

## Quarterly Consolidated Financial Results for the First Three Quarters of Fiscal Year Ending March 31, 2023 (Japanese Accounting Standards)

January 31, 2023

Name of listed company: Digital Arts Inc.

Listed on: Tokyo Stock Exchange  
Prime Market

Securities code: 2326

URL <https://www.daj.jp>

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President and CEO (Name) Toshio Dogu

Contact: (Title) General Manager of the  
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Scheduled date for submission of quarterly report: February 3, 2023  
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 quarters of the fiscal year ending March 31, 2023 (April 1, 2022 –December 31, 2022)

(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 quarters of year ending March 31, 2023	7,658	14.5	3,228	6.7	3,241	7.0	2,235	7.4
First three quarters of year ended March 31, 2022	6,686	40.7	3,024	53.3	3,027	52.7	2,081	52.7

(Note) Comprehensive income: First three quarters of year ending March 31, 2023 2,240million yen (7.4%) First three quarters of year ended March 31, 2022 2,086million yen (53.0%)

	Profit per share (basic)	Profit per share (diluted)
First three quarters of year ending March 31, 2023	Yen 159.25	Yen 156.10
First three quarters of year ended March 31, 2022	148.34	144.89

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2022	Million yen 19,840	Million yen 13,347	%	Yen 948.36
As of March 31, 2022	19,341	12,159	62.7	863.96

(Reference) Equity capital: As of December 31, 2022 13,314million yen As of March 31, 2022 12,129million yen

### 2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
Year ended March 31, 2022	Yen —	Yen 30.00	Yen —	Yen 40.00	Yen 70.00
Year ending March 31, 2023	—	35.00	—	—	—
Year ending March 31, 2023 (forecast)	—	—	—	40.00	75.00

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

3. Forecast of consolidated financial results for the year ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	10,500	16.0	4,700	13.9	4,700	13.7	3,250	12.0	231.49

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

**\* Notes**

(1) Changes in important subsidiaries during the first three quarters of fiscal year ending March 31, 2023: : 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.: None

2) Changes in accounting policies due to reasons other than those stated in 1): None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury shares)

2) Number of treasury shares

3) Average number of shares issued and outstanding in each period (cumulative total)

As of December 31, 2022	14,133,000	As of March 31, 2022	14,133,000
As of December 31, 2022	93,833	As of March 31, 2022	93,731
First three quarters of year ending March 31, 2023	14,039,217	First three quarters of year ended March 31, 2022	14,032,979

\*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 Quarters of Fiscal Year Ending March 31, 2023 (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.

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# 1. Qualitative Information on Financial Results for the First Three Quarters of Fiscal Year Ending March 31, 2023

## (1) Explanation about business results

During the first three quarters of the consolidated fiscal year under review (April 1 through December 31, 2022), Japan saw economic activities returning to normal. As COVID-19 vaccinations spread, restrictions on activities and border control measures were relaxed. On the other hand, rising raw materials prices due to the prolonged war in Ukraine and the sharp weakening of the yen against the dollar caused uncertainty in the outlook for the Japanese economy.

In the security industry, in which the Digital Arts Group (the "Group") operates, cyber attacks diversified and intensified, including ransomware, Emotet and Agent Tesla, which is remote control malware that steals confidential information from keyboard operations. That expanded demand for security products. Not only among large companies but also at small and medium enterprises that lag behind in security measures, demand for newly introducing security products is expanding.

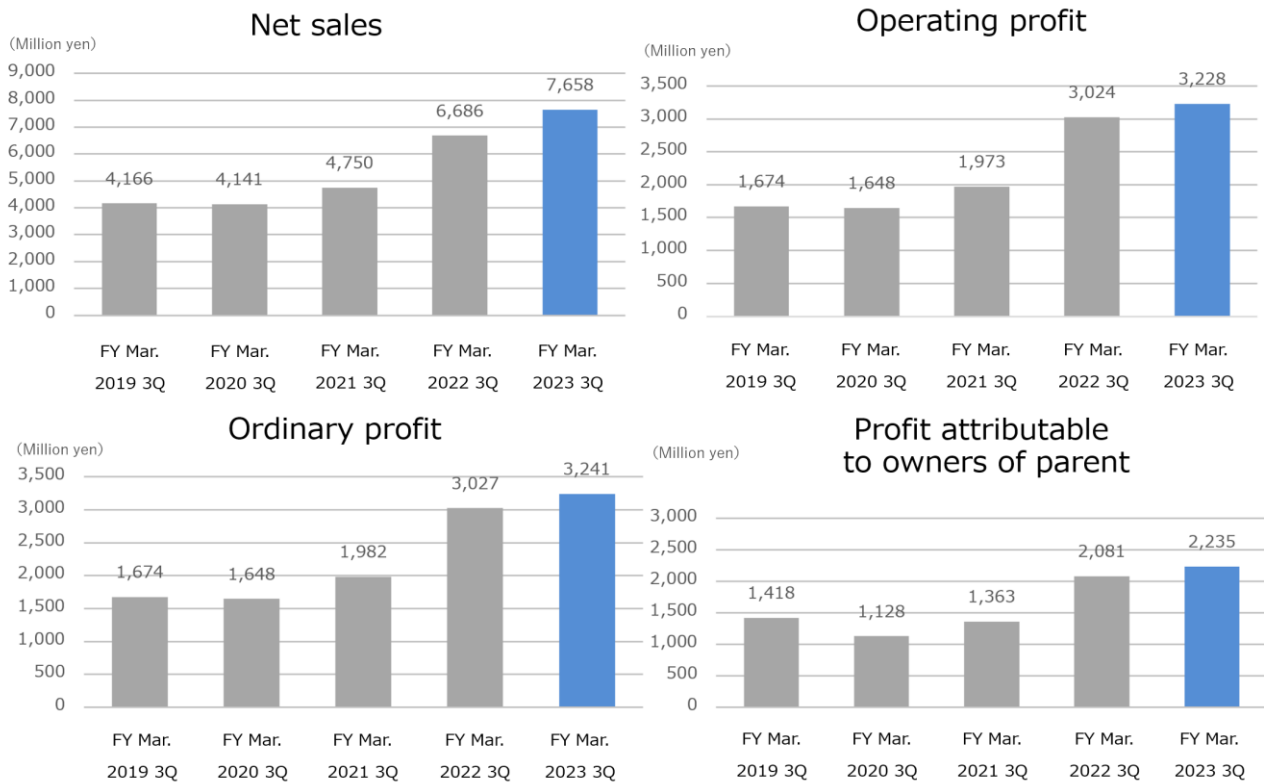
In addition, cyberattacks are becoming increasingly sophisticated. There are numerous malware intrusion paths, including vulnerabilities in virtual private networks (VPNs), remote desktop, connection to websites and e-mail. To minimize the damage from these cyberattacks, the Security Operation Center (SOC), the Endpoint Detection and Response (EDR) and other solutions for detecting and responding to incidents are of increasing significance. In light of that, the Company released the i-FILTER@Cloud D Alert Reporting Service as a new low-cost option for the rapid detection of incidents for customers facing difficulties in hiring personnel or security cost issues.

Today, damage caused not only by unknown threats and malicious files but also by phishing, which sends email or uses other means to direct users to fake websites, is on the increase. Phishing websites look so similar to websites of financial institutions and online shopping websites that it can be very difficult to tell them apart. For protection from the threats of these phishing websites, the i-FILTER@Cloud is newly equipped with a credential protection function, which uses the Company's original technology that allows credential information to be sent to URLs that have been confirmed to be secure while blocking such transmission to any website that is not confirmed to be secure. In a bid to grow into a comprehensive security provider, the Company is taking a range of measures to meet customers' needs and to increase the value added to products.

As a result, net sales for the first three quarters of the consolidated fiscal year under review amounted to 7,658 million yen (up 14.5% year on year), operating profit reached 3,228 million yen (up 6.7% year on year), ordinary profit came to 3,241 million yen (up 7.0% year on year), and profit attributable to owners of parent was 2,235 million yen (up 7.4% year on year).

### Overview of Consolidated Business Results

	First three quarters of year ended March 31, 2022	First three quarters of year ending March 31, 2023	Change	% Change
Net sales	6,686	7,658	+971	+14.5
Operating profit	3,024	3,228	+203	+6.7
Ordinary profit	3,027	3,241	+213	+7.0
Profit attributable to owners of parent	2,081	2,235	+154	+7.4



The following describes business performance in separate markets.

#### Enterprise Sector Market

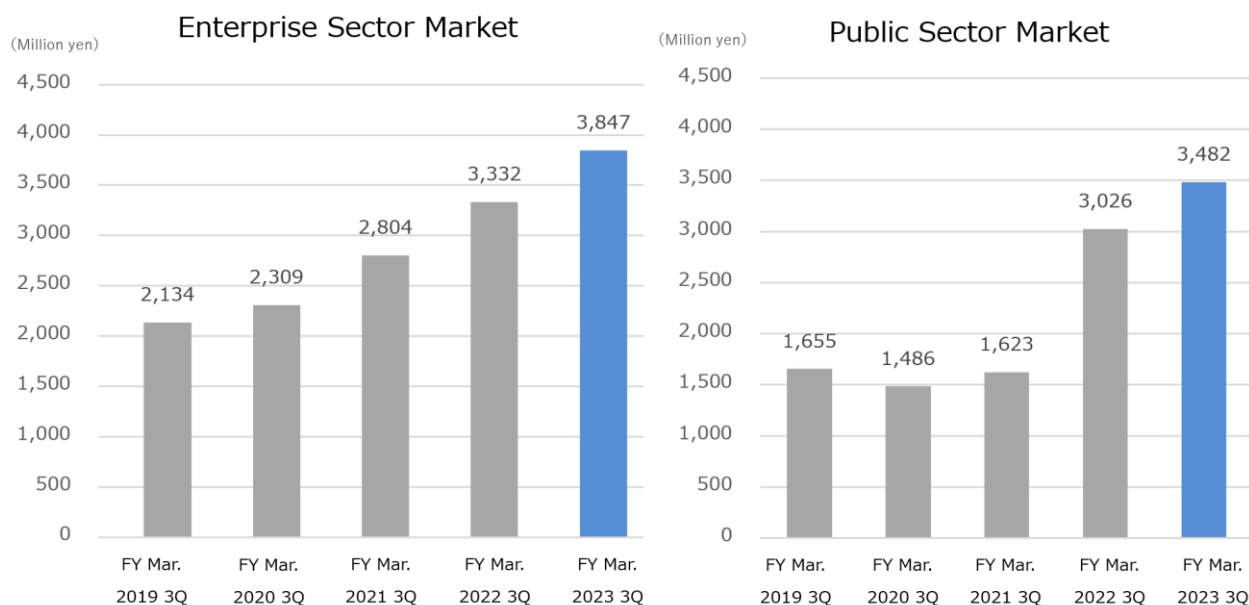
In the enterprise sector market, the Group gained new projects by adding new functions including antivirus functions and sandbox functions to i-FILTER and m-FILTER to meet demand for total security. Sales of m-FILTER increased steadily as a result of high marks given to the use of the PPAP method (sending the Zip file protected by a password by e-mail and sending the password by a separate e-mail) and a function to deal with targeted attacks, including attacks using Emotet. In addition, net sales for Digital Arts Consulting Inc., a subsidiary offering security consulting services, increased with a progress achieved in new customer acquisition in line with greater corporate demand for cybersecurity and digital transformation (DX) consulting.

As a consequence, net sales in this market reached 3,847 million yen, up 15.5% year on year.

#### Public Sector Market

In the public sector market, the Group recorded sales from projects related to the GIGA School Concept, which ran from before the previous fiscal year and which focused on proposing solutions to support local government efforts to strengthen security measures that were ramped up from the fiscal year under review. As a result, sales of the i-FILTER and m-FILTER series grew as brisk orders were won from local governments.

As a consequence, net sales in this market stood at 3,482 million yen, up 15.1% 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 consequence, net sales in this market amounted to 327 million yen, up 0.1% year on year.

## (2) Explanation about financial position

### (Assets)

Total assets at the end of the third quarter of the consolidated fiscal year under review increased 498 million yen from the end of the previous fiscal year to 19,840 million yen. This was due mainly to an increase of 299 million yen in cash and deposits and an increase of 209 million yen in notes and accounts receivable - trade.

### (Liabilities)

Total liabilities at the end of the third quarter of the consolidated fiscal year under review declined 688 million yen from the end of the previous consolidated fiscal year to 6,492 million yen. This was due mainly to a decrease of 357 million yen in advances received and a decrease of 331 million yen in income taxes payable.

### (Net assets)

Net assets at the end of the third quarter of the consolidated fiscal year under review grew 1,187 million yen from the end of the previous fiscal year to 13,347 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 quarters 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, 2023 announced on May 10, 2022.

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, 2023. 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 2022 (As of March 31, 2022)	First three quarters of fiscal 2023 (As of December 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	15,773	16,072
Notes and accounts receivable - trade	1,216	1,426
Finished goods	0	11
Supplies	3	2
Other	111	117
Total current assets	17,105	17,631
Non-current assets		
Property, plant and equipment	206	211
Intangible assets		
Software	1,317	1,329
Other	209	175
Total intangible assets	1,526	1,505
Investments and other assets	503	492
Total non-current assets	2,236	2,209
Total assets	19,341	19,840
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	44	71
Income taxes payable	760	429
Provision for bonuses	95	85
Advances received	5,684	5,326
Other	546	528
Total current liabilities	7,130	6,442
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	7,181	6,492
<b>Net assets</b>		
Shareholders' equity		
Share capital	713	713
Capital surplus	953	953
Retained earnings	10,758	11,941
Treasury shares	△307	△308
Total shareholders' equity	12,118	13,300
Accumulated other comprehensive income		
Foreign currency translation adjustment	11	13
Total accumulated other comprehensive income	11	13
Share acquisition rights	12	12
Non-controlling interests	17	21
Total net assets	12,159	13,347
Total liabilities and net assets	19,341	19,840



(2) Quarterly consolidated statement of income and comprehensive income  
Quarterly consolidated statement of income  
Consolidated first three quarters

(Million yen)

	First three quarters of fiscal 2022 (from April 1, 2021 to December 31, 2021)	First three quarters of fiscal 2023 (from April 1, 2022 to December 31, 2022)
Net sales	6,686	7,658
Cost of sales	1,940	2,651
Gross profit	4,746	5,006
Selling, general and administrative expenses	1,721	1,778
Operating profit	3,024	3,228
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	1	1
Foreign exchange gains	1	9
Miscellaneous income	0	1
Total non-operating income	3	12
Ordinary profit	3,027	3,241
Extraordinary income		
Gain on reversal of share acquisition rights	1	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on retirement of non-current assets	—	0
Total extraordinary losses	—	0
Profit before income taxes	3,029	3,242
Income taxes	944	1,003
Profit	2,084	2,238
Profit attributable to non-controlling interests	3	2
Profit attributable to owners of parent	2,081	2,235

Quarterly consolidated statement of comprehensive income  
Consolidated first three quarters

(Million yen)

	First three quarters of fiscal 2022 (from April 1, 2021 to December 31, 2021)	First three quarters of fiscal 2023 (from April 1, 2022 to December 31, 2022)
Profit	2,084	2,238
Other comprehensive income		
Foreign currency translation adjustment	1	2
Total other comprehensive income	1	2
Comprehensive income	2,086	2,240
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,083	2,238
Comprehensive income attributable to non-controlling interests	3	2

### (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 three quarters 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.