

Quarterly Consolidated Financial Results for First Three Months of Fiscal Year Ending March 31, 2022 (Japanese Accounting Standards)

July 30, 2021

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 for submission of quarterly report: August 6, 2021 Scheduled date to start dividends distribution: __

Preparation of supplementary explanatory documents for quarterly results: Yes

Holding of quarterly results briefing: No

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

1. Consolidated financial results for the first three months of the fiscal year ending March 31, 2022 (April 1, 2021 – June 30, 2021)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First three months of year ending March 31, 2022	1,919	35.7	731	50.8	732	49.8	506	51.6
First three months of year ended March 31, 2021	1,413	13.2	485	17.2	489	18.8	334	19.1

(Note) Comprehensive First three months of year 507 million yen (53.2%) First three months of year 331 million yen (19.4%) income: ending March 31, 2022 ended March 31, 2021

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First three months of year ending March 31, 2022	36.13	35.29
First three months of year ended March 31, 2021	23.86	23.33

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2021	16,476	10,157	61.5	722.42
As of March 31, 2021	14,856	10,062	67.6	715.79

(Reference) Equity capital: As of June 30, 2021: 10,137 million yen As of March 31, 2021: 10,041 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	—	25.00	—	30.00	55.00
Year ending March 31, 2022	—				
Year ending March 31, 2022 (forecast)		30.00	—	35.00	65.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(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	3,900	25.7	1,470	12.2	1,470	11.7	1,020	12.2	72.71
Full year	8,700	27.5	3,700	24.3	3,700	23.7	2,550	23.8	181.77

(Note) Revisions to most recently announced results forecasts: No

* Notes

(1) Changes in important subsidiaries during the first three months of fiscal year ending March 31, 2022: None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

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

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

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)” on page 8 of the attached materials.

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

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

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury shares)	As of June 30, 2021	14,133,000	As of March 31, 2021	14,133,000
2) Number of treasury shares	As of June 30, 2021	100,396	As of March 31, 2021	104,462
3) Average number of shares issued and outstanding in each period (cumulative total)	First three months of year ending March 31, 2022	14,031,398	First three months of year ended March 31, 2021	14,017,028

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

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

Business forecasts and other forward-looking statements in this material contain predictions based on future assumptions, outlooks and plans as of the date of publication of this material. The Company does not warrant the accomplishment of the forecasts. Actual results may differ significantly from the forecasts due to risks and uncertain factors associated with the world economy, the state of competition, and fluctuations in foreign exchange rates and interest rates.

For matters concerning results forecasts, please refer to “1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2022 (3) Explanation about information on future forecasts such as consolidated results forecasts” on page 4 of the attached materials.

(How to obtain supplementary materials for quarterly results)

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

○Table of Contents for the Attached Document

1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2022	2
(1) Explanation about business results	2
(2) Explanation about financial position	4
(3) Explanation about information on future forecasts such as consolidated results forecasts ..	4
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly consolidated balance sheet	5
(2) Quarterly consolidated statement of income and comprehensive income	6
Quarterly consolidated statement of income	
Consolidated first three months	6
Quarterly consolidated statement of comprehensive income	
Consolidated first three months	7
(3) Notes to quarterly consolidated financial statements	
(Notes on the premise of a going concern)	8
(Notes on significant changes in the amount of shareholders' equity)	8
(Application of special accounting methods to the preparation of quarterly consolidated financial statements)	8
(Change in accounting policy)	8

1. Qualitative Information on Financial Results for the First Three Months of Fiscal Year Ending March 31, 2022

(1) Explanation about business results

During the first three months of the consolidated fiscal year under review (April 1 through June 30, 2021), the circumstances encountered by the Japanese economy were adverse. The effects of the COVID-19 pandemic continued to be felt, and corporate earnings continued to decline due to the stagnation and contraction of economic activity. Whilst government measures to stimulate the economy and the rollout of vaccinations have fueled expectations for a resumption of economic activity, the outlook is still very uncertain, with a series of state of emergency declarations in response to further outbreaks.

In the security industry, in which the Digital Arts Group (the “Group”) operates, the importance of security solutions grew in response to the risk of information leaks and increasingly sophisticated and diverse cyber attacks, including targeted attacks targeting specific enterprises, government agencies and other organizations. At the same time, demand for Japan-made security products also expanded as the world was plunged into chaos. Additionally, in the enterprise sector market, demand for software products for developing teleworking environments and conducting business processes securely and efficiently increased as the effects of the pandemic dragged on and enterprises were forced to encourage working from home. Meanwhile, progress was also made in the public sector market, with the strengthening of security measures by local governments, in addition to the GIGA School Concept, which envisions the development of an environment with one learning terminal for each school-aged child.

Under these conditions, in the enterprise sector market, the Group took advantage of the fact that more and more people are working from home and web services and e-mail environments are shifting to the cloud and expanded sales of its i-FILTER@Cloud and m-FILTER@Cloud services, creating a world in which the Internet and emails can be used without hesitation in the cloud environment. The Group also developed the Desk@Cloud communication tool equipped not only with online conferencing and chat features but also with security functions and sought to raise awareness of solutions that achieve not only security but also improve work efficiency. In the public sector market, the Company provided a special version of i-FILTER that caters to needs arising from the GIGA School Concept. At the same time, it continued to run campaigns, including the provision of free services that conform to the Guidelines on Education Information Security Policy, in its ongoing efforts to expand sales from schools. In addition, the Company focused on proposing solutions to support local government efforts to strengthen security measures, which will be ramped up from the next fiscal year.

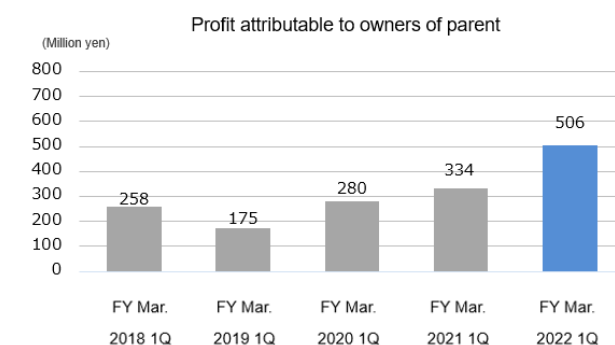
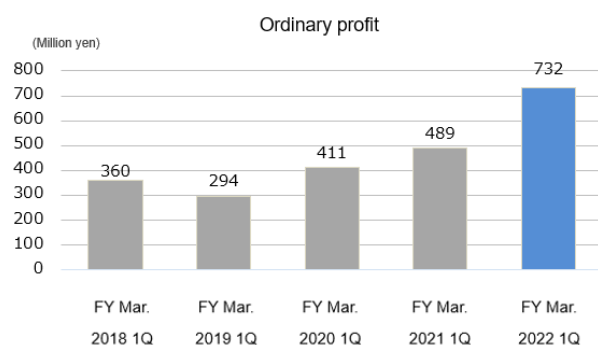
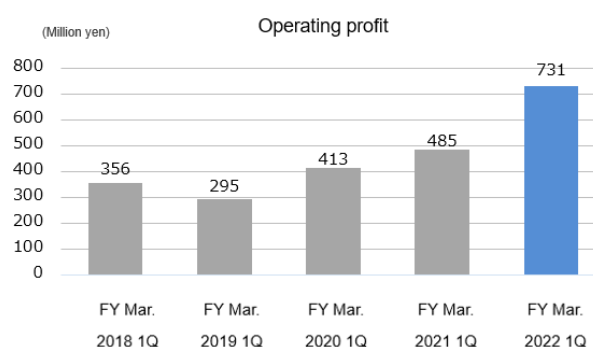
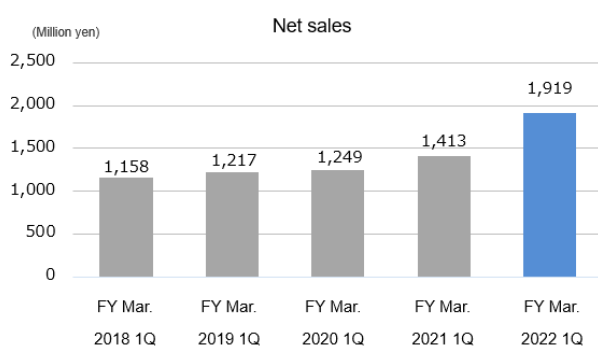
Demand in the enterprise and public sector markets has soared for cloud service products due to the effects of the COVID-19 pandemic. A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period. Therefore, as in the previous fiscal year, the proportion of contracts for cloud service products to the total contract amounts grew in the fiscal year under review, which led to a rise in sales to be deferred to the next fiscal year and onwards.

As a result, net sales for the first three months of the consolidated fiscal year under review stood at 1,919 million yen, up 35.7% year on year, operating profit at 731 million yen, up 50.8% year on year, ordinary profit at 732 million yen, up 49.8% year on year, and profit attributable to owners of parent at 506 million yen, up 51.6% year on year.

Overview of Consolidated Business Results

(Million yen)

	First three months of year ended March 31, 2021	First three months of year ending March 31, 2022	Change	% Change
Net sales	1,413	1,919	+ 505	+ 35.7
Operating profit	485	731	+246	+50.8
Ordinary profit	489	732	+243	+49.8
Profit attributable to owners of parent	334	506	+172	+51.6



The following describes business performance in separate markets.

Enterprise Sector Market

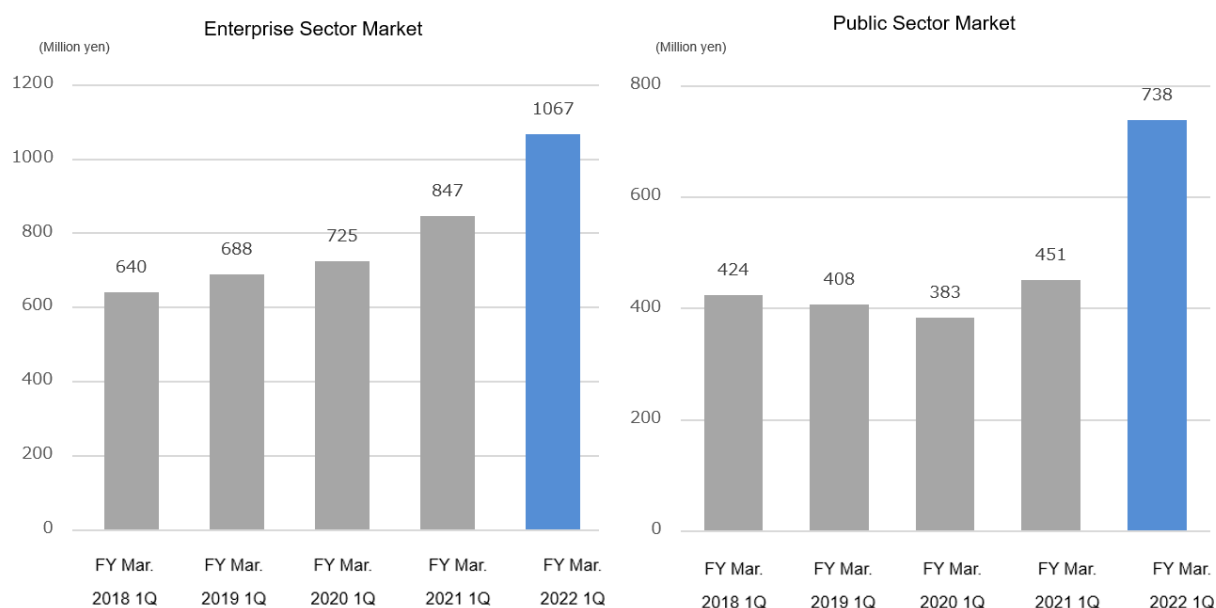
In the enterprise sector market, orders increased for i-FILTER and m-FILTER cloud services which are used to reduce costs and operations management burdens in response to the spread of COVID-19. In addition, Digital Arts Consulting Inc., a subsidiary offering security consulting services, successfully won orders and achieved an increase in sales.

Net sales in this market reached 1,067 million yen, up 25.9% year on year.

Public Sector Market

In the public sector market, the Group has traditionally enjoyed excellent recognition and a large market share as a provider of Japan-made security solutions. In addition, under the GIGA School Concept, the Group's i-FILTER@Cloud was adopted by many schools during the previous fiscal year in recognition of its reliability and functionality in supporting a safe learning environment at home. Highly rated for its track record, the i-FILTER series continued to be adopted by

schools that had yet to adopt paid-for filtering services during the period under review and orders exceeded expectations. As a consequence, net sales in this market stood at 738 million yen, up 63.5% year on year.



Consumer Sector Market

In the consumer sector market, the Group focused on collaborating with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems using a single serial ID. As a result, it attained an increase of users.

Net sales in this market amounted to 113 million yen, down 1.1% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the first three months of the consolidated fiscal year under review increased 1,620 million yen from the end of the previous consolidated fiscal year to 16,476 million yen. This was due mainly to an increase of 1,751 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first three months of the consolidated fiscal year under review rose 1,525 million yen from the end of the previous consolidated fiscal year to 6,319 million yen. This was due mainly to an increase of 1,865 million yen in advanced received.

(Net assets)

Net assets at the end of the first three months of the consolidated fiscal year under review increased 95 million yen from the end of the previous consolidated fiscal year to 10,157 million yen. This was mainly due to an increase in retained earnings due to the recording of profit attributable to owners of parent, which outweighed a decrease in dividends paid.

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

Operating results for the first three months of the consolidated fiscal year under review remained steady overall, and there was therefore no change in the forecast of consolidated financial results for the year ending March 31, 2022 announced on May 7, 2021.

The Company has determined the results forecasts based on information available on the day of these financial results for the first three months of the year ending March 31, 2022. Actual results may be different from the forecasts due to a variety of factors. If there are any significant changes, the Company will disclose them appropriately.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal 2021 (As of March 31, 2021)	First quarter of fiscal 2022 (As of June 30, 2021)
Assets		
Current assets		
Cash and deposits	11,382	13,133
Notes and accounts receivable - trade	1,268	1,117
Finished goods	0	1
Supplies	3	3
Other	70	88
Total current assets	12,725	14,344
Non-current assets		
Property, plant and equipment	233	222
Intangible assets		
Software	1,274	1,283
Other	128	134
Total intangible assets	1,403	1,417
Investments and other assets	493	492
Total non-current assets	2,130	2,132
Total assets	14,856	16,476
Liabilities		
Current liabilities		
Accounts payable - trade	32	80
Income taxes payable	688	244
Provision for bonuses	194	97
Advances received	3,370	5,236
Other	456	611
Total current liabilities	4,743	6,269
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	4,793	6,319
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	963	960
Retained earnings	8,699	8,785
Treasury shares	(342)	(329)
Total shareholders' equity	10,034	10,130
Accumulated other comprehensive income		
Foreign currency translation adjustment	7	7
Total accumulated other comprehensive income	7	7
Share acquisition rights	8	7
Non-controlling interests	12	12
Total net assets	10,062	10,157
Total liabilities and net assets	14,856	16,476

(2) Quarterly consolidated statement of income and comprehensive income

Quarterly consolidated statement of income

Consolidated first three months

(Million yen)

	First three months of fiscal 2021 (from April 1, 2020 to June 30, 2020)	First three months of fiscal 2022 (from April 1, 2021 to June 30, 2021)
Net sales	1,413	1,919
Cost of sales	427	613
Gross profit	986	1,305
Selling, general and administrative expenses	501	574
Operating profit	485	731
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	0	0
Subsidy income	1	—
Miscellaneous income	1	0
Total non-operating income	4	1
Ordinary profit	489	732
Extraordinary income		
Gain on reversal of share acquisition rights	8	1
Total extraordinary income	8	1
Profit before income taxes	498	734
Income taxes	166	226
Profit	331	507
Profit (loss) attributable to non-controlling interests	(2)	0
Profit attributable to owners of parent	334	506

Quarterly consolidated statement of comprehensive income
Consolidated first three months

(Million yen)

	First three months of fiscal 2021 (from April 1, 2020 to June 30, 2020)	First three months of fiscal 2022 (from April 1, 2021 to June 30, 2021)
Profit	331	507
Other comprehensive income		
Foreign currency translation adjustment	(0)	(0)
Total other comprehensive income	(0)	(0)
Comprehensive income	331	507
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	333	506
Comprehensive income attributable to non- controlling interests	(2)	0

(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters.

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

There are no applicable matters.

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

Calculation of tax expenses

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the first quarter of the consolidated fiscal year under review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 issued on March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition"), etc. from the beginning of the first three months of the consolidated fiscal year under review, and recognizes revenue in the amount expected to be received in exchange for promised goods or services when the control of those goods or services is transferred to customers.

As a result, sales rebates, which were previously recorded as selling, general and administrative expenses, are now deducted from sales. The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first three months of the consolidated fiscal year under review was added to or subtracted from the beginning balance of retained earnings of the first three months of the consolidated fiscal year under review. However, this did not have any impact on such beginning balance.

As a result of application of the Accounting Standard for Revenue Recognition, etc., net sales and selling, general and administrative expenses for the first three months of the consolidated fiscal year under review both decreased, causing gross profit to fall. However, the impact was insignificant and operating profit, ordinary profit and profit before income taxes were not affected.