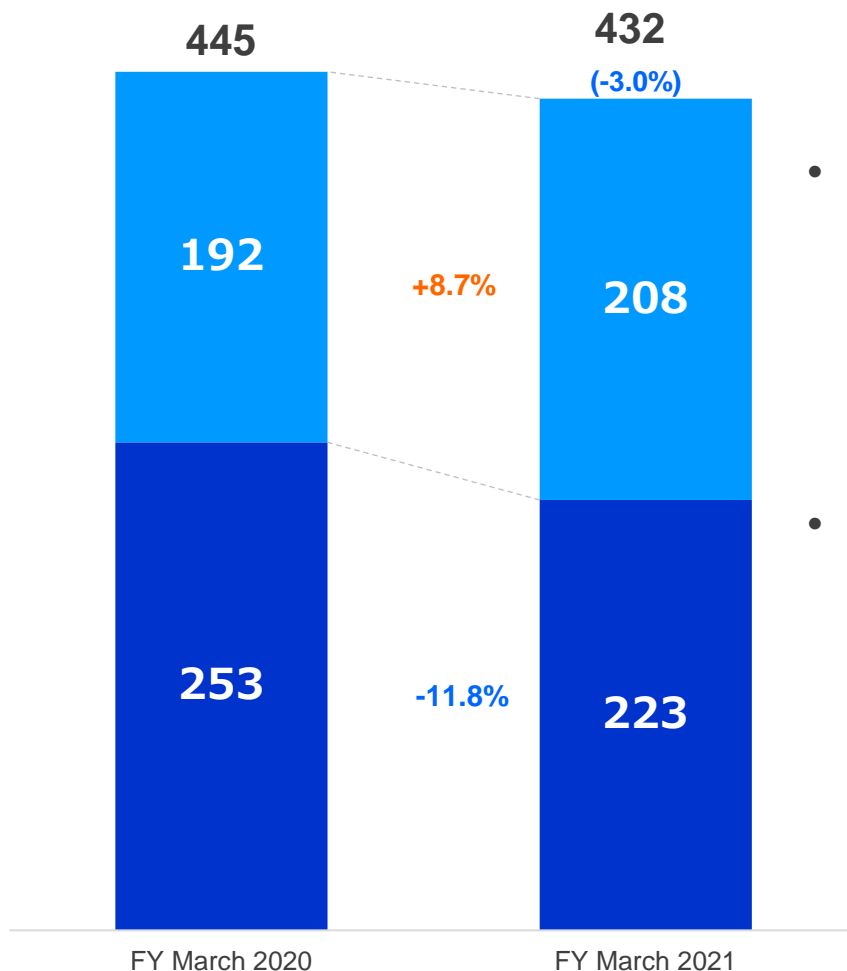
Acquisition of ISO27017, which can also be described as the baseline for an ISMAP, was completed.

**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Consumer Sector

(Million yen)

- For mobile terminals, other
- For computers



- Sales of products for mobile terminals fell due to the price cut for carriers made in the second quarter of the previous fiscal year in connection with the introduction of free filtering services for end users by carriers.
- In products for computers, sales of multiple-year package products and i-FILTER® for Multi-Device, which can be available on multiple terminals, were sluggish.

**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Full-year Financial Forecast for the Fiscal Year Ending March 31, 2022

Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2022 (Consolidated)

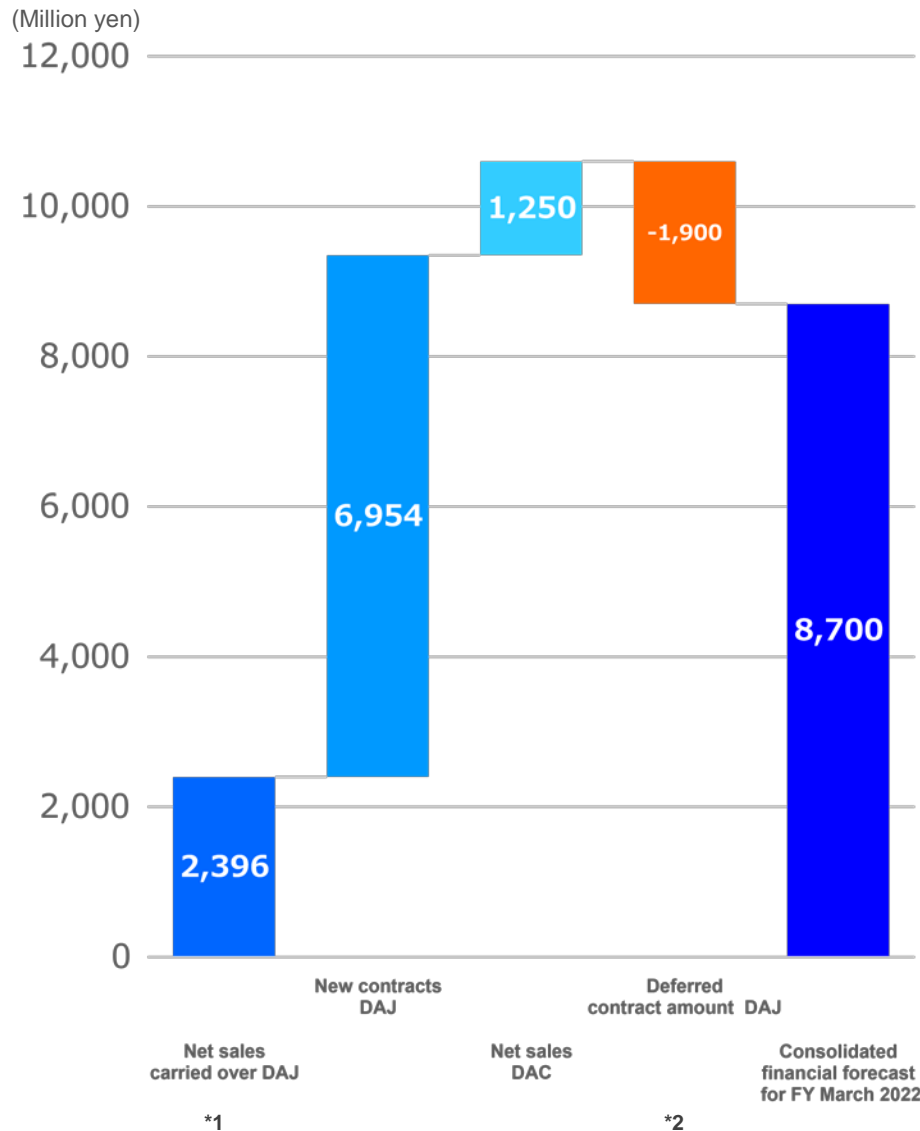


(Million yen)	FY March 2021 Full-Year Results	Forecast for FY March 2022	% Change
Net sales	6,825	8,700	+27.5 %
Cost of sales	1,946	2,700	+38.7 %
Gross profit	4,878	6,000	+23.0 %
Selling, general and administrative expenses	1,900	2,300	+21.0 %
Operating profit	2,977	3,700	+ 24.3 %
Ordinary profit	2,991	3,700	+23.7 %
Profit attributable to owners of parent	2,059	2,550	+ 23.8 %

Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2022 (Non-consolidated)



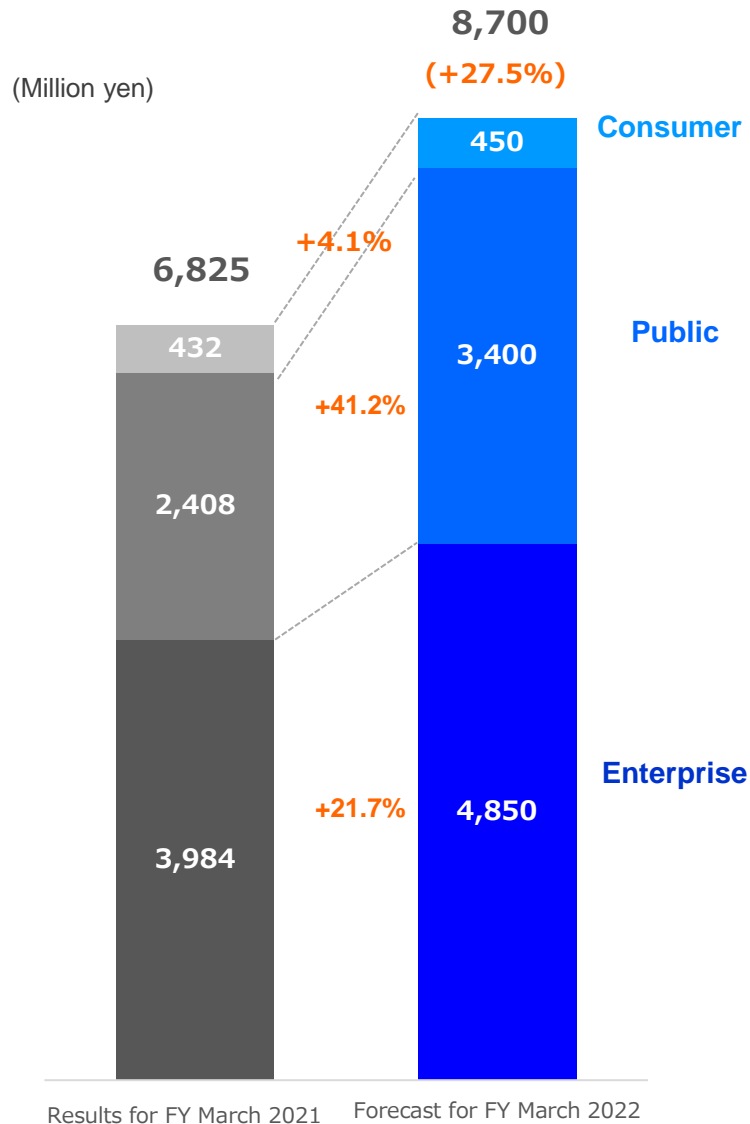
(Million yen)	FY March 2021 Full-Year Results	Forecast for FY March 2022	% Change
Net sales	6,074	7,450	+22.6 %
Cost of sales	1,273	1,700	+33.5 %
Gross profit	4,801	5,750	+19.8 %
Selling, general and administrative expenses	1,854	2,150	+15.6 %
Operating profit	2,947	3,600	+ 22.2 %
Ordinary profit	2,964	3,600	+21.5 %
Profit	2,044	2,450	+ 19.8 %



- Net sales carried over will increase due to the impact of the amount of contracts acquired in the public sector market the previous fiscal year in connection with the GIGA School Concept. (See page 9.)
- New contracts of DAJ are expected to amount to 6,954 million yen due to expansion of sales to the enterprise sector market and orders received for the public sector market in connection with the GIGA School Concept.
- As in the previous fiscal year, DAC will increase the number of consultants and is expected to continue growing through the acquisition of new clients.

* 1 : Sales recorded from the order backlog of contracts acquired in previous fiscal years

* 2 : Sales deferred to subsequent fiscal years (order backlog)



- We will further develop existing clients by promoting the cross-utilization of Digital Arts products as security measures for enterprises and acquire new clients by strengthening products.
- We will expand orders received by proposing Digital Arts products to DAC's clients.
- Part of the amount of contracts acquired the previous fiscal year in the public sector market in connection with the GIGA School Concept will be deferred and recognized as sales in FY March 2022.
- We will expand our market share in the latter half of the GIGA School Concept and win orders by meeting needs for enhancement of the resilience of municipal information systems.

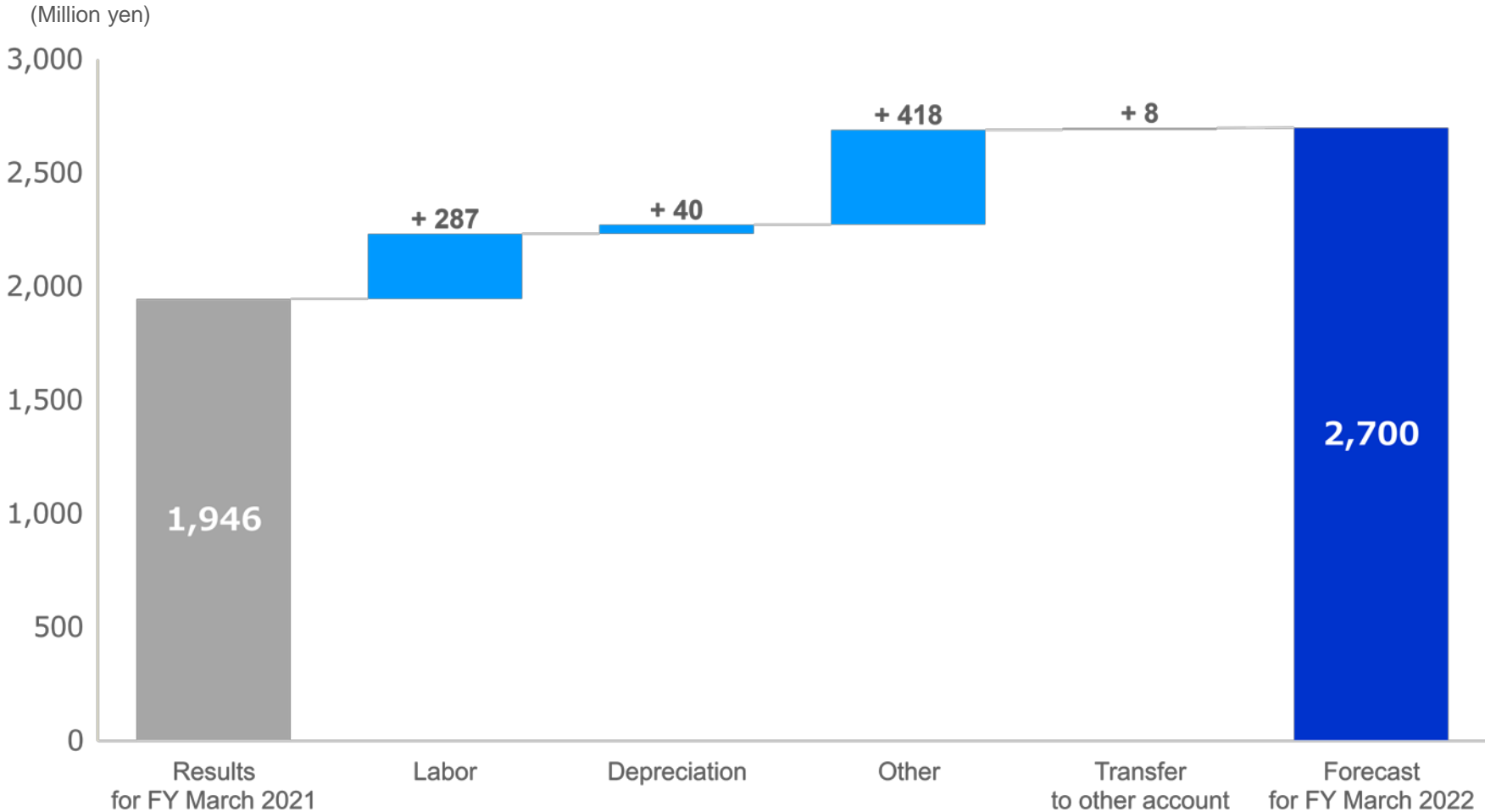
Consolidated Cost of Sales and Selling, General and Administrative Expenses



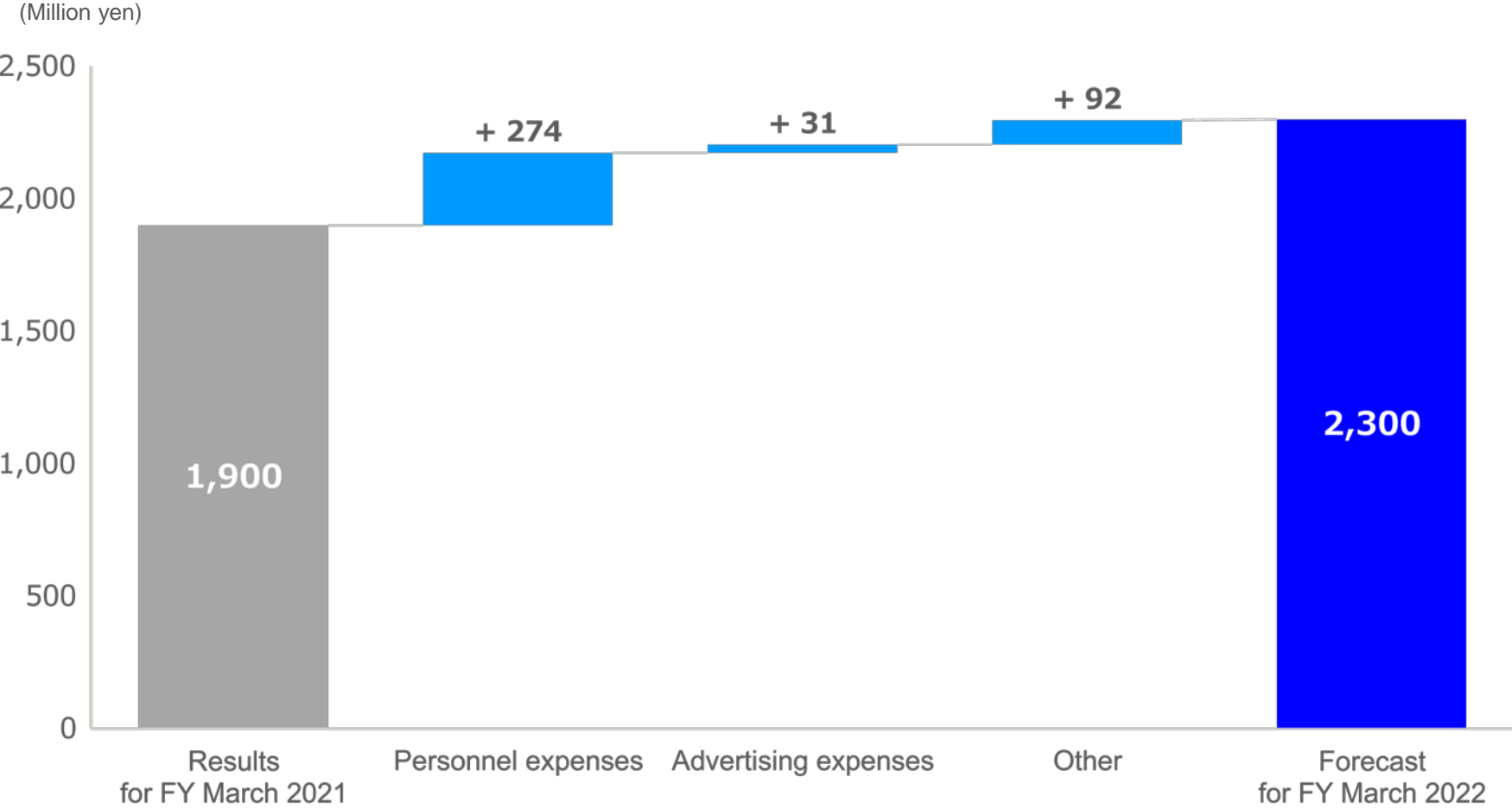
(Million yen)	Results for FY March 2021	Forecast for FY March 2022	Change YoY	Main Factors for Change
Cost of sales	1,946	2,700	+38.7%	
Labor	1,192	1,480	+24.1%	DAC increased consultants.
Depreciation	810	850	+4.8%	Depreciation of software for cloud products will start.
Other	751	1,170	+55.7%	Cloud server expenses will rise as a result of sales expansion of cloud products.
Transfer to other accounts	-808	-800	-1.0%	
Selling, general and administrative expenses	1,900	2,300	+21.0%	
Personnel expenses	1,055	1,330	+26.1%	Personnel expenses rose reflecting the employment of new graduates.
Advertising expenses	168	200	+19.0%	Advertising in newspapers and other media will increase.
Other	677	770	+13.6%	Assuming that the effects of COVID-19 will lessen, travel expenses will increase. Server expenses will increase as a result of cloud products trials.

Labor costs are expected to rise because DAC will increase the number of consultants.

Higher cloud server expenses under "Other" are forecast as a result of sales expansion of cloud products.



Higher personnel expenses are forecast as a result of an increase in staff.



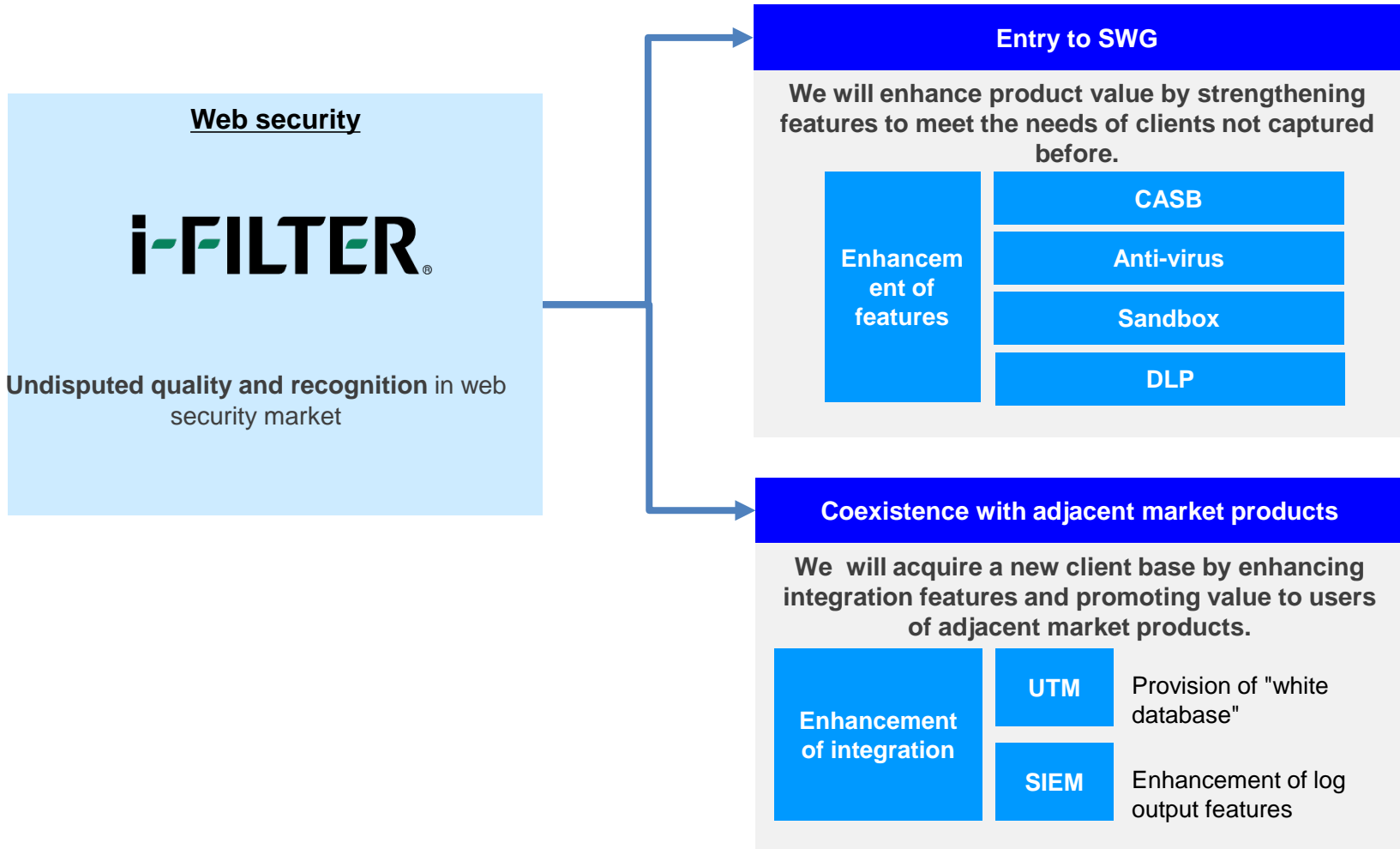
**Supplementary Material on Consolidated Financial Results
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FY03/22 Initiatives

We will promote cross-utilization of Digital Arts products as a security measures to address the issued facing many clients.

<p>Web security</p>	<p>Protection against unknown threats</p> <p>Realization of "white operation" to prevent malware infections via the web or emails</p> <p>Promotion of "v15" and updating of versions</p> <p>Enhancement of features of @Cloud</p>	<p>PPAP (process of sending an encrypted file (with password) attachment in an email and then sending the password to unzip the file in a second email) countermeasures</p> <p>Realization of efficient, more secure file transfer</p> <p>Protection against information leaks</p> <p>Elimination of need for file passwords</p> <p>Proposals for the elimination of e-mail attachments</p>
<p>Mail Security</p>		
<p>File Security</p>		
<p>WEB conferencing</p>		

Entry of i-FILTER to Secure Web Gateway (SWG) Market



We will aim to acquire a wider range of clients by strengthening features for PPAP measures and measures to enhance the resilience of municipal information systems, to more reliably meet file sanitization needs.

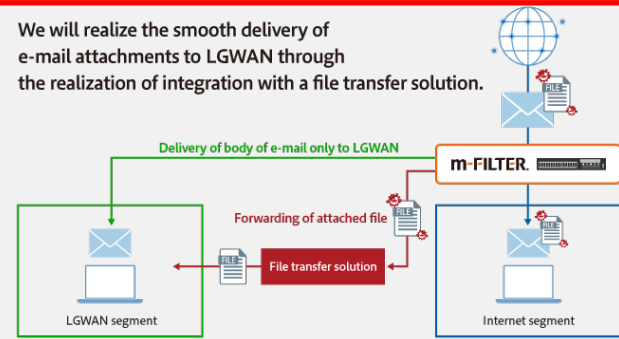
Mail Security

m-FILTER®

No. 1 Installed E-mail Security Software*

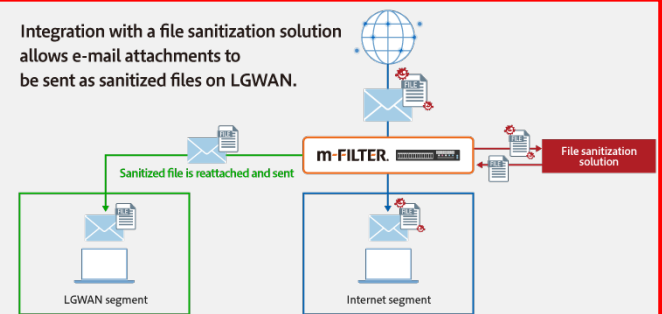
Integration with file transfer solution

We will realize the smooth delivery of e-mail attachments to LGWAN through the realization of integration with a file transfer solution.



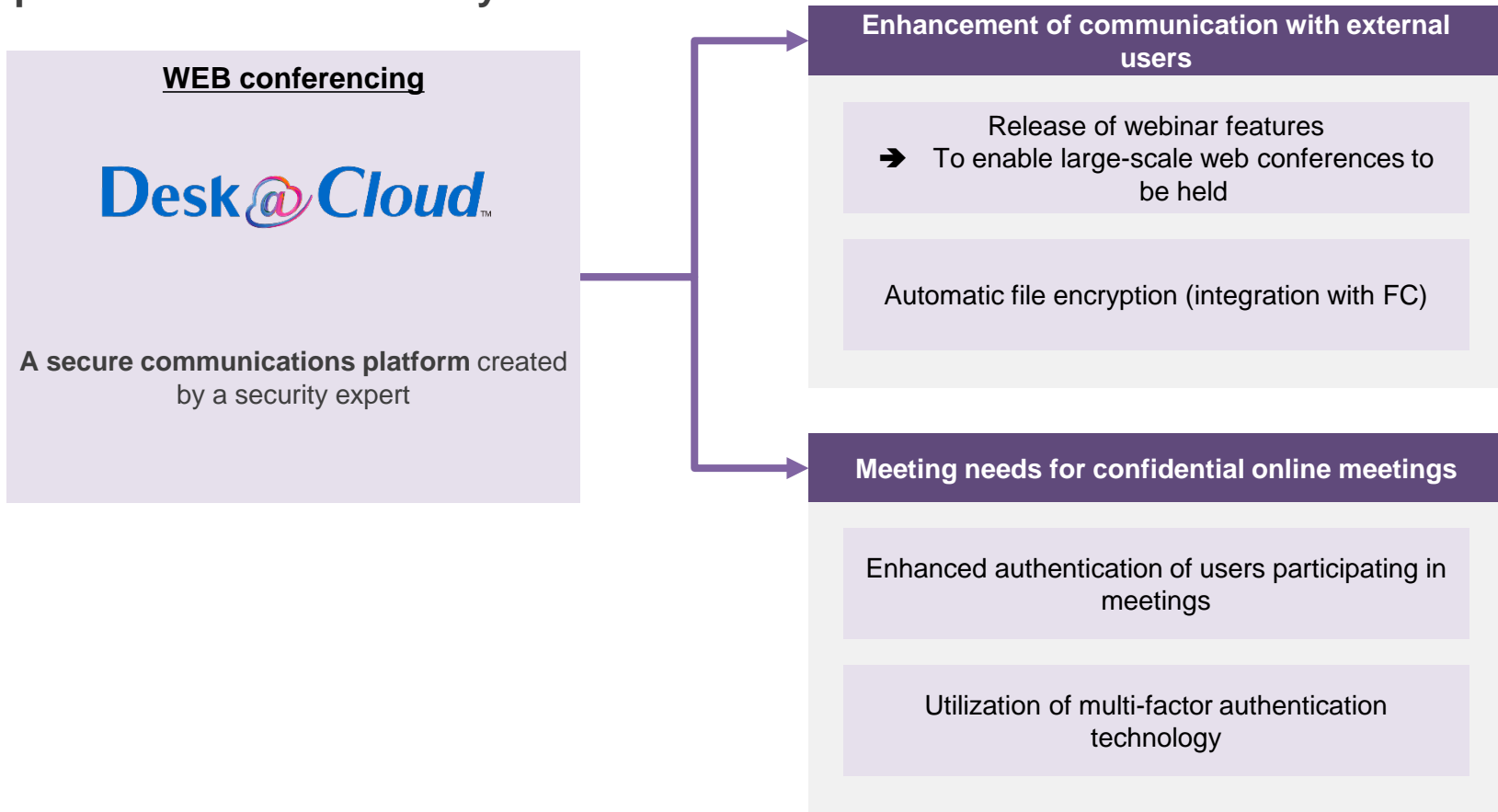
Integration with file sanitization solution

Integration with a file sanitization solution allows e-mail attachments to be sent as sanitized files on LGWAN.



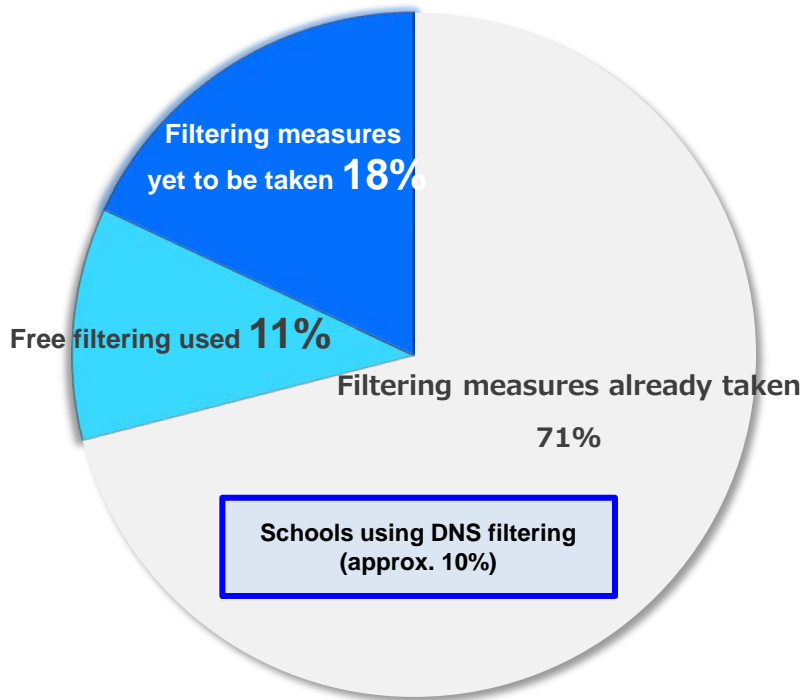
*Source: MIC Research Institute Ltd. "Information Security Solutions Market: Status and Outlook 2020 - Internal Information Leakage Prevention Solutions (<https://mic-r.co.jp/mr/01910/>)" Email Filtering/Archive Market: Vendor Share (by shipment) (FY2019) (Published December 2020).

We will elevate Desk@Cloud from a tool used internally to a web conferencing system that is equal to a video distribution platform in terms of video performance and far superior in terms of security.



Target in Latter Half of GIGA School Concept

*1



- **Around 40%** of the total number of school boards is the potential target in the second half.
- As **leader in the GIGA School Program market*2**, we aim to expand our market share on the basis of the far greater value we provide (product value, convenience and cost).
- We will appear at outside seminars to stress the need for filtering and the superiority of our products.

*1 : Based on interviews with 651 school boards responsible for more than 3,000 pupils and students (According to our research in March 2021)

*2 : According to our research in March 2021

FY2022 will be the main battleground for dealing with security cloud projects and projects to enhance resilience but some projects are expected to be put out to tender during FY2021.

Public Project Roadmap

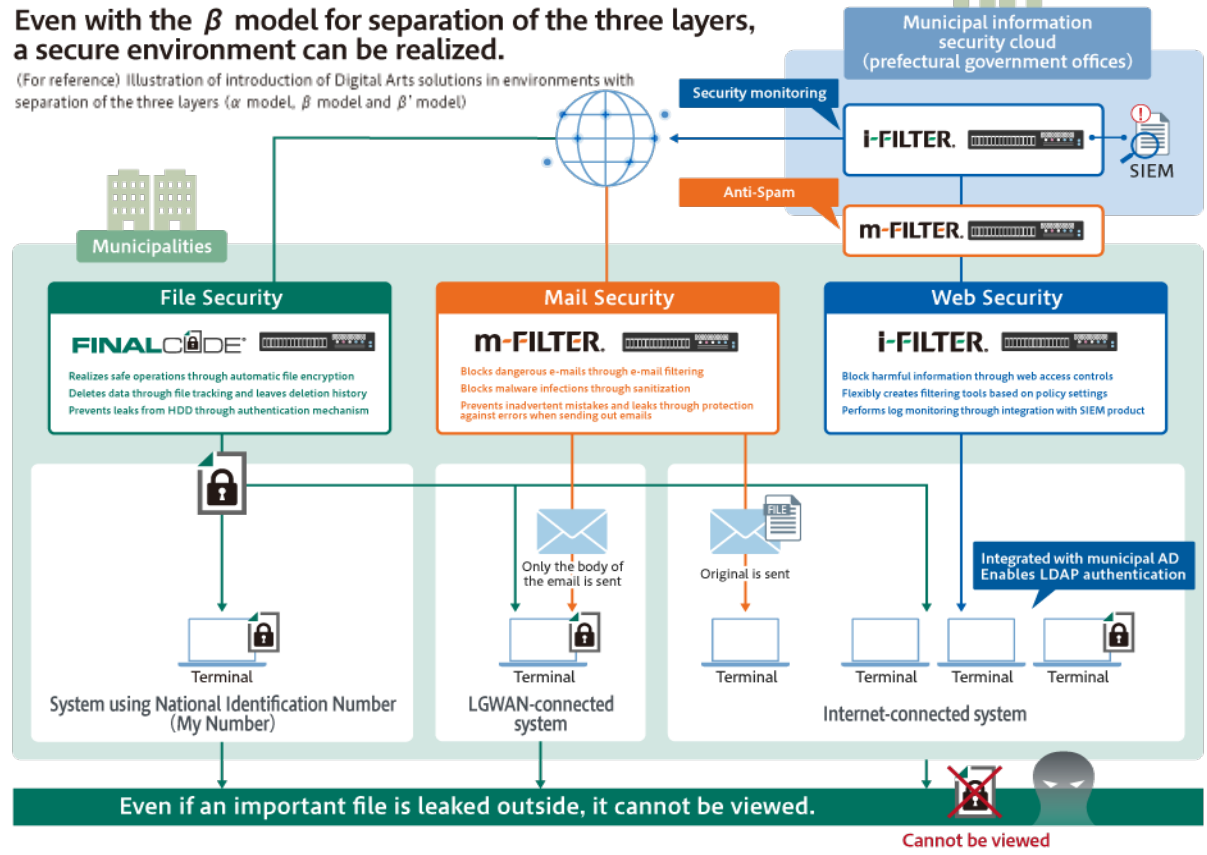
Item	Target	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025		
Government	Central ministries and agencies					ISMAP Introduction of ISMAP	Action to address each project						
								Budgeting	Bidding/Renewal				
Security cloud	Prefectures	7.1 billion yen	→				Revision of procurement guidelines	2.1 billion yen transition budget					
								Extension	Renewal	→			
								Budgeting					
									Bidding/Renewal				
Enhancement of resilience	Prefectures Municipalities	16.4 billion yen	→					Budget TBD					
								Extension	Renewal	→			
								Budgeting					
									Bidding/Renewal				

Based on the December 2020 revisions to the procurement guidelines, we must enhance **efficiency and convenience**, while maintaining information security, to meet the needs of the times including the digitization of government processes and increased teleworking.

Overview of Solutions for Municipal Information Systems

Even with the β model for separation of the three layers, a secure environment can be realized.

(For reference) Illustration of introduction of Digital Arts solutions in environments with separation of the three layers (α model, β model and β' model)



Outline of countermeasures

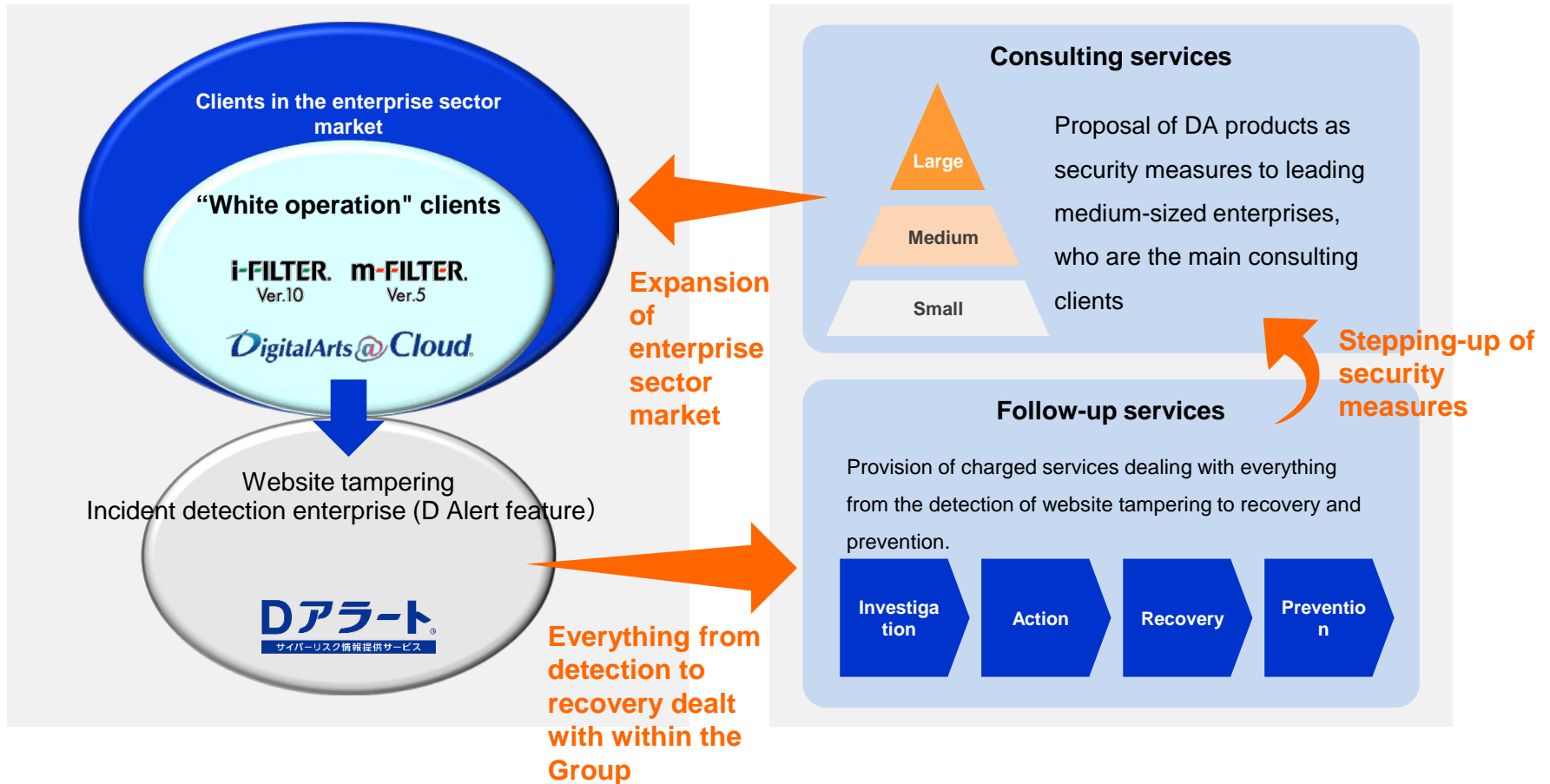
Review of "three layers of protection" (α model protection and above)

Remote access security (protection against malware, etc.)

Measures for shift away from PPAP (process of sending an encrypted file (with password) attachment in an email and then sending the password to unzip the file in a second email)
File encryption

All solutions shown in the outline of countermeasures are possible using combinations of Digital Arts products.

We will expand the enterprise sector market by proposing DA products to DAC's consulting clients. By combining the strengths of Digital Arts and DAC, we will offer one-stop shop solutions covering everything from "detection" to "recovery."



**Supplementary Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2021**

Return to Shareholders for Fiscal Year Ending March 31, 2022

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

Target payout ratio for fiscal year ending March 31, 2022: **35.8%** (of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2022: **65.00 yen** per share

We expect to increase the annual dividend by **10.00 yen** per share.

	Dividend (in yen) per share			Consolidated payout ratio
	2Q-end	Year-end	Annual	
FY March 2021	25.00	30.00	55.00	37.4%
FY March 2022 (forecast)	30.00	35.00	65.00	35.8%

Among the descriptions of plans, strategies and financial forecasts in this presentation material, those that are not historical facts are forward-looking statements.

They reflect judgments made by the management of Digital Arts Inc. on the basis of information currently available to it. They may be subject to considerable change depending on changes in the environment and other factors, and the Company does not in any way guarantee the achievement of the projections.

Digital Arts Inc. will disclose any significant changes that occur in the future as appropriate.

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

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