



**Consolidated Financial Results for
the First Quarter of the Fiscal Year
Ending March 31, 2021**
(From April 1, 2020 to June 30, 2020)

Supplementary Material
Friday, July 31, 2020

Digital Arts Inc.
(Securities Code: 2326)

**Supplementary Material on Consolidated Financial Results for the
First Quarter of the Fiscal Year Ending March 31, 2021**

Key Points

(1) A year-on-year rise of 13.2% in consolidated net sales resulted in record-breaking first quarter net sales.

- In the enterprise sector market, teleworking rapidly increased as a measure against COVID-19. Sales of the i-FILTER series that enables administrators to control access to websites irrespective of location or situation continued to grow.
- Digital Arts Consulting (DAC), a subsidiary offering security consulting services, achieved steady growth.
- In the public sector market, the i-FILTER series achieved continued sales expansion as educational institutions worked to create an environment enabling the use of tablets by school-aged children to accelerate ICT education.
- Acquisition of orders under the GIGA School Concept began, but this had a minor impact on the quarterly results under review.

(2) Operating profit grew 17.2% after cost of sales rose 141 million yen year on year while SG&A expenses dropped 47 million yen.

- The rise in cost of sales resulted from a hike in labor expenses following the increase in consultants at DAC.
- Among the SG&A expenses, advertising expenses dropped given voluntary restraint on holding outside events in consideration of the COVID-19 pandemic and transportation expenses fell due to a shift to working from home and online sales activities as measures against COVID-19.

**Supplementary Material on Consolidated Financial Results for the
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Consolidated Results Highlights

Consolidated
net sales

Net Sales: **1,413** million yen (+164 million yen / +13.2% YoY)

The sales growth resulted from steady acquisition of contracts for the i-FILTER series in the enterprise sector market and in the public sector market.
It is also due to DAC's good progress in gaining new projects.

Operating
profit

Operating profit: **485** million yen (+71 million yen / +17.2% YoY)

In cost of sales, labor expenses soared after DAC increased consultants.
Among SG&A expenses, advertising expenses and transportation expenses contracted following the voluntary restraint on holding outside events.

Ordinary profit

Ordinary profit: **489** million yen (+77 million yen / +18.8% YoY)

This increase resulted from a rise in operating profit.

Profit attributable
to owners of parent

Profit: **334** million yen (+53 million yen / +19.1% YoY)

This growth was due to a surge in ordinary profit.

Consolidated Results

(Million yen)

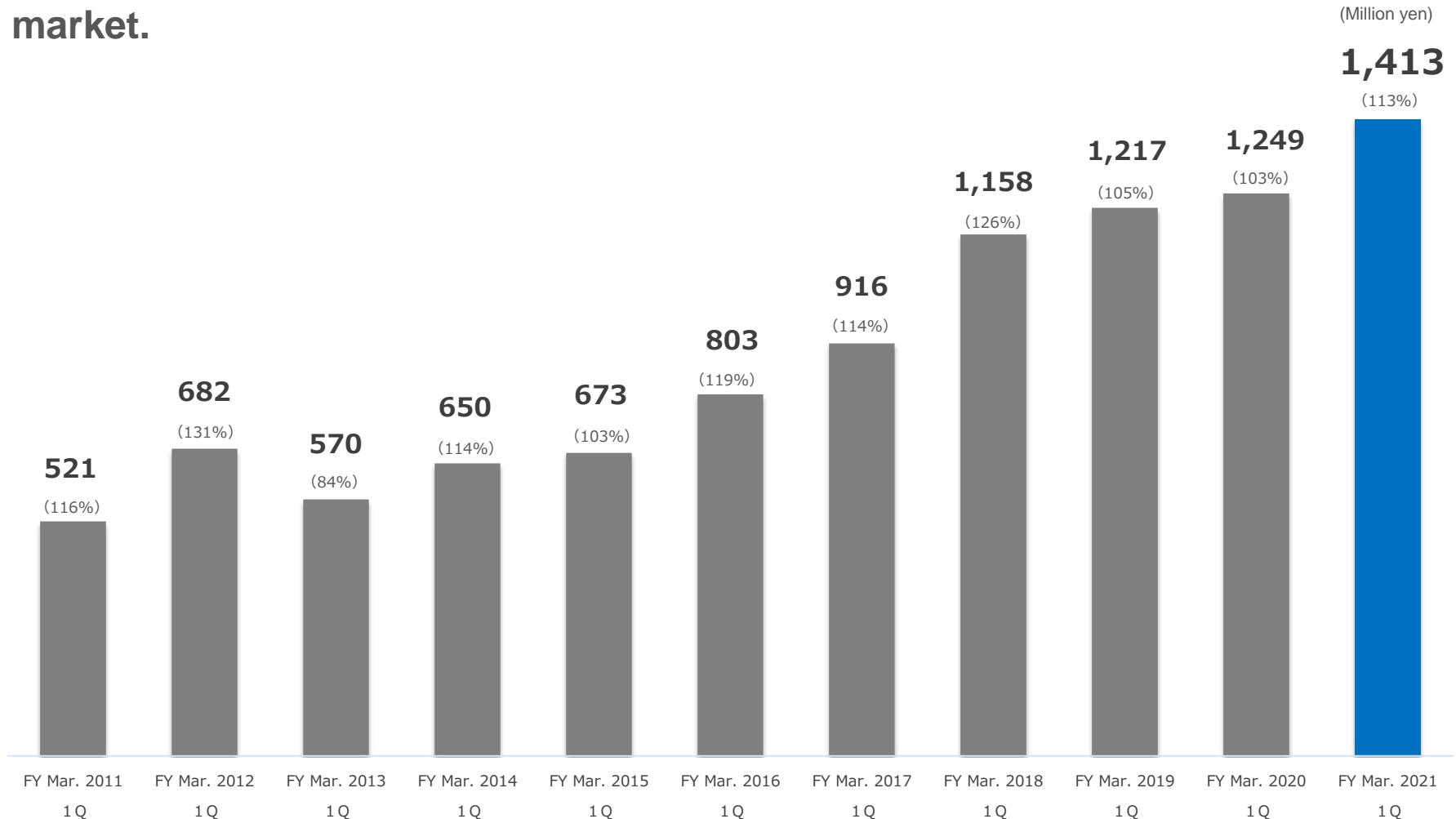
	FY March 2020 1Q	FY March 2021 1Q	Change YoY	FY March 2021 Full-Year Forecast
Contracts	1,146	1,463	+27.6%	—
Net sales	1,249	1,413	+13.2%	7,500
Gross profit	962	986	+2.4%	5,650
Selling, general and administrative expenses	548	501	-8.7%	2,100
Operating profit	413	485	+17.2%	3,550
Operating margin	33.1%	34.3%	—	47.3%
Ordinary profit	411	489	+18.8%	3,550
Profit attributable to owners of parent	280	334	+19.1%	2,450
ROE	3.6%	3.9%	—	—
Dividend per share	—	—	—	¥55.00

Non-Consolidated Results

(Million yen)

	FY March 2020 1Q	FY March 2021 1Q	Change YoY	FY March 2021 Full- Year Forecast
Contracts	1,109	1,337	+20.5%	—
Net sales	1,211	1,287	+6.3%	7,000
Gross profit	950	977	+2.8%	5,550
Selling, general and administrative expenses	517	455	-12.0%	2,050
Operating profit	433	522	+20.5%	3,500
Operating margin	35.8%	40.5%	—	50.0%
Ordinary profit	432	526	+21.8%	3,500
Profit	297	368	+23.9%	2,420
ROE	3.9%	4.2%	—	—

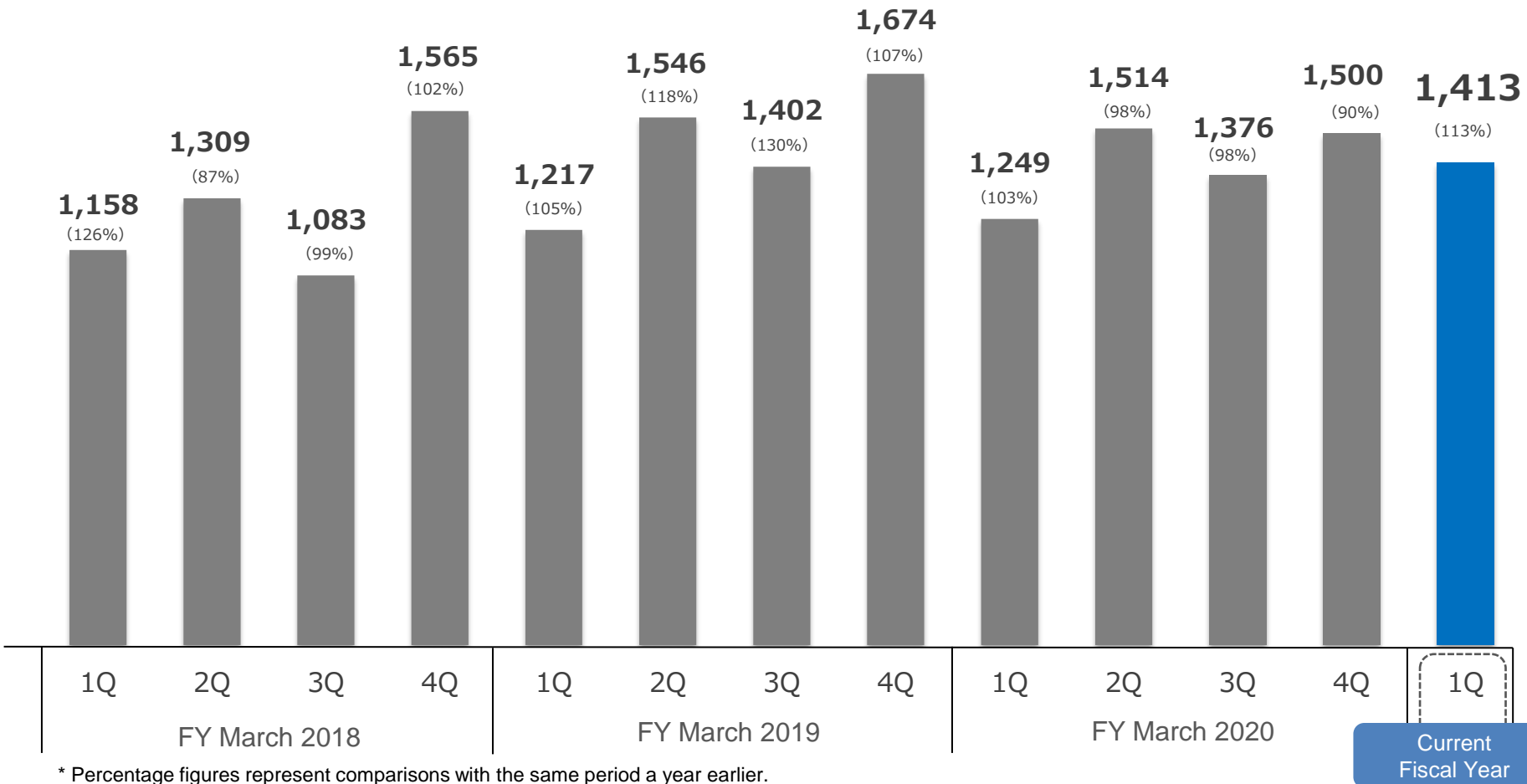
Net sales for the first quarter hit a record high with a strong performance in the enterprise sector market and in the public sector market.



* Percentage figures represent comparisons with the preceding quarter.

Quarterly net sales were robust after a strong performance in the enterprise sector market and in the public sector market.

(Million yen)



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

Consolidated Cost of Sales and Selling, General and Administrative Expenses



- Labor expenses constituting part of the cost of sales rose after DAC increased consultants.
- Depreciation as part of the cost of sales increased as depreciation of cloud products and other software began in the second quarter of the preceding fiscal year.
- Advertising expenses as part of SG&A expenses contracted due to the decision to cancel the Partner Conference and other outside events.
- Transportation expenses as part of SG&A expenses declines because of working from home and online sales activities introduced as a measure against COVID-19.

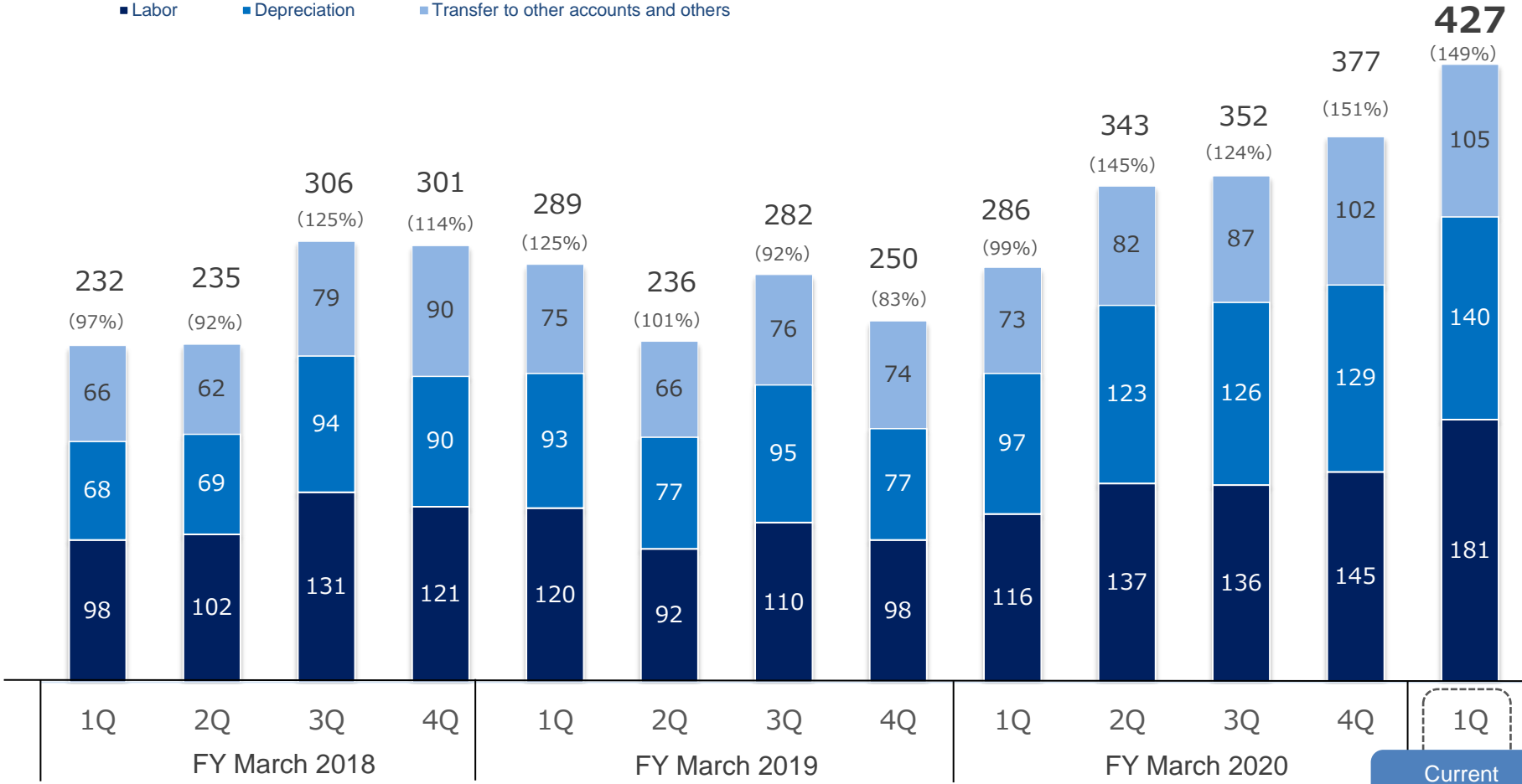
(Million yen)

	FY March 2020 1Q	FY March 2021 1Q	Change YoY	Main Factors for Change
Cost of sales	286	427	+141	
Labor	116	181	+65	DAC increased consultants.
Depreciation	97	140	+43	Depreciation of cloud products and other software has been rising since the second quarter of the previous fiscal year.
Transfer to other accounts Other manufacturing costs	73	105	+32	Outsourcing expenses soared after DAC obtained more orders.
Selling, general and administrative expenses	548	501	-47	
Personnel expenses	263	272	+8	
Advertising expenses	70	32	-37	The decline resulted from the decision to cancel the Partner Conference and other outside events.
Other	215	195	-19	Transportation expenses fell for reason of working from home and online sales activities.

Labor expenses swelled after DAC increased consultants.
Depreciation increased following the start of depreciation of cloud products and other software in the second quarter of the previous fiscal year.

(Million yen)

■ Labor ■ Depreciation ■ Transfer to other accounts and others



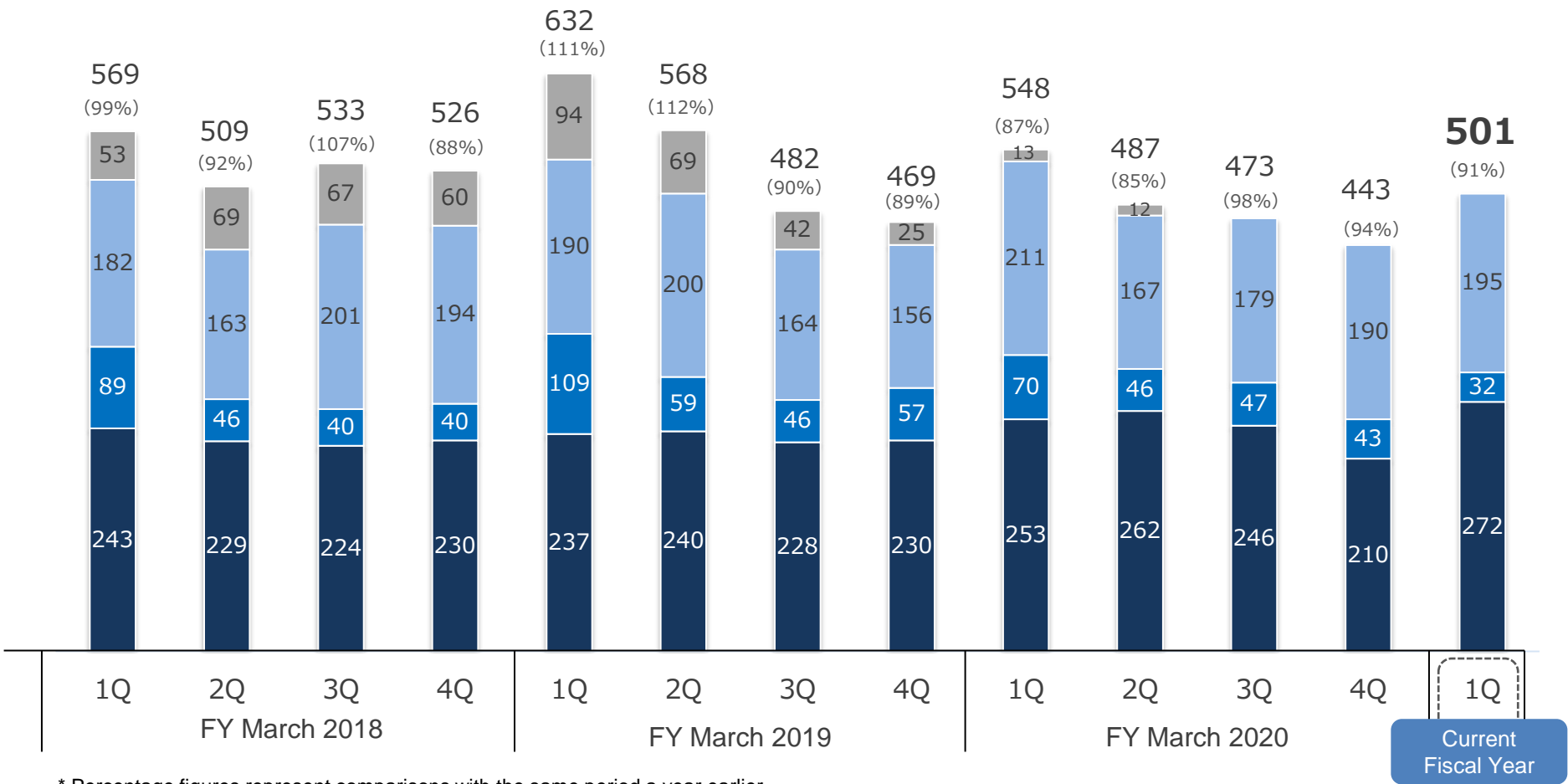
* Percentage figures represent comparisons with the same period a year earlier.

Current Fiscal Year

Advertising expenses contracted due to voluntary restraint of the Partner Conference and other outside events.
 Transportation expenses decreased for reason of working from home and online sales activities introduced as a measure against COVID-19.

(Million yen)

■ Personnel expenses ■ Advertising expenses ■ Other ■ Overseas expenses



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

Consolidated Balance Sheet

- The equity ratio stood at 80.2% to show that strong financial health was maintained.
- With high figures in ROE and ROA, capital efficiency was high.

(Million yen)

	As of end of 1Q FY March 2020	As of end of 1Q FY March 2021	% Change	As of end of FY March 2020
Current assets	7,582	8,671	+14.4%	8,733
(Cash and deposits)	6,430	7,609	+18.3%	7,651
Non-current assets	2,148	2,097	-2.4%	2,118
Total assets	9,730	10,769	+10.7%	10,852
Current liabilities	2,016	2,067	+2.6%	2,125
Non-current liabilities	46	49	+6.1%	46
Equity capital	7,630	8,635	+13.2%	8,652
Net assets	7,667	8,652	+12.8%	8,680
Equity ratio	78.4%	80.2%	—	79.7%
ROE	3.6%	3.9%	—	19.4%
ROA	2.9%	3.1%	—	15.4%

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By Market

- In the enterprise sector market, net sales rose 16.7%, following brisk performance of the i-FILTER series and DAC's growth.
- In the public sector market, net sales hiked 17.8%, with good sales of the i-FILTER series following educational institutions' efforts to promote ICT education.
- In the consumer sector market, net sales decreased 18.1% due to a reduction in prices for carriers in the second quarter of the previous fiscal year, despite a rise in the introduction of filtering among young people.

Consolidated net sales

Net Sales: **1,413** million yen (+164 million yen / +13.2% YoY)

Enterprise Sector

Net Sales: **847** million yen (+121 million yen / +16.7% YoY)

Public Sector

Net Sales: **451** million yen (+68 million yen / +17.8% YoY)

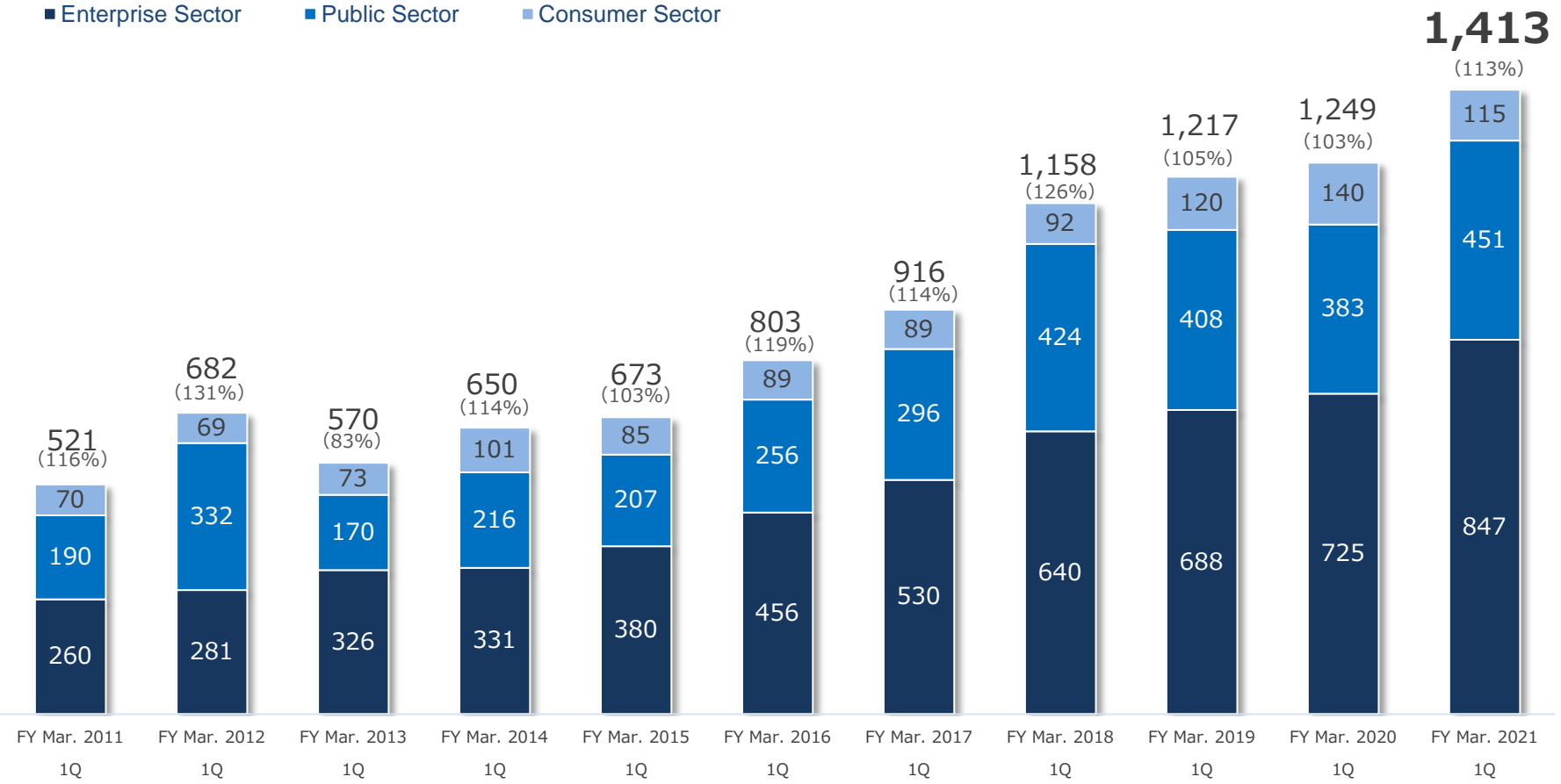
Consumer Sector

Net Sales: **115** million yen (-25 million yen / -18.1% YoY)

Buoyant net sales in the enterprise sector market and in the public sector market resulted in record-breaking first quarter net sales.

(Million yen)

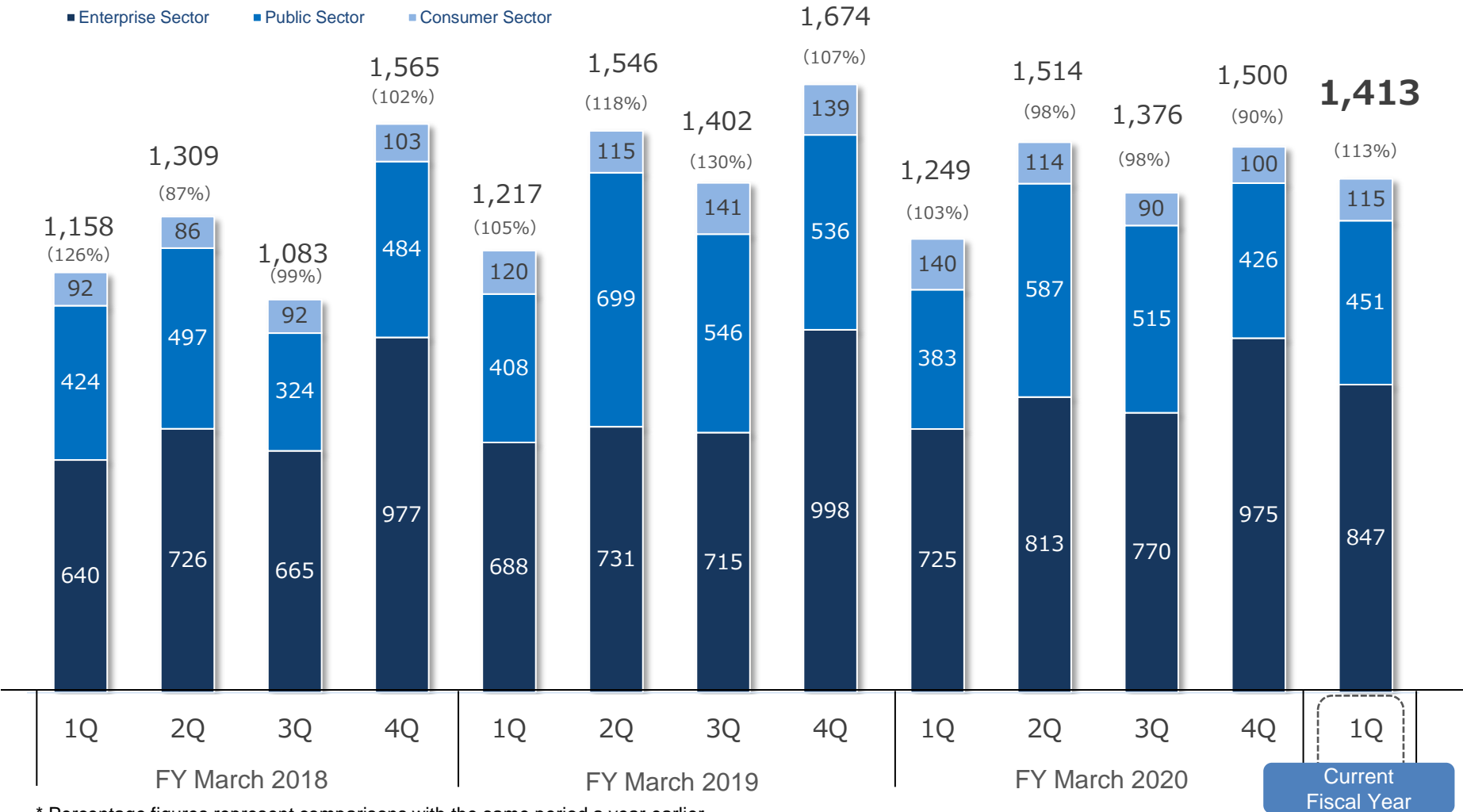
■ Enterprise Sector ■ Public Sector ■ Consumer Sector



* Percentage figures represent comparisons with the preceding quarter.

Buoyant net sales in the enterprise sector market and in the public sector market resulted in a high level of quarterly net sales.

(Million yen)



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

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Enterprise Sector

- The increase in teleworking continued to boost sales of the i-FILTER series since it enables administrators to control access to websites irrespective of location.
- DAC's security consulting services expanded steadily.

i-FILTER
Series **112.5%** of the year-ago figure.

m-FILTER
Series **104.9%** of the year-ago figure.

FINALCODE **71.6%** of the year-ago figure.

DigitalArts Consulting **344.2%** of the year-ago figure.

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Public Sector

- The i-FILTER series managed to achieve sales expansion amid the ongoing work to provide school-aged children access to tablets to accelerate ICT education.
- Acquisition of orders under the GIGA School Concept began, but this had a minor impact on the quarterly results under review.
- Sales of m-FILTER soared following the acquisition of a new large project in the educational sector.

i-FILTER. 115.8% of the year-ago figure.
Series

m-FILTER. 141.9% of the year-ago figure.
Series

FINALCODE 75.5% of the year-ago figure.

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Consumer Sector

- Net sales declined due to the reduction in prices for carriers in the second quarter of the previous fiscal year in connection with their offering of services to end users free of charge. Meanwhile, filtering is increasingly used after legislation on use of the Internet by young people was toughened in response to the increase in minors using smartphones.
- Sales of multiple-year package products and i-FILTER for Multi-Device, which can be available on multiple terminals, were sluggish.

For mobile terminals **72.3%** of the year-ago figure.
Other

For computers **96.2%** of the year-ago figure.

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Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2021

Consolidated Financial Forecast

- We will aim to attain growth in cloud services in the enterprise sector market and to secure orders associated with the GIGA School Concept in the public sector market with a view to achieving a high rate of growth.

(Million yen)

	Results for FY March 2020	Plan for FY March 2021	% Change
Net sales	5,641	7,500	+ 32.9 %
Gross profit	4,280	5,650	+ 32.0 %
Selling, general and administrative expenses	1,952	2,100	+ 7.6 %
Operating profit	2,328	3,550	+ 52.5 %
Ordinary profit	2,326	3,550	+ 52.6 %
Profit attributable to owners of parent	1,590	2,450	+ 54.0 %
Dividend per share	¥50.00	¥55.00	—

Non-Consolidated Financial Forecast

(Million yen)

	Results for FY March 2020	Plan for FY March 2021	% Change
Net sales	5,336	7,000	+31.2 %
Gross profit	4,238	5,550	+30.9 %
Selling, general and administrative expenses	1,881	2,050	+9.0 %
Operating profit	2,357	3,500	+48.5 %
Ordinary profit	2,359	3,500	+48.4 %
Profit	1,613	2,420	+50.0 %

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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