Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

(From April 1, 2023 to June 30, 2023)

Financial Results Briefing Materials

July 31, 2023

Digital Arts Inc.
(Securities Code: 2326)

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Consolidated Results Highlights

Consolidated Results Highlights

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Contracts	**2,248million yen** (up +1million yen or +0.1% year on year)	• In the enterprise section market, the Group achieved growth by winning new projects and new customers for DAC. It did so by offering a new optional function to respond rising demand for cloud services and comprehensive security needs. • In the public sector market, the Group continued to win new GIGA School Concept projects and local government projects. However, the amounts of orders for some projects decreased due to the rescheduling of these projects to 2Q.
Net sales	**2,541million yen** (up +155million yen or +6.5% year on year)	• Net sales increased in the enterprise sector market thanks to growth in sales of cloud service products and DAC growth. • Net sales in the public sector market decreased due to the rescheduling of some projects to 2Q, despite recording the sales from GIGA School Concept projects.
Operating profit	**872million yen** (△136 million yen or △13.5% year on year)	• In cost of sales, server expenses and personnel expenses increased due to rises in the number of licenses for cloud service products and the number of staff at DAC, respectively. • In SG&A expenses, expenses for sales promotion events for agents and internal strategic meetings increased in conjunction with new product releases.

Consolidated Statement of Income

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Expenses increased primarily due to preparations for the release of new products and new functions and a rise in the number of DAC staff members.

(Million yen)

	FY March 2023 1Q	FY March 2024 1Q	Change YoY	FY March 2024 Full-Year Forecast
Contracts	**2,246**	**2,248**	+0.1%	-
Net sales	**2,386**	**2,541**	+6.5%	**11,500**
Cost of goods sold	**766**	**1,019**	+33.0%	**3,850**
Gross profit	**1,619**	**1,521**	△6.0%	**7,650**
Selling, general and administrative expenses	**609**	**648**	+6.4%	**2,500**
Operating profit	**1,009**	**872**	△13.5%	**5,150**
Operating margin	**42.3%**	**34.3%**	-	**44.8%**
Ordinary profit	**1,019**	**885**	△13.2%	**5,150**
Profit attributable to owners of parent	**702**	**614**	△12.4%	**3,550**
EBITDA	**1,268**	**1,109**	△12.6%	-

* Financial Forecast is the consolidated financial forecast announced on May 9, 2023.
* EBITDA = Operating profit + Depreciation + Tax expenses included in operating expenses

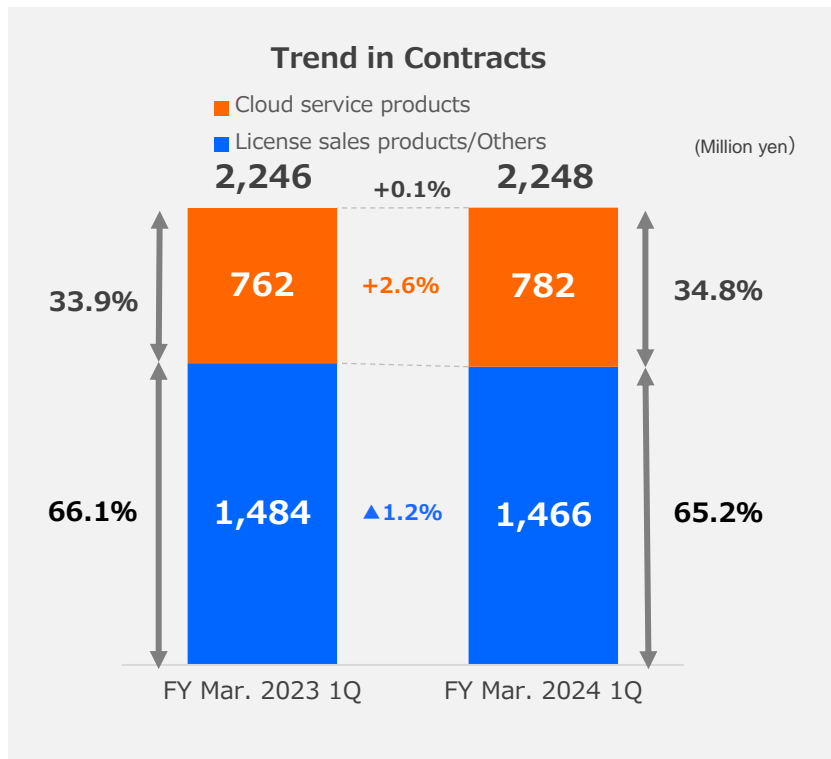# Consolidated Cost of Goods Sold and Selling, General and Administrative Expenses

(Million yen)	FY March 2023 1Q	FY March 2024 1Q	Change YoY	Main Factors for Change
Cost of goods sold	**766**	**1,019**	**+252**	
Labor	**354**	**452**	+98	Increase due to the enhancement of DAJ's[1] development workforce (+17M). It rose with the strengthening of DAC[2] consultants (+79M)
Depreciation	**221**	**200**	△20	
Communication expenses	**244**	**294**	+49	Cloud server expenses rose as a result of an increase in licenses for cloud service products and foreign exchange fluctuations (+48M)
Other	**169**	**301**	+132	Increase due to the development of new DA products (＋45M) Increase due to the expansion of DAC's business (+65M)
Transfer to other accounts	△**222**	△**229**	△6	
Selling, general and administrative expenses	**609**	**648**	**+39**	
Personnel expenses	**302**	**329**	+26	Increase due to the enhancement of DA's sales workforce (+13M) Increase in the number of personnel in DAC's administrative department (+12M)
Advertising expenses	**77**	**80**	+3	
Other	**229**	**238**	+9	

*1: DAJ = Digital Arts Inc.
*2: DAC = Digital Arts Consulting Inc.

Trend in Consolidated Contracts

Consolidated contracts totaled **2,248 million yen**, up **+0.1%** year on year.

Trend in Contracts

- 🟧 Cloud service products
- 🟦 License sales products/Others

(Million yen)

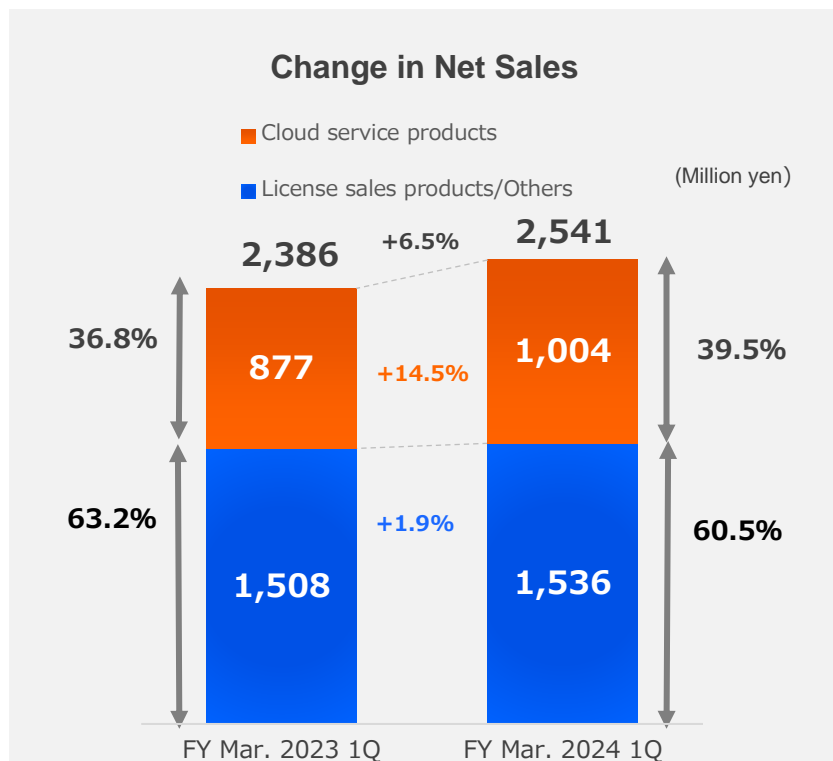|	FY Mar. 2023 1Q	FY Mar. 2024 1Q
Total	2,246	2,248 (+0.1%)
Cloud service products	762 (33.9%)	782 (34.8%) (+2.6%)
License sales products/Others	1,484 (66.1%)	1,466 (65.2%) (▲1.2%)

- Contract for cloud service products increased 2.6% because the Group not only gained new projects steadily amid growing demand for cloud services in the enterprise sector market but it also gained new GIGA project orders in the public sector as in the previous fiscal year.

- In the category of license sales products/other, contracts decreased 1.2% due to the impact of the rescheduling of some local government projects to 2Q in the public sector, despite an increase in sales at DAC.

Trend in Consolidated Contracts

The order backlog excluding GIGA School projects increased due to progress in the posting of sales of GIGA School Concept projects and increased orders for cloud services for enterprises.

Trend in order backlog

Legend:
- ■ Sales FY3/2025 onwards (GIGA)
- ■ Sales 2-4Q FY3/2024 (GIGA)
- ■ Sales FY3/2025 onwards
- ■ Sales 2-4Q FY3/2024

(Million yen)

End of June 2022 — Total: 6,427
- 3,144
- 1,362
- 749
- 1,171

End of June 2023 — Total: 6,029
- 2,426 (△22.8% DOWN)
- 1,488 (+9.2% UP)
- 887 (+18.4% UP)
- 1,227 (+4.8% UP)
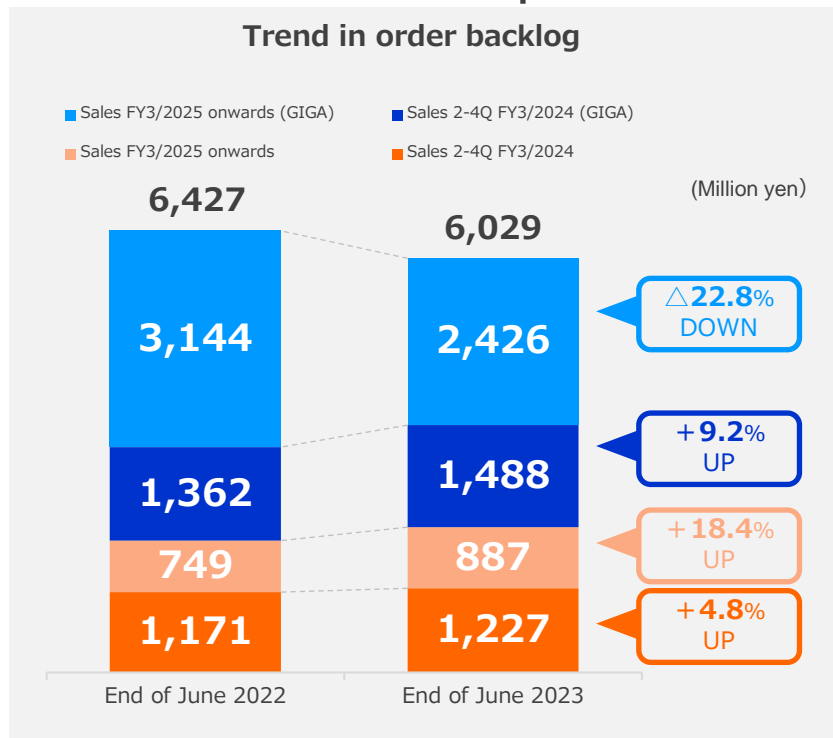
- Many GIGA School Concept projects are five-year contracts. Over time, more sales are posted. The amount of sales to be recorded will drop in FY March 2025 and later.

- Sales to be recorded in the 2Q-4Q period of the fiscal year under review will rise because the Group has been continuously gaining new GIGA School Concept projects.

- From FY March 2025 onwards, a majority of the GIGA School Concept projects will expire. Contracts will grow towards a new peak.

- The order backlog is steadily increasing, reflecting the gradually growing percentage of enterprise contracts that are for cloud service products. Many of these are one-year contracts.

Change in Net Sales

Consolidated net sales grew **6.5%** year on year, to **¥254.1 million.**

Change in Net Sales

- Cloud service products (orange)
- License sales products/Others (blue)

(Million yen)

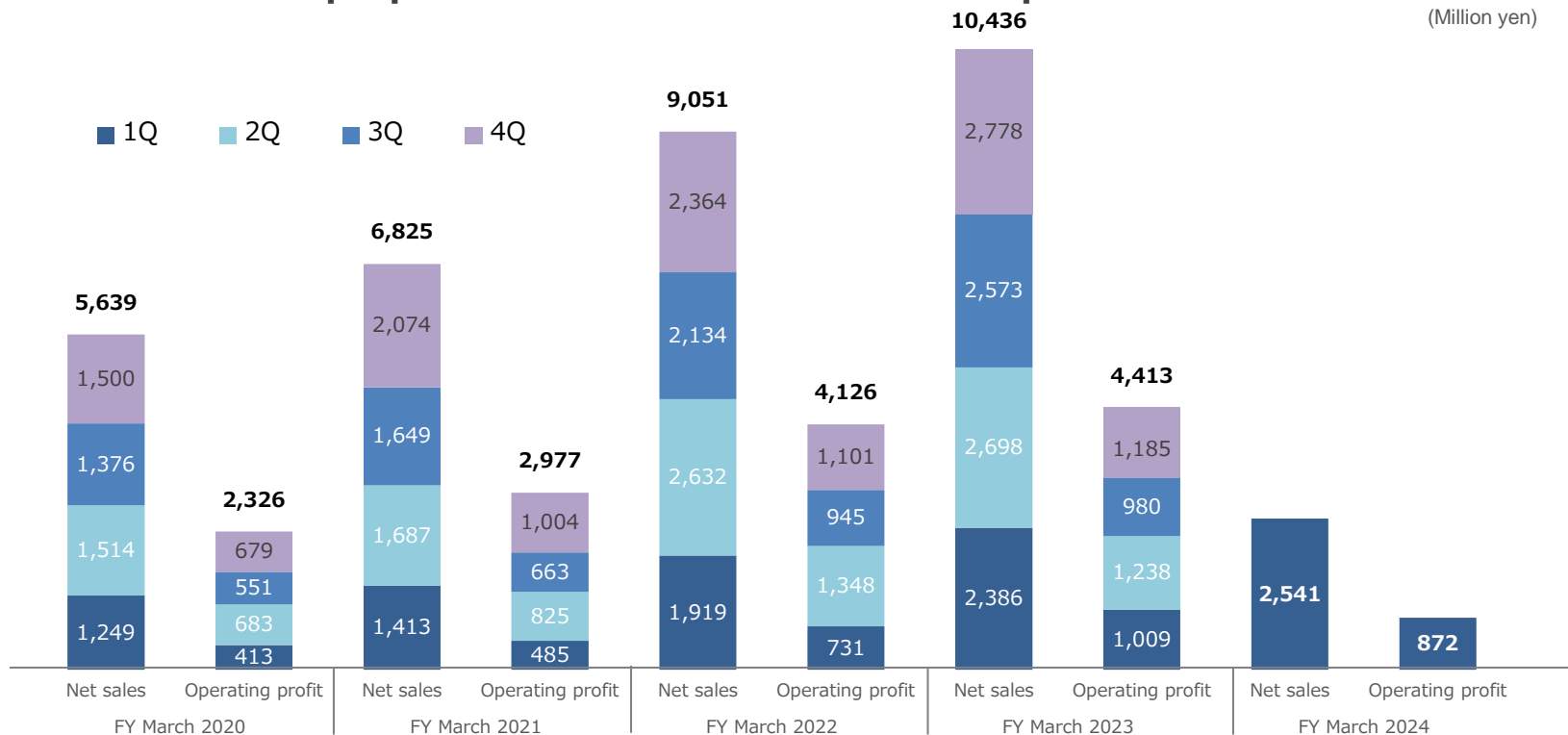|	FY Mar. 2023 1Q	FY Mar. 2024 1Q
Total	2,386	2,541 (+6.5%)
Cloud service products	877 (36.8%)	1,004 (39.5%) (+14.5%)
License sales products/Others	1,508 (63.2%)	1,536 (60.5%) (+1.9%)

- Net sales of cloud service products increased 14.5% year on year, reflecting an increase in the number of projects in the enterprise sector market due to growing demand for cloud services, as well as the Group's consistent success in gaining new GIGA projects.

- In the category of license sales products and other, sales edged up 1.9% because the timing of orders for local government projects was pushed off to 2Q in the public sector market.

Quarterly Trend in Net sales, Operating profit

Net sales **hit a record high** in the first quarter under review. On the other hand, costs associated with preparations for the release of new products increased.
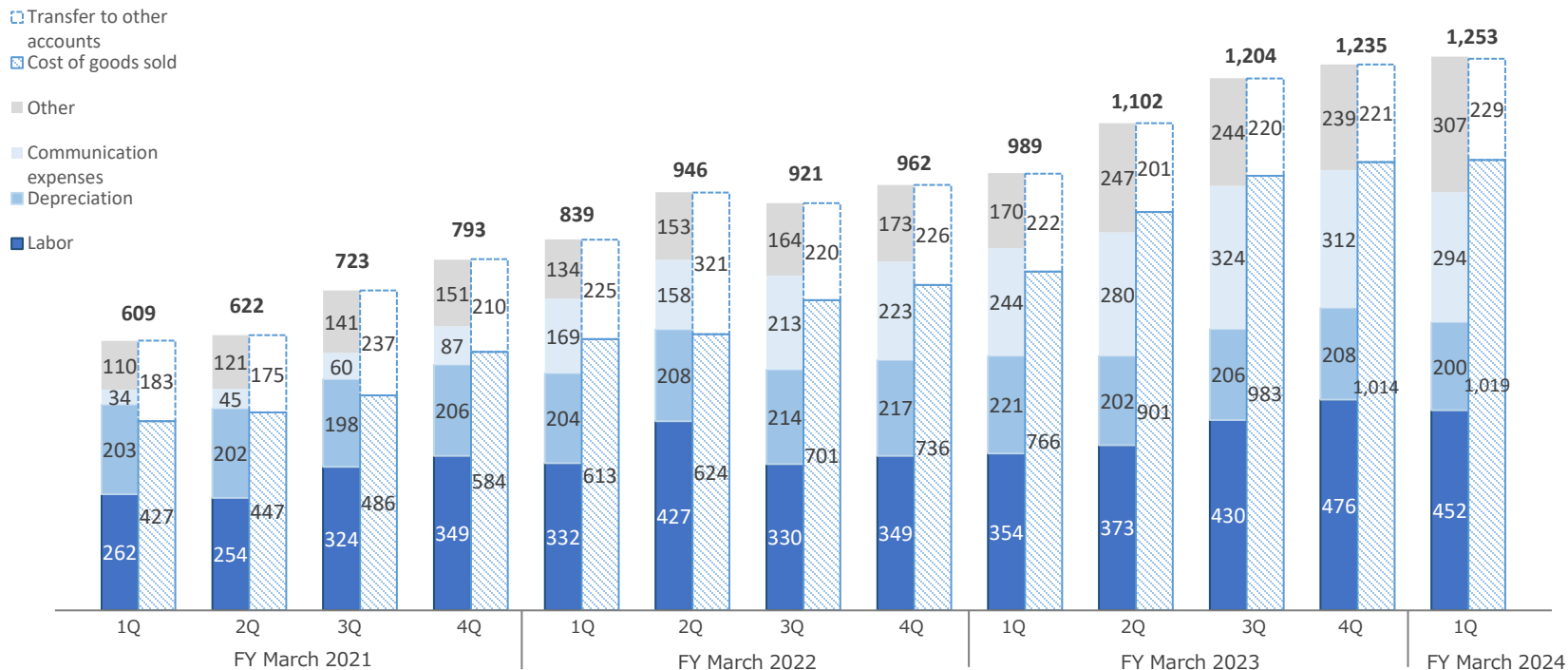
(Million yen)

Legend: ■1Q ■2Q ■3Q ■4Q

FY March 2020 — Net sales: **5,639** (1Q 1,249; 2Q 1,514; 3Q 1,376; 4Q 1,500); Operating profit: **2,326** (1Q 413; 2Q 683; 3Q 551; 4Q 679)

FY March 2021 — Net sales: **6,825** (1Q 1,413; 2Q 1,687; 3Q 1,649; 4Q 2,074); Operating profit: **2,977** (1Q 485; 2Q 825; 3Q 663; 4Q 1,004)

FY March 2022 — Net sales: **9,051** (1Q 1,919; 2Q 2,632; 3Q 2,134; 4Q 2,364); Operating profit: **4,126** (1Q 731; 2Q 1,348; 3Q 945; 4Q 1,101)

FY March 2023 — Net sales: **10,436** (1Q 2,386; 2Q 2,698; 3Q 2,573; 4Q 2,778); Operating profit: **4,413** (1Q 1,009; 2Q 1,238; 3Q 980; 4Q 1,185)

FY March 2024 — Net sales: **2,541**; Operating profit: **872**

Quarterly Trend in Consolidated Cost of Goods Sold

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Cloud server expenses (communication expenses) and labor costs increased, the former due to a rise in the number of licenses for cloud service products and foreign exchange rate fluctuations and the latter reflecting the enhancement of DAC's consultant personnel.
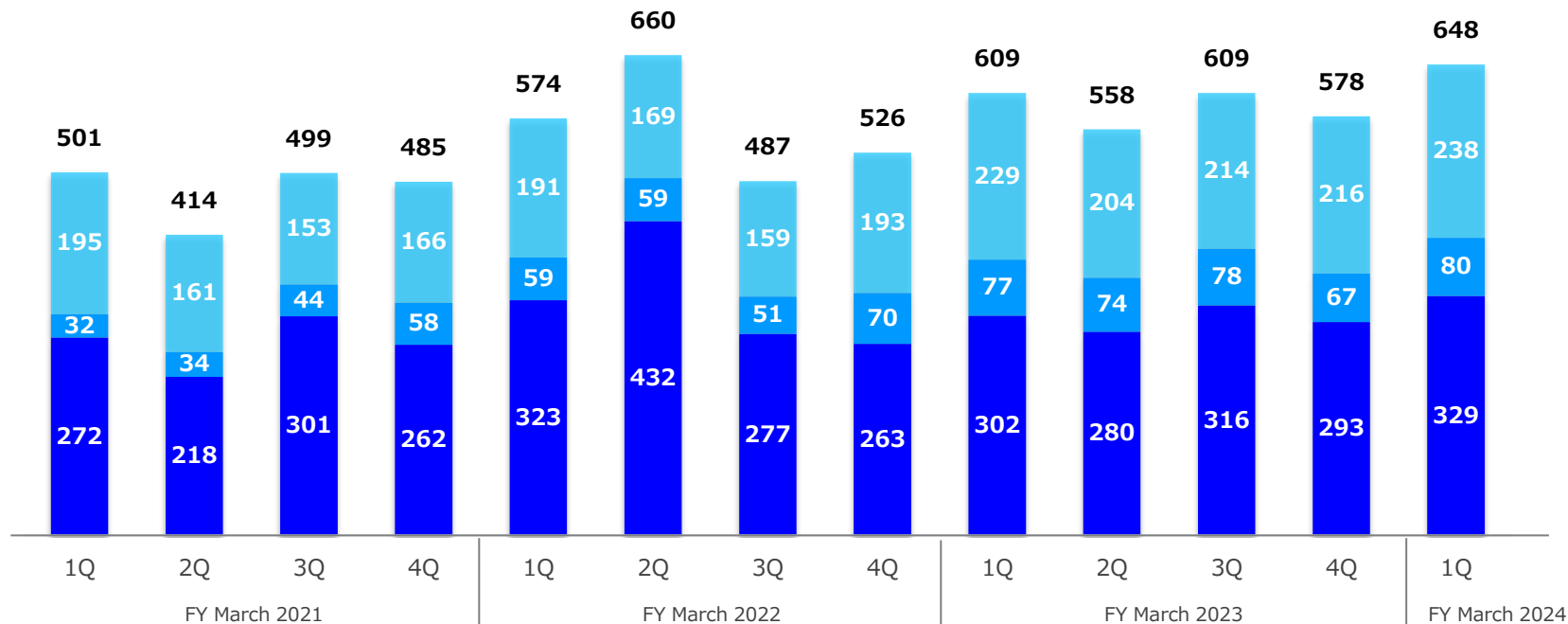
(Million yen)

Legend:
- Transfer to other accounts
- Cost of goods sold
- Other
- Communication expenses
- Depreciation
- Labor

	FY March 2021				FY March 2022				FY March 2023				FY March 2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Total	609	622	723	793	839	946	921	962	989	1,102	1,204	1,235	1,253
Other	110	121	141	151	134	153	164	173	170	247	244	239	307
Communication expenses	34	45	60	87	169	158	213	223	244	280	324	312	294
Depreciation	203	202	198	206	204	208	214	217	221	202	206	208	200
Labor	262	254	324	349	332	427	330	349	354	373	430	476	452
Cost of goods sold	427	447	486	584	613	624	701	736	766	901	983	1,014	1,019
Transfer to other accounts	183	175	237	210	225	321	220	226	222	201	220	221	229

Consolidated Balance Sheet

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Equity ratio rose 1.0% from the end of the previous fiscal year to 67.9%.

(Million yen)

	As of end of 1Q FY March 2023	As of end of FY March 2023	As of end of 1Q FY March 2024	Change from end of FY March 2023	Main Factors for Change
Current assets	16,990	18,925	18,189	△3.9%	
(Cash and deposits)	15,575	17,018	16,387	△3.7%	Treasury share buy-back fund (△500M), etc.
Non-current assets	2,213	2,223	2,256	+1.5%	
Total assets	19,204	21,149	20,446	△3.3%	
Current liabilities	6,848	6,924	6,486	△6.3%	Income taxes payable (△542M)
(Advanced received)	5,777	5,187	5,317	+2.5%	Increase in contracts for cloud service products
Non-current liabilities	50	50	50	+0.0%	
Equity capital	12,273	14,141	13,877	△1.9%	Treasury share buy-back △319M, Dividends paid △561M, Profit +614M
Net assets	12,304	14,173	13,909	△1.9%	
Equity ratio	63.9%	66.9%	67.9%	-	
ROE	5.8%	23.3%	4.4%	-	
ROA	3.6%	15.1%	3.0%	-	

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

Non-consolidated Results Highlights

Summary of Non-consolidated Results

SG&A expenses increased due to the development of new products and the strengthening of sales.

(Million yen)

	FY March 2023 1Q	FY March 2024 1Q	Change YoY	FY March 2024 Full-Year Forecast
Contracts	1,926	1,793	△6.9%	-
Net sales	2,065	2,085	+1.0%	10,000
Cost of goods sold	520	616	+18.5%	2,650
Gross profit	1,544	1,469	△4.9%	7,350
Selling, general and administrative expenses	556	591	+6.3%	2,350
Operating profit	988	877	△11.2%	5,000
Operating margin	47.9%	42.1%	-	50.0%
Ordinary profit	994	888	△10.6%	5,000
Profit	687	617	△10.1%	3,450

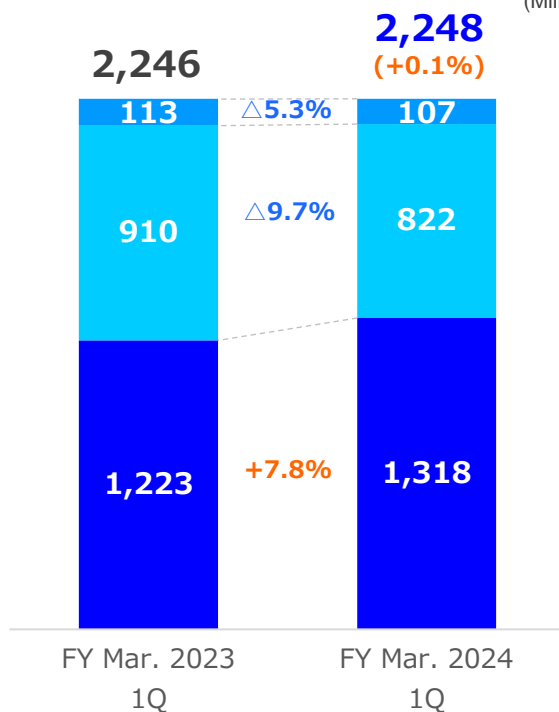* Financial Forecast is the non-consolidated financial forecast announced on May 9, 2023.

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

NET SALES BY MARKET

Consolidated Contract Amount by Market

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Trend in Consolidated Contract Amount by Market

- Enterprise
- Public
- Consumer

(Million yen)

2,246

2,248
(+0.1%)

|	FY Mar. 2023 1Q		FY Mar. 2024 1Q
Consumer	113	△5.3%	107
Public	910	△9.7%	822
Enterprise	1,223	+7.8%	1,318

- In the enterprise sector market, the contract amount was up 96 million yen or 7.8% due to increased orders received resulting from additional functions of the i-FILTER and m-FILTER series, new deals that the Group won by implementing a strategy to expand sales to specific targets and the growth of DAC.

- In the public sector market, the Group continued to gain new GIGA School Concept projects. However, the contract amount decreased 9.7%, or 88 million yen, due to the rescheduling of some local government projects to 2Q.
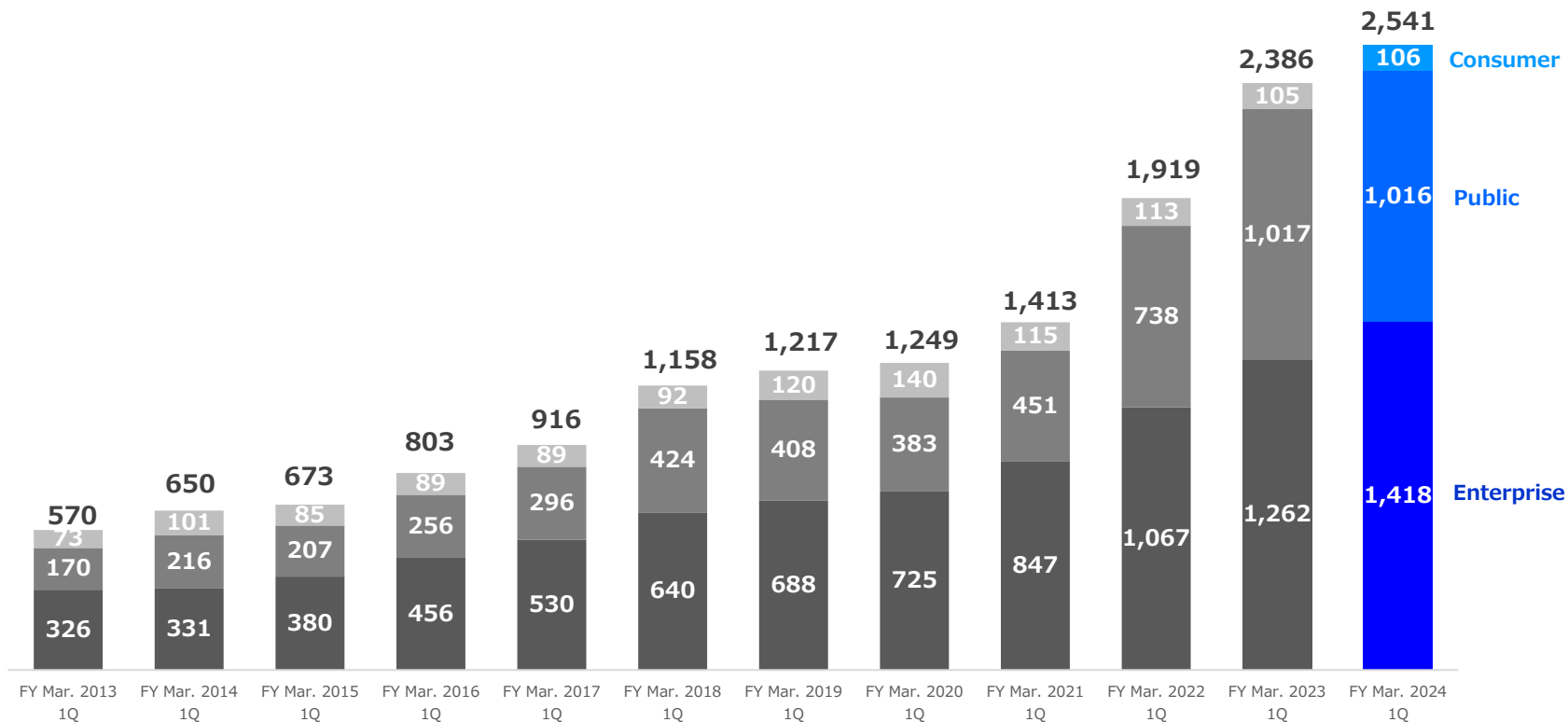
Consolidated Net sales by Market

Trend in Consolidated Net Sales by Market

■ Enterprise ■ Public ■ Consumer

(Million yen)

FY Mar. 2023 1Q		FY Mar. 2024 1Q
2,386		2,541 (+6.5%)
105	+0.6%	106
1,017	△0.1%	1,016
1,262	+12.3%	1,418
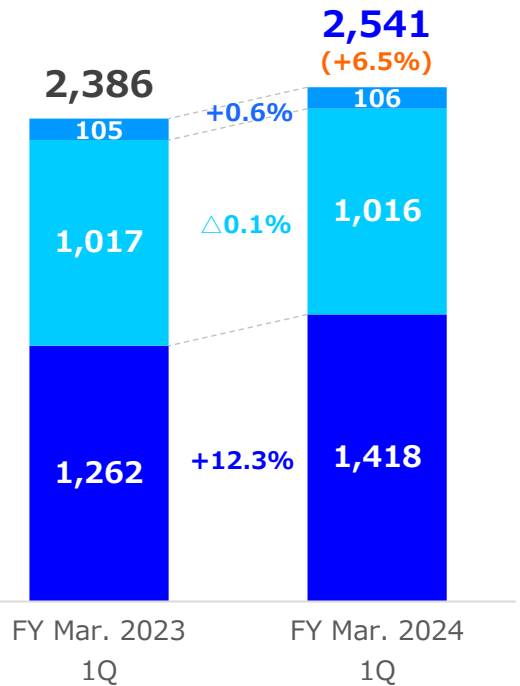
- **In the enterprise sector market, net sales increased 12.3%, or 156 million yen, due to a rise in the number of new projects in response to growing demand for cloud services, coupled with the acquisition of new customers for DAC.**

- **In the public sector market, sales were on an increasing trend due to the posting of sales of GIGA School Concept projects. Even so, net sales slipped 0.1%, one million yen, because the timing of orders for local government projects was pushed off to 2Q.**

Trend in Consolidated Net Sales by Market

Net sales for the first quarters reached a record high

(Million yen)

FY	Total	Consumer	Public	Enterprise
FY Mar. 2013 1Q	570	73	170	326
FY Mar. 2014 1Q	650	101	216	331
FY Mar. 2015 1Q	673	85	207	380
FY Mar. 2016 1Q	803	89	256	456
FY Mar. 2017 1Q	916	89	296	530
FY Mar. 2018 1Q	1,158	92	424	640
FY Mar. 2019 1Q	1,217	120	408	688
FY Mar. 2020 1Q	1,249	140	383	725
FY Mar. 2021 1Q	1,413	115	451	847
FY Mar. 2022 1Q	1,919	113	738	1,067
FY Mar. 2023 1Q	2,386	105	1,017	1,262
FY Mar. 2024 1Q	2,541	106	1,016	1,418

Quarterly Trend in Consolidated Net Sales by Market

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(Million yen)

	FY March 2020				FY March 2021				FY March 2022				FY March 2023				FY March 2024
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Total	1,249	1,514	1,376	1,500	1,413	1,687	1,649	2,074	1,919	2,632	2,134	2,364	2,386	2,698	2,573	2,778	2,541
Consumer	140	114	90	100	115	104	103	109	113	115	98	116	105	118	103	105	106
Public	383	587	515	426	451	597	574	785	738	1,313	974	1,020	1,017	1,269	1,195	1,203	1,016
Enterprise	725	813	770	975	847	985	971	1,179	1,067	1,204	1,060	1,227	1,262	1,310	1,274	1,469	1,418

Enterprise Sector

Net Sales in Enterprise Sector Market by Product

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Trend in Net Sales in Enterprise Sector Market by Product

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

(Million yen)

1,418 (+12.3%)

1,262

	FY Mar. 2023 1Q	FY Mar. 2024 1Q	Change
DAC	318	452	+42.0% UP
FinalCode	63	66	+5.3% UP
m-FILTER series	263	257	△2.5% down
i-FILTER series	613	641	+4.5% UP
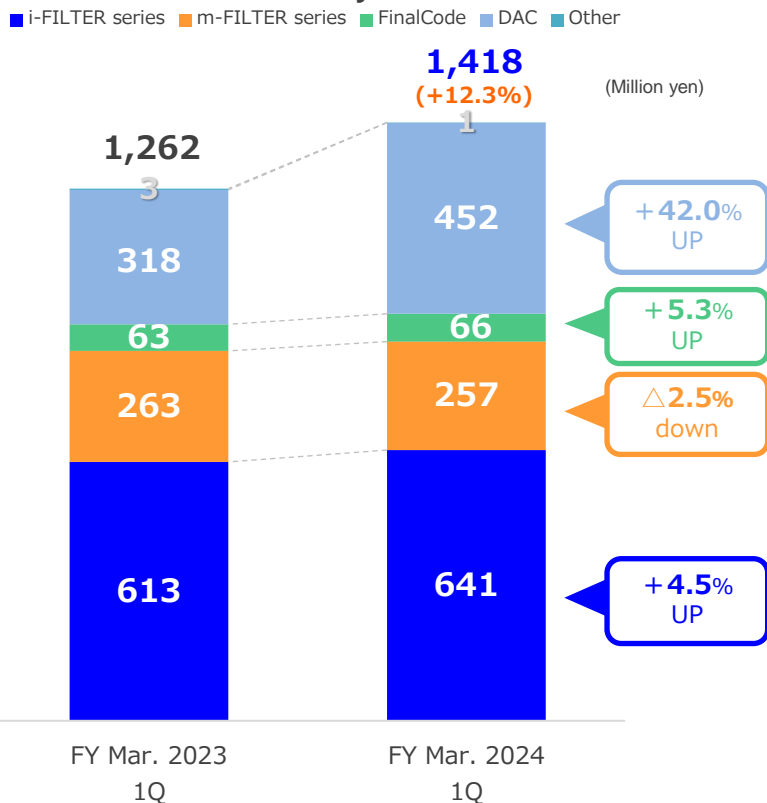
Functions were added to products and cooperation with agencies were strengthened in response to more frequent, diverse cyber attacks.

- Sales of the i-FILTER series remained strong, rising 28 million yen, 4.5%, in response to growing corporate demand for cybersecurity.

- Sales of the m-FILTER series remained solid due to rising demand for email security and the offering of new functional options. However, net sales decreased 2.5%, 7 million yen, because some projects were pushed off to 2Q.

- Sales of the FinalCode series remained strong, meeting demand for responses to PPAP and the revised Act on the Protection of Personal Information. (+3 million yen or +5.3%)

- DAC made good progress acquiring new clients and achieved substantial sales growth (up 134 million yen or 42.0%), reflecting growing DX needs and demand for security measures among enterprises.

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

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Number of consultants

(Persons)

101 — End of FY March 2023
107 — End of 1Q FY March 2024
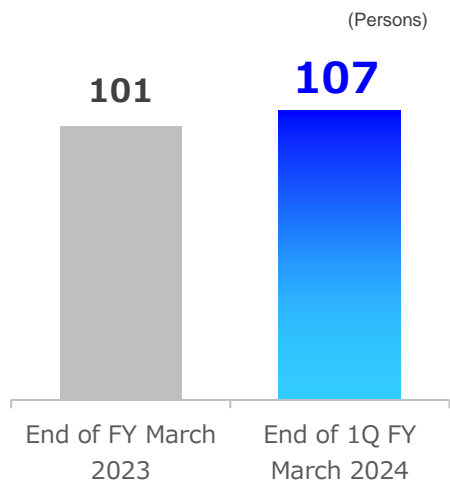
Actively recruited excellent individuals with DX and cyber security expertise

Security consulting sales*

(Million yen)

226 — FY Mar. 2023 1Q
346 — FY Mar. 2024 1Q
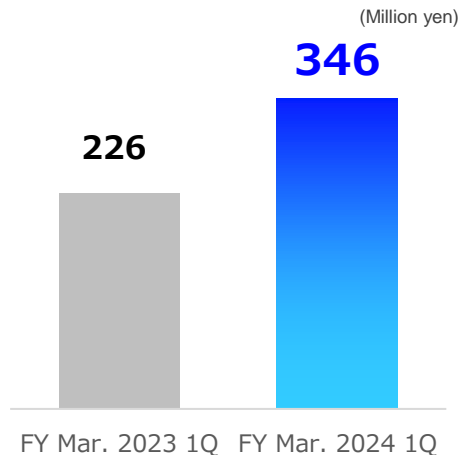
Grew significantly due to the reception of an ISMAP acquisition-related project and a new project in which it provides comprehensive support including security assessment and support for the implementation of security measures.

IT strategy consulting sales*

(Million yen)

92 — FY Mar. 2023 1Q
106 — FY Mar. 2024 1Q
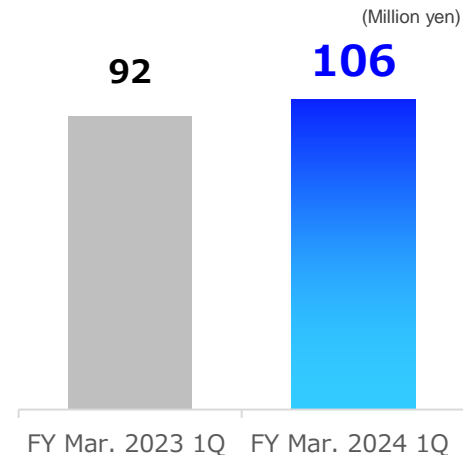
Grew steadily by planning IT strategies to help customers implement DX and gaining consulting projects for activities such as the reform of operations and the utilization of DX solutions.
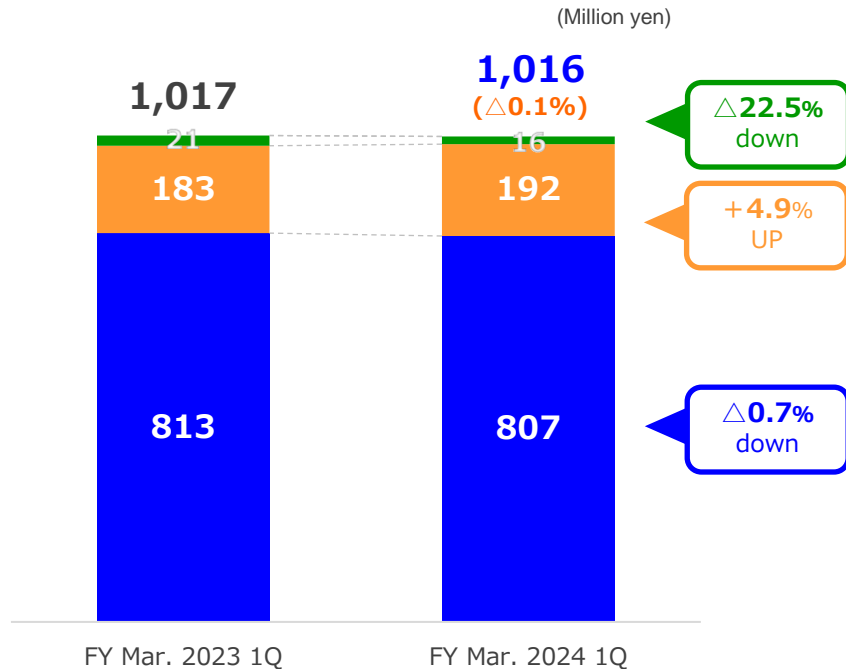
*DAC's net sales (before consolidated journal adjustments)

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

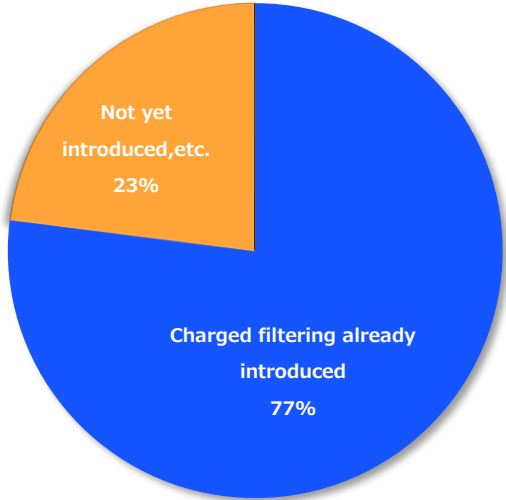# Public Sector

Net Sales of Public Sector Market by Product

Trend in Net Sales of Public Sector Market by Product

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

(Million yen)

1,017

1,016
(△0.1%)

	FY Mar. 2023 1Q	FY Mar. 2024 1Q
FinalCode	21	16 → △22.5% down
m-FILTER series	183	192 → ＋4.9% UP
i-FILTER series	813	807 → △0.7% down

FY Mar. 2023 1Q   FY Mar. 2024 1Q

- **i-FILTER series sales slipped 0.7%, 6 million yen, due to the rescheduling of some local governments projects to 2Q, although sales of GIGA School Concept projects were recorded as in the previous fiscal year and new projects were received.**

- **m-FILTER series sales grew on the back of orders for local government projects.
(＋9 million yen or＋4.9%)**

GIGA School Status[*1]

Introduction of charged filtering

Not yet
introduced,etc.
23%

Charged filtering already
introduced
77%

Share of charged filtering introduced

Competitors
(Less than 10 companies)
45%

i-FILTER
55%

- The percentage of boards of education that have adopted pay filtering increased to **77%**.

 *1 : According to our survey of 1,741boards of education (Jun 2023)
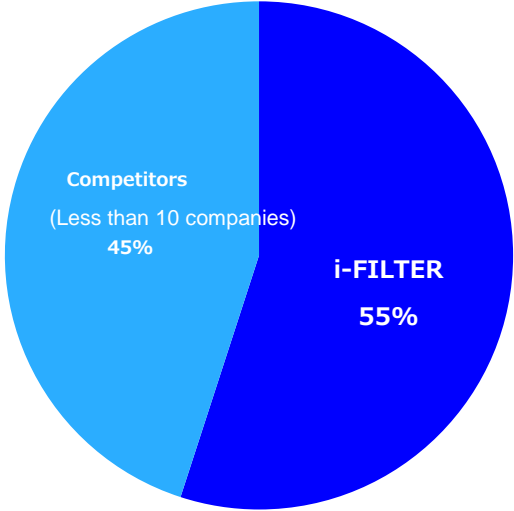
- i-FILTER's share was **55%**.

- Cumulative contracts reached **9.0 billion yen** at the end of the third quarter from 8.6 billion yen at the end of the previous fiscal year.

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

Consumer Sector

Net Sales of Consumer Sector Market by Product

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Trend in Net Sales of Consumer Sector Market by Product

- ■ For mobile terminals, other
- ■ For computers

(Million yen)

105

106
(+0.6%)

FY Mar. 2023 1Q	FY Mar. 2024 1Q
53	53
52	52

+1.5% UP

△0.4% DOWN
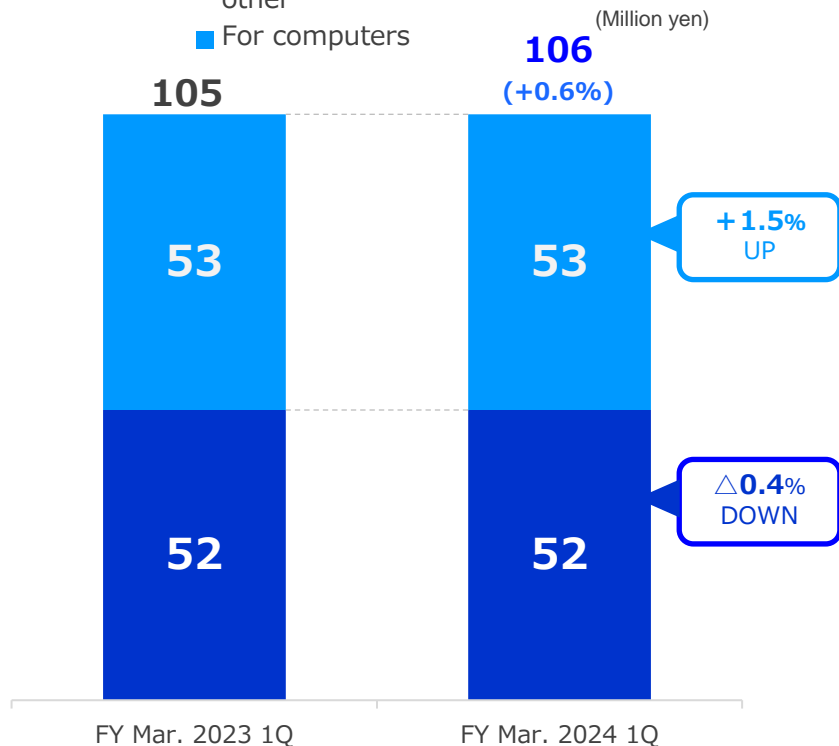
- • In products for computers, the number of users of multiple-year package products and i-FILTER® for Multi-Device, which are available on multiple terminals, remained strong.

- • Revenue from contract development of products for mobile terminals for carriers decreased despite an increase in the number of users.

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

STATUS OF MEASURES FOR FISCAL YEAR ENDING MARCH 2024

Schedules of Main Measures for FY March 2024

Improve functions for responding to needs for comprehensive security and introduce new products to markets

Launch the communications business ahead of the schedule set in the medium-term management plan

		Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct. and later
Respond to needs for comprehensive security	CASB functionality of i-FILTER@Cloud		Released in April						
	i-FILTER AI chat filter *1						Release scheduled for August		
	m-FILTER MailAdviser OWA					Released in July			
	f-FILTER *1								Release scheduled for October
Launch the communication business	Desk				Released in June				
Enter the authentication market	StartIn						Release scheduled for August		
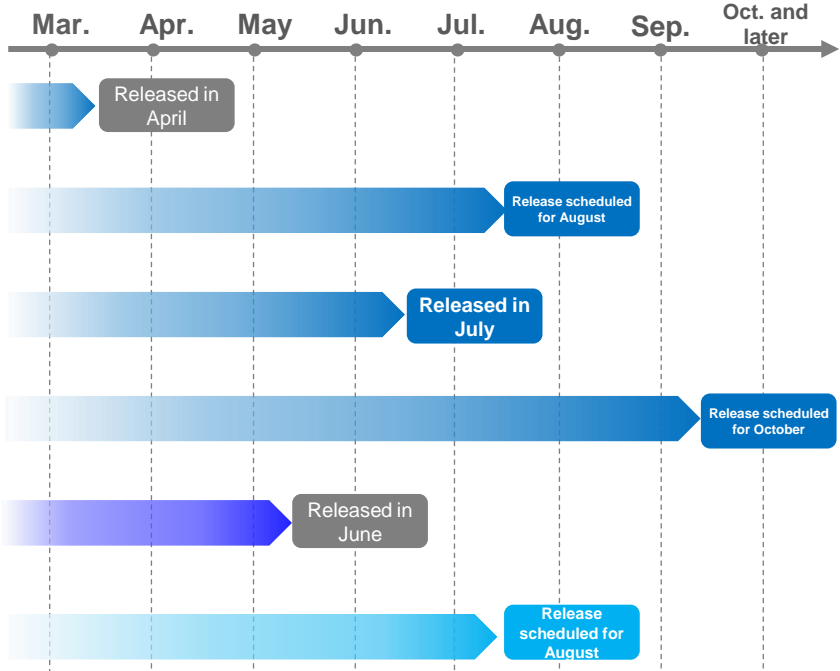
*1 **i-FILTER AI chat filter** and **f-FILTER** were added in addition to the schedule announced on May 9, 2023 in the Supplementary materials for the Financial Results of the Fiscal Year Ended in March 31, 2023.

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With a large number of new functions and new products expected to be released in the current fiscal year, the Company invested actively to enhance development and its sales workforce, promote sales events for agents and facilitate internal strategic meetings. Steady progress is being made.

Measures

Situation

Respond to needs for comprehensive security	✓ Use the CASB function to improve the next-generation SWG function ✓ Upgrade measures for detecting and responding to malware infections ✓ Improve measures against PPAP and erroneous email transmission ✓ Develop non-VPN remote access products ✓ Released the i-FILTER AI chat filters	**Total sales of Anti-Virus & Sandbox increased to 415 million yen from the previous fiscal year's 358 million yen.** ☑ **i-FILTER@Cloud CASB functionality** (released in April 2023) ☑ **m-FILTER MailAdviser OWA** (released in July 2023) ☑ **f-FILTER** (to be released in October 2023)
Expand sales to public organizations and schools	(to be released in August 2023) ✓ **Expand sales in enhanced security for local governments** ✓ **Increase market share in GIGA School Concept projects**	**Total contracts for improving security of local governments increased from 1,739 million yen in the previous fiscal year to 1,841 million yen.** ☑ **Combine i-FILTER, m-FILTER and FinalCode to meet local governments' outlines of countermeasures** ☑ **In-house online seminars on the themes of the handling of medical care and local government security attracted many attendees.**

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The Group launched the new Desk business and received new orders as early as June. Awareness of the StartIn certification business improved through the implementation of in-house online seminars and sales to agents.

Measures		Situation
Launch the communication business	✓ **Roll out Desk as a secure communications tool for the online communication market, where security issues remain to be solved**	**Received an order by creating a project soon after release in the focused public sector and education markets.** ☑ **The Desk chat/online tool and Desk Event webinar tool** (released in June 2023)
Enter the authentication (IDaaS) market	✓ **Introduce to the market StartIn, an original IDaaS solution for enhanced authentication security (with positional information and third-party authentication) and reduced ID management burdens (ID provisioning function)**	**Progress is being made as planned for releases. The number of inquiries from agents is increasing.** ☑ **StartIn, an IDaaS solution** (to be released in August 2023)

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

Full-Year Financial Forecast for Fiscal Year Ending March 31, 2024

SUPPLEMENTARY MATERIALS FOR FINANCIAL RESULTS OF THE FISCAL YEAR ENDED MARCH 2023 (ANNOUNCED ON MAY 9, 2023)

Forecasts for Fiscal Year Ending March 31, 2024(Consolidated)

Expand existing businesses and develop new businesses with the aim of increasing net sales and profit
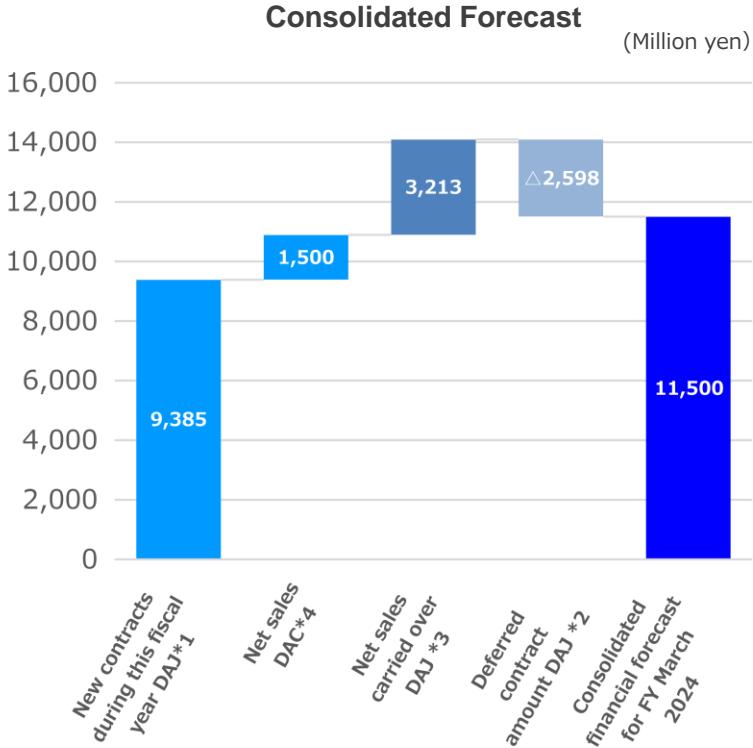
(Million yen)

	FY March 2023 Full-Year Results	FY March 2024 Full-Year Forecasts	Change	% Change
Net sales	10,436	11,500	+1,063	+10.2 %
Cost of goods sold	3,666	3,850	+183	+5.0 %
Gross profit	6,769	7,650	+880	+13.0 %
Gross profit margin	64.9%	66.5%	-	-
Selling, general and administrative expenses	2,356	2,500	+143	+6.1 %
Operating profit	4,413	5,150	+736	+16.7 %
Operating margin	42.3%	44.8%	-	-
Ordinary profit	4,429	5,150	+720	+16.3 %
Profit attributable to owners of parent	3,062	3,550	+487	+15.9 %

Forecasts for Fiscal Year Ending March 31, 2024 (Non-consolidated)

(Million yen)

	FY March 2023 Full-Year Results	FY March 2024 Full-Year Forecasts	Change	% Change
Net sales	8,984	10,000	+1,015	+11.3 %
Cost of goods sold	2,425	2,650	+224	+9.3 %
Gross profit	6,559	7,350	+790	+12.1 %
Gross profit margin	73.0%	73.5%	-	-
Selling, general and administrative expenses	2,163	2,350	+186	+8.6 %
Operating profit	4,395	5,000	+604	+13.7 %
Operating margin	48.9%	50.0%	-	-
Ordinary profit	4,407	5,000	+592	+13.4 %
Profit	3,048	3,450	+401	+13.2 %

Status of Consolidated Net Sales

Consolidated Forecast

(Million yen)

Chart values (bridge):
- New contracts during this fiscal year DAJ*1: 9,385
- Net sales DAC*4: 1,500
- Net sales carried over DAJ*3: 3,213
- Deferred contract amount DAJ*2: △2,598
- Consolidated financial forecast for FY March 2024: 11,500

- Net sales that will be carried over to and posted for the fiscal year in question will increase given an increase in the number of contracts acquired in previous fiscal years in connection with the GIGA School Concept in the public sector market.

- New DAJ contracts are expected to amount to 9,385 million yen following measures to expand sales of new functions and new products for the enterprise sector market and public sector market, together with strategic sales measures.

*1：DAJ = Digital Arts Inc.

*2：DAC＝ Digital Arts Consulting Inc.

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

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

Status of Consolidated Net Sales

Forecast by Market

(Million yen)

11,500
(+10.2%)

10,436

	Results for FY March 2023	Forecast for FY March 2024
Consumer	433	456
Public	4,686	5,022
Enterprise	5,316	6,021

Consumer **+5.3% UP**

Public **+7.2% UP**

Enterprise **+13.3% UP**
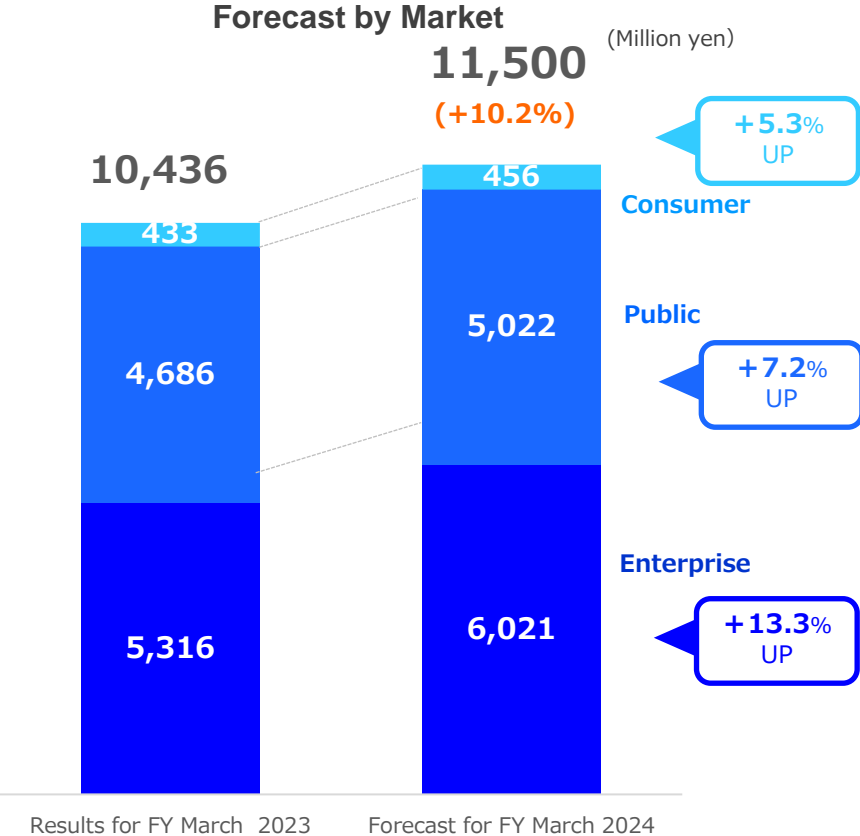
- In response to corporate needs for total security solutions, we will enhance the product lineup and improve links with other companies' products in order to attract new clients.

- Net sales that will be carried over to and posted for the fiscal year in question will increase given an increase in the number of contracts acquired in previous fiscal years in connection with the GIGA School Concept in the public sector market.

- The market share in GIGA School Concept projects will increase and solidify security for local governments to expand sales
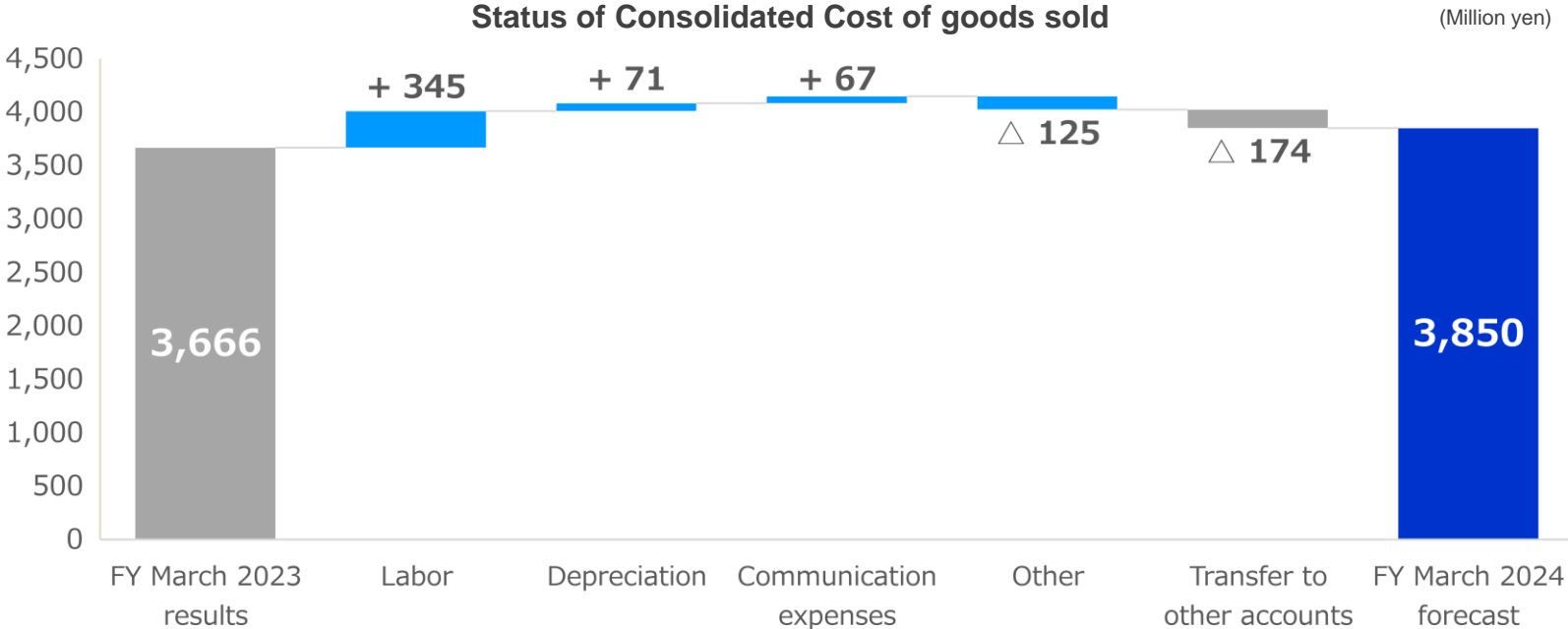
Consolidated Cost of Goods Sold and Selling, General and Administrative Expenses
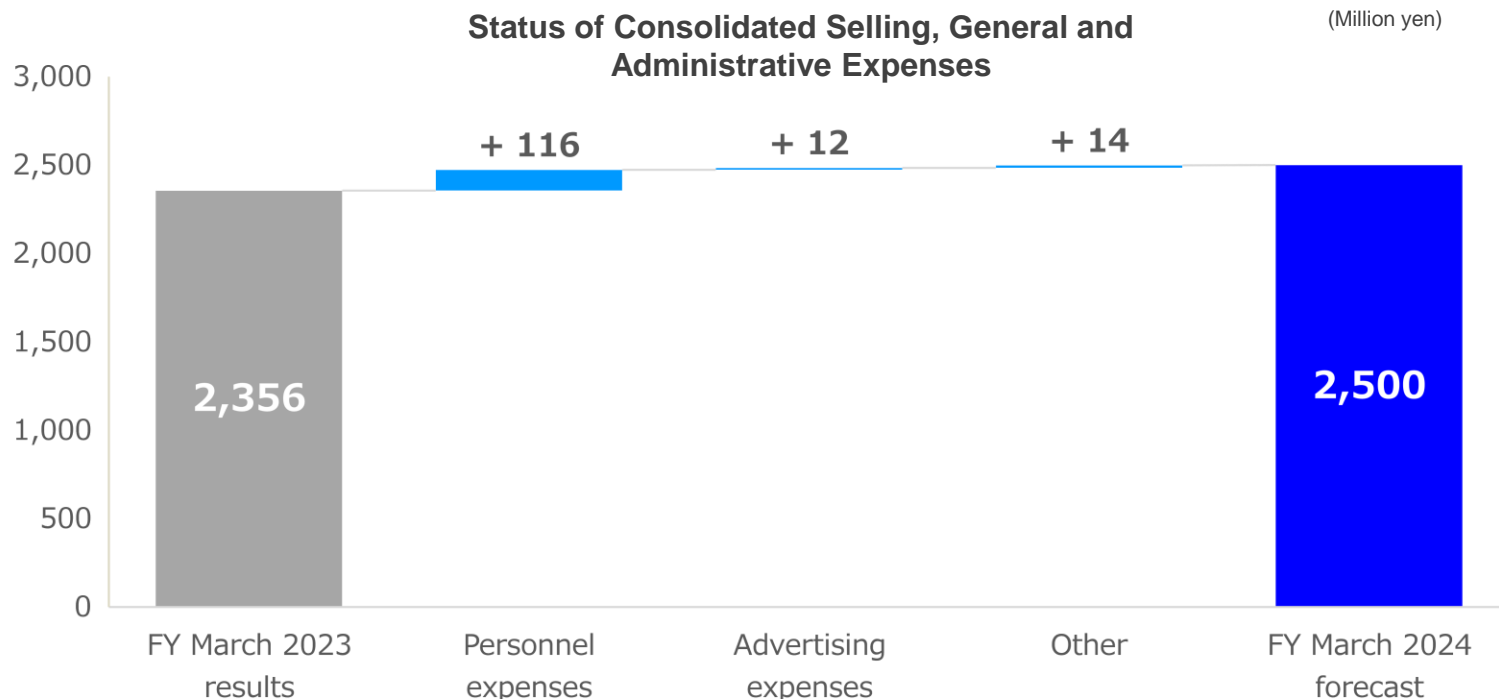
(Million yen)

	Results for FY March 2023	Forecast for FY March 2024	Change YoY	Main Factors for Change
Cost of goods sold	**3,666**	**3,850**	+5.0%	
Labor	**1,634**	**1,980**	+21.1%	Increase in number of DAJ's development personnel.
Depreciation	**838**	**910**	+8.5%	Increase in depreciation of software for cloud products.
Communication expenses	**1,162**	**1,230**	+5.8%	An increase in cloud server expenses as a result of the expansion of sales of cloud service products and an increase in the number of licenses.
Other	**895**	**770**	△14.1%	A decrease in outsourcing expenses following a shift of engineering operations outsourced by DAC to internal operation.
Transfer to other accounts	**△865**	**△1,040**	+20.1%	
Selling, general and administrative expenses	**2,356**	**2,500**	+6.1%	
Personnel expenses	**1,193**	**1,310**	+9.7%	An increase in the number of personnel due to the recruitment of new graduates.
Advertising expenses	**297**	**310**	+4.1%	Advertising in newspapers and other media will increase.
Other	**865**	**880**	+1.7%	An increase in travel and transportation expenses as the COVID-19 pandemic fades.

Status of Consolidated Cost of Goods Sold

The increase in DAJ's development personnel will lead to a rise in labor expenses. Cloud server expenses (communication expenses) will grow with the expansion of sales of cloud service products and an increase in the number of licenses.

Status of Consolidated Cost of goods sold

(Million yen)

FY March 2023 results	Labor	Depreciation	Communication expenses	Other	Transfer to other accounts	FY March 2024 forecast
3,666	+ 345	+ 71	+ 67	△ 125	△ 174	3,850

Status of Consolidated Cost of Goods Sold

DigitalArts®

Personnel expenses will surge due to an increase in the number of staff after new graduates employees joined the Group.
Travel and transportation expenses as well as entertainment expenses (as part of Other) will increase as the COVID-19 pandemic fades.

Status of Consolidated Selling, General and Administrative Expenses

(Million yen)

	FY March 2023 results	Personnel expenses	Advertising expenses	Other	FY March 2024 forecast
Value	2,356	+ 116	+ 12	+ 14	2,500

Material on Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024

FY03/24 Initiatives

SUPPLEMENTARY MATERIALS FOR FINANCIAL RESULTS OF THE FISCAL YEAR ENDED MARCH 2023 (ANNOUNCED ON MAY 9, 2023)

Main Measures for FY March 2024

We will improve our response to needs for comprehensive security, enter the authentication market, and launch the communication business as one of the initiatives to address a vision of creating new value and increasing demand set out in the medium-term management plan.

1. Respond to needs for comprehensive security

- Use the CASB function to improve the next-generation SWG function
- Upgrade measures for detecting and responding to malware infections
- Improve measures against PPAP and erroneous email transmission
- Develop non-VPN remote access products

2. Expand sales to public organizations and schools

- Expand sales in enhanced security for local governments
- Increase market share in GIGA School Concept projects

3. Launch the communication business

Roll out Desk as a secure communications tool for the online communication market, where security issues remain to be solved

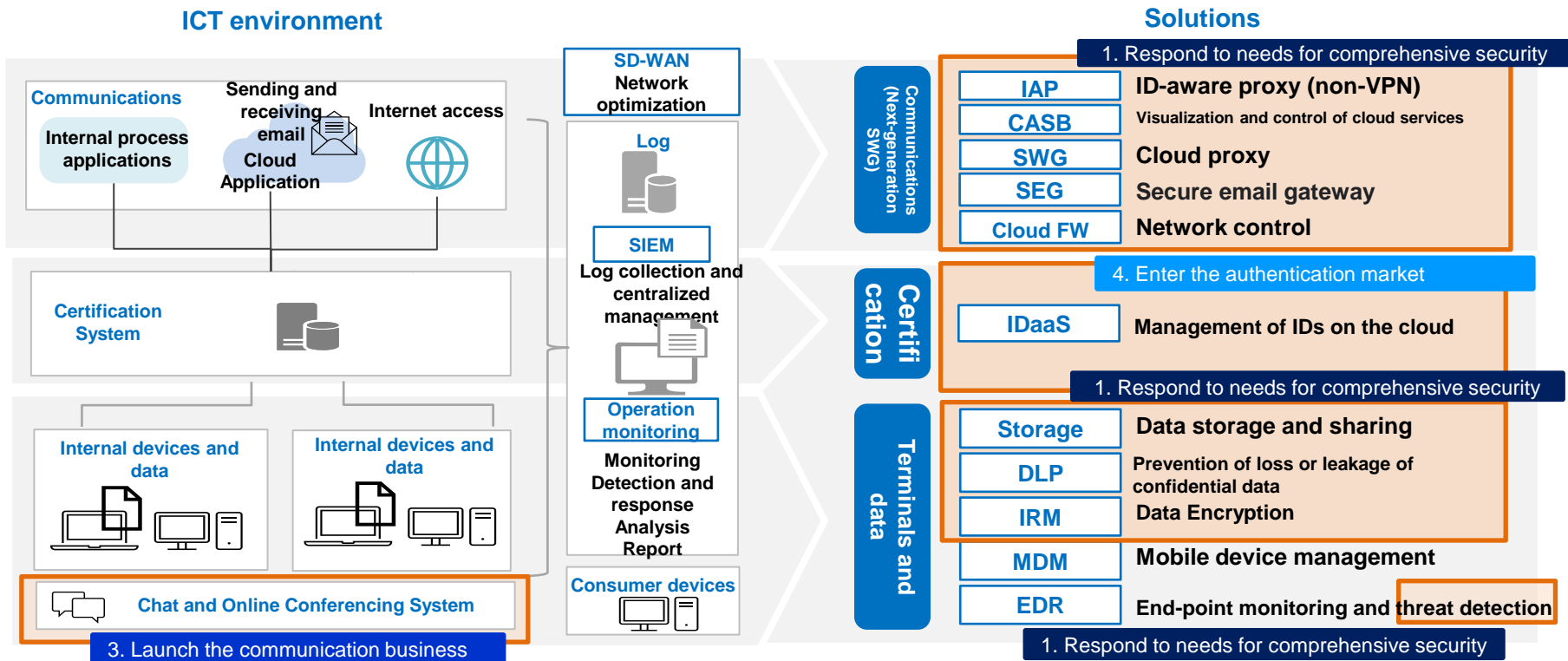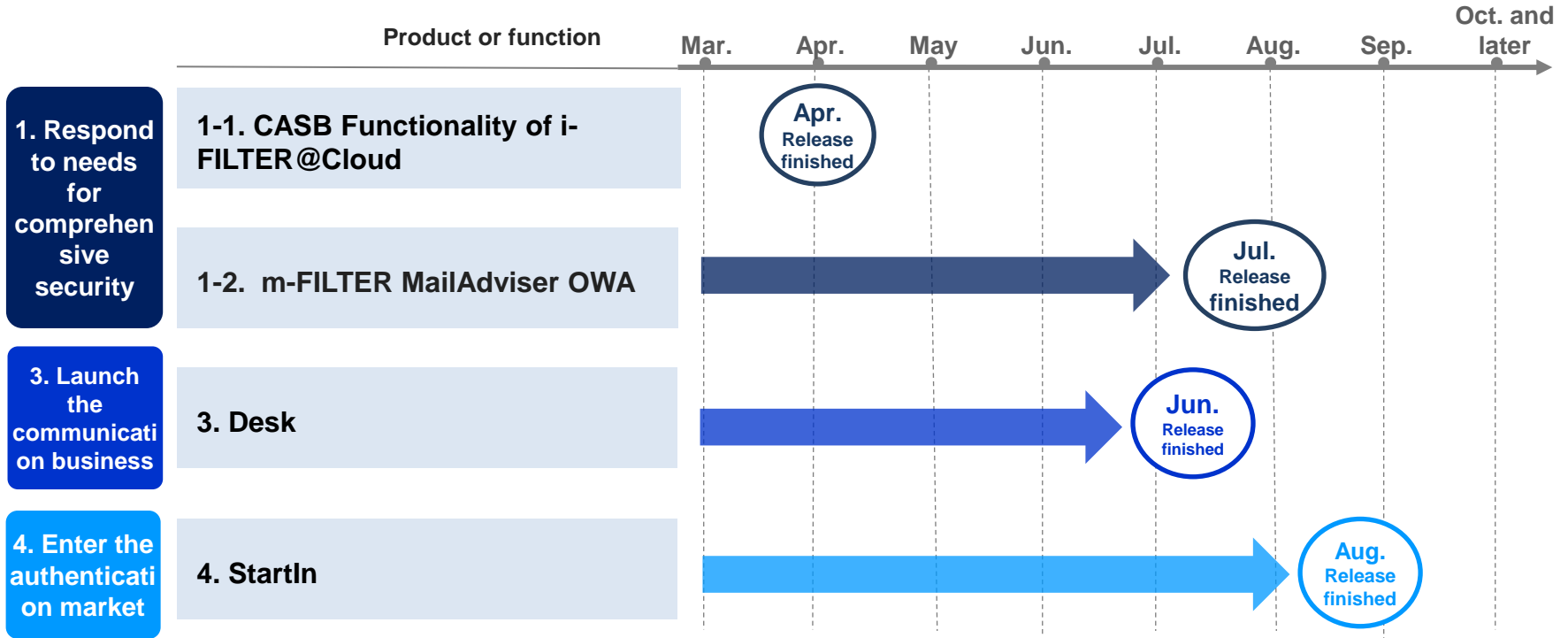## 4. Enter the authentication (IDaaS) market

Introduce to the market StartIn, an original IDaaS solution for enhanced authentication security (with positional information and third-party authentication) and reduced ID management burdens (ID provisioning function)

Positions of Measures in ICT Environment

Execute measures for comprehensively supporting the ICT environment centering on the cloud

ICT environment

Solutions

Communications

Internal process applications

Sending and receiving email

Internet access

Cloud Application

SD-WAN
Network optimization

Log

SIEM
Log collection and centralized management

Communications (Next-generation SWG)

1. Respond to needs for comprehensive security

IAP	**ID-aware proxy (non-VPN)**
CASB	Visualization and control of cloud services
SWG	**Cloud proxy**
SEG	**Secure email gateway**
Cloud FW	**Network control**

Certification System

Certification

4. Enter the authentication market

IDaaS	**Management of IDs on the cloud**

Operation monitoring
Monitoring Detection and response Analysis Report

1. Respond to needs for comprehensive security

Terminals and data

Storage	**Data storage and sharing**
DLP	**Prevention of loss or leakage of confidential data**
IRM	**Data Encryption**
MDM	**Mobile device management**
EDR	**End-point monitoring and threat detection**

Internal devices and data

Internal devices and data

Consumer devices

Chat and Online Conferencing System

3. Launch the communication business

1. Respond to needs for comprehensive security

Schedules of Main Measures for FY March 2024

Improve functions for responding to needs for comprehensive security and introduce new products to markets
Launch the communications business ahead of the schedule set in the medium-term management plan

	Product or function	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct. and later
1. Respond to needs for comprehensive security	**1-1. CASB Functionality of i-FILTER@Cloud**		Apr. Release finished						
	1-2. m-FILTER MailAdviser OWA					Jul. Release finished			
3. Launch the communication business	**3. Desk**				Jun. Release finished				
4. Enter the authentication market	**4. StartIn**						Aug. Release finished		

Visualizing the status of use of cloud services by employees (to meet needs for measures against shadow IT and for measures to manage sanctioned IT), the function got off to a good start after its release.

[Schematic of visualization of the status of use of cloud services]

> Count the number of connections to individual cloud services and the number of file downloads and uploads to visualize trends in use

> Strengthen measures against shadow IT (introduction and use of IT tools at employees' discretion without permission from the IT department or the system management department)

> Strengthening measures for sanctioned IT (cloud services, applications, computers and other IT equipment for which the company officially concludes contracts and the use of which is permitted)

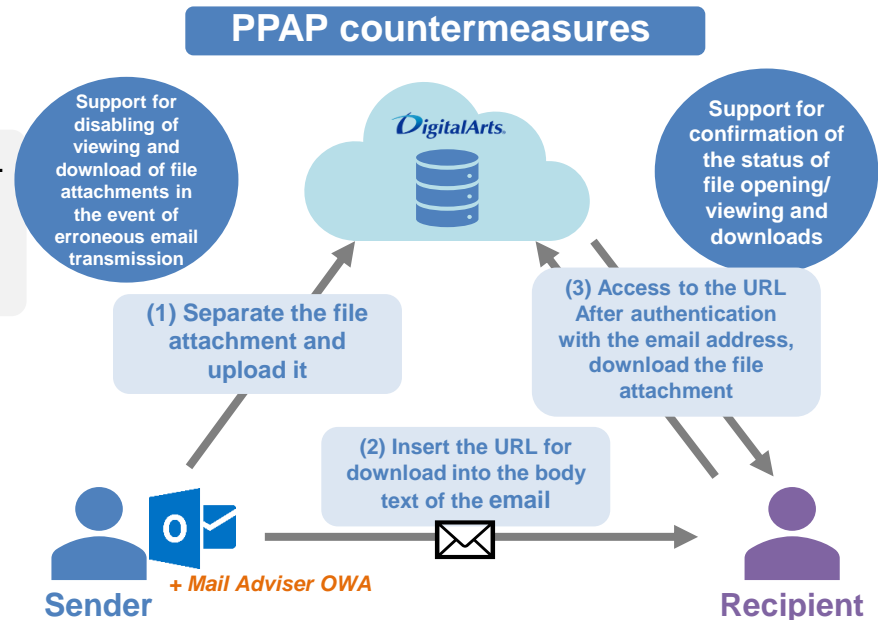## Improve functions including measures for PPAP (placing of file attachments into storage)

■ Support the Outlook Web Access (OWA) and improve functions

Countermeasure against wrong email transmission

A function similar to that of the existing MailAdviser is featured. It supports checking of the sender, body text and file attachment name and for setting attached file views and downloads.

PPAP countermeasures

By placing the attached file in **storage**, the raw file can be downloaded if the mail recipient was given permission to download.

PPAP countermeasures

Support for disabling of viewing and download of file attachments in the event of erroneous email transmission

Support for confirmation of the status of file opening/ viewing and downloads

(1) Separate the file attachment and upload it

(3) Access to the URL After authentication with the email address, download the file attachment

(2) Insert the URL for download into the body text of the email

Sender + *Mail Adviser OWA*

Recipient

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Roll out Desk as an application which can be used as a core of various operations

NEW

Desk.

The name Desk embodies our hope that this application serves as a desk for work that is close to users in their computers, tablets or smartphones at any time and at any place.
Leveraging our knowledge in the security business, it will provide a communication space with security and comfort.

By moving up ahead of schedule, creating new value and increasing demand, the long-term vision stated in the medium-term management plan, execute a full-scale promotion of Desk as a new product in the communication business.

As online communication tools are increasingly used, they are more highly regarded for their convenience in helping make communication easy, irrespective of the place. On the other hand, new security risks have emerged.

New security risks

Erroneous chat transmission	Information leaks to outsiders	Cyberbullying

The Desk series provides a communication space with security and comfort.

Desk has excellent features to provide a communication space with security and comfort.

Desk's excellent features

Security	IP address restriction and two-factor authentication
	File encryption
	A feature to stop erroneous transmissions

| Chat monitoring | Bullying alert |
| | Suicide alert |

Usability	A user interface friendly to any user
	Collaboration with Azure AD Supporting batch user registration
	Reassurance linked to the made-in-Japan status

Providing a communication space with security and comfort

Lowering the risks involved in erroneous transmissions through a feature to prevent them

Robust authentication to reduce the risks of data leaks

A monitoring feature to prevent cyberbullying

3. 「Desk」

**Provide a lineup of four different product editions matched with different types of users and scenarios
Among them, focus on the GIGA School edition**

[Desk product lineup]

Product name	Desk		Desk Event	
Category	Chat and Online Conferencing System		Webinar System	
Edition	Regular	GIGA School	Regular	Shareholders Meetings
Outline	Holding chat, online conferencing and file-sharing features to support one-to-one and multiple-to-multiple interactive communications	Offering features helpful to the education field such as chat monitoring to ensure safe and secure chats at school	Supporting one-to-multiple online communications such as morning meetings, internal workshops and online seminars	Paving the way for the distribution of virtual shareholders meetings and for electronic voting
Users	Enterprises and public organizations	Schools	Enterprises, public organizations and schools	Listed companies

Enhance communication at school with the use of Desk

GIGA School

Teachers
- ◆ Notifications to students
- ◆ Notifications to parents
- ◆ Coordination with external parties

Parents
- ◆ Sharing of communication networks
- ◆ Notifications of teacher attendance or absence
- ◆ Communication with children

Students
- ◆ Online lessons
- ◆ Group chats
- ◆ Communication with parents and teachers

External parties
- ◆ Communication with local stakeholders such as PTAs and managers of children's baseball teams

Desk

We will be releasing an edition specially equipped with monitoring and other features and designed for use at schools within the current fiscal year.
We will offer a platform for secure information sharing, mainly among teachers, students and parents, and aim to create a useful communication platform for schools covering external parties in the future.

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We will expand Desk from enhancing communication at school to a regional communication platform.

GIGA School

Supporting secure communication between teachers and students and between students

- ☐ **Simplified initial settings**
- ☐ **School management features**
- ☐ **Group management features**
- ☐ **Communication in classes and lessons**
- ☐ **Chat monitoring**
- ☐ **Online lessons**
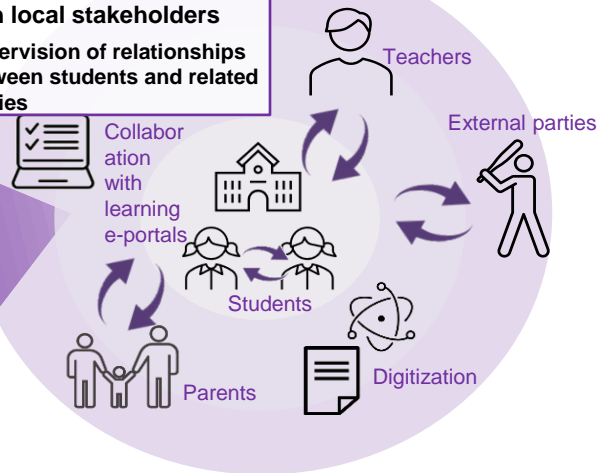- ☐ **Chats between students**
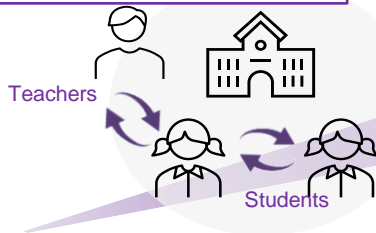
Supporting communication with parents

- ☐ **Personal voice communication between students**
- ☐ **Digitization of notices and other items to be distributed**
- ☐ **Notifications of student attendance and absence**
- ☐ **Collaboration with learning e-portal services**
- ☐ **Communication between family members**
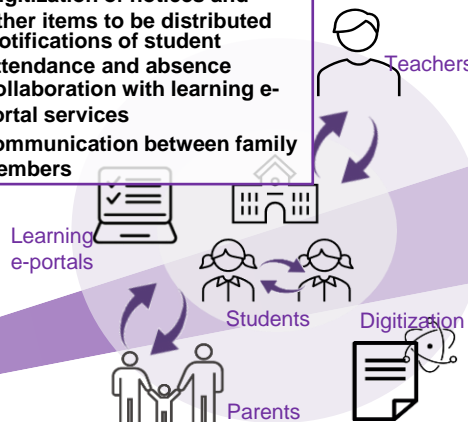
Supporting secure communication with community stakeholders

- ☐ **Build a system for linking with local stakeholders**
- ☐ **Supervision of relationships between students and related parties**

Teachers

Students

Teachers

Learning e-portals

Students

Parents

Digitization

Collaboration with learning e-portals

Teachers

External parties

Students

Parents

Digitization

Version 1 to be released in FY March 2024 | **Version 2 to be released in FY March 2024** | **Version 3 to be released in FY March 2025**

Promote StartIn as the most secure and comfortable solution at the start of all processes in enterprises

NEW

Start In™

The name of StartIn has been coined by combining Start with In, given that an authentication solution is a system in which users should *start* by logging *in* before any process or learning.
It has an original authentication method using positional and other information to provide a comfortable environment.

It offers solutions to all issues involved in the corporate process of transfer to a cloud environment.

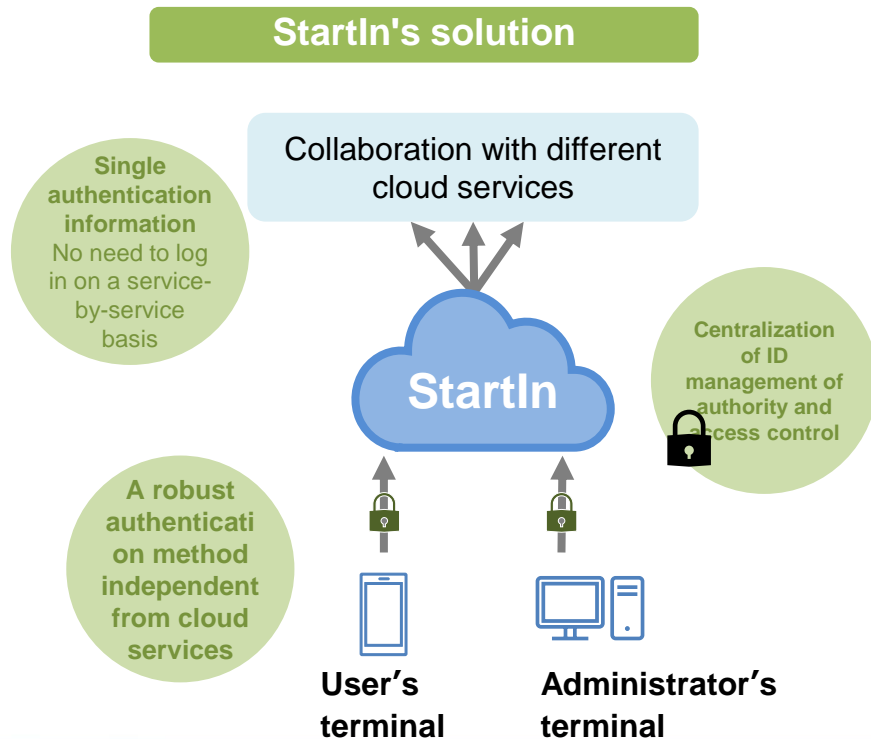## Limitation of perimeter security

After the shift to a cloud environment, there is no boundary separating inside and outside the office. It is therefore difficult to manage IDs and to ensure the security of information assets.

Lack of uniformity in security levels

Each cloud service requires separate authentication and authorization as well as data protection. It is difficult to attain a single security level for all services.

## Increasing the burden of ID management on administrators

Administrators face an increasing burden since it is necessary to separately manage IDs and passwords, make authority settings and implement security measures for different cloud services.

StartIn's solution

Single authentication information
No need to log in on a service-by-service basis

Collaboration with different cloud services

Centralization of ID management of authority and access control

StartIn

A robust authentication method independent from cloud services

User's terminal

Administrator's terminal

Capture latent needs by launching new products in markets with high growth potential

IDaaS Market Size Trends

(100 Million yen)
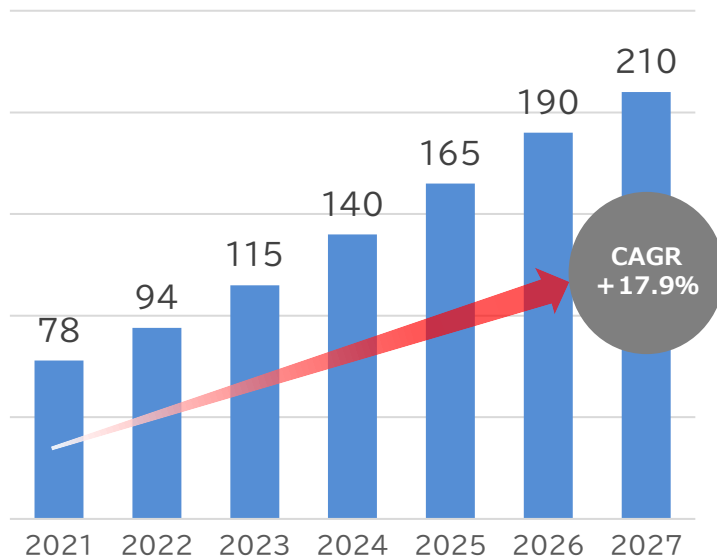
Main functions required in the market
ID management / access management / single sign-on / multi-factor authentication

Market growth in line with increased use of cloud services
Toward 2027, the market is expected to grow at a CAGR of 17.9% to 21 billion yen (+13.2 billion yen from 2021). Market growth is expected to continue

Future needs for ID management for internal systems
In the future, needs are expected to expand not only for external cloud services, but also for ID management for internal systems, improved login convenience, multi-factor authentication, risk-based authentication, and other authentication platforms.
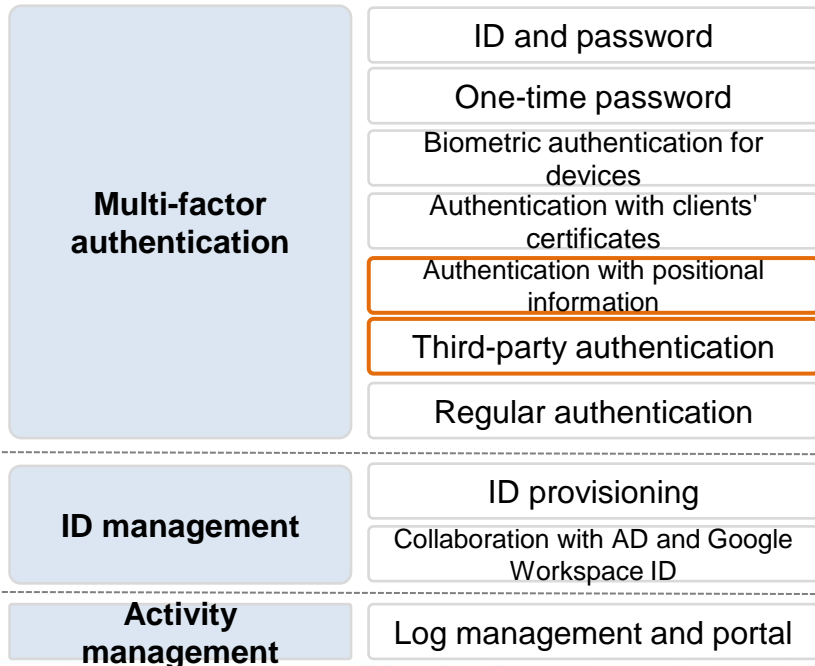
Authentication is critical in the zero-trust model
Likely to be introduced in conjunction with SWG, CASB, and other solutions.

Source: Created by Fuji Chimera Research Institute, Inc. based on "Network Security Business Survey Overview" (2022)

StartIn's superior features ensure a high security level in a cloud environment. They also reduce ID management burdens.
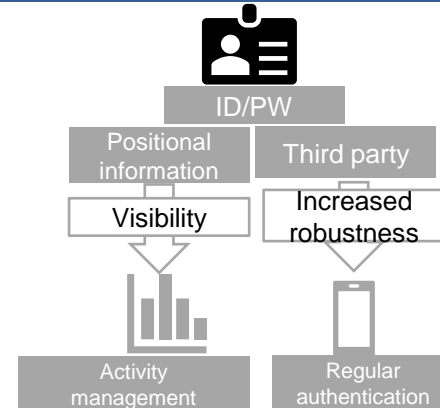
StatIn's superior features

Multi-factor authentication	ID and password
	One-time password
	Biometric authentication for devices
	Authentication with clients' certificates
	Authentication with positional information
	Third-party authentication
	Regular authentication
ID management	ID provisioning
	Collaboration with AD and Google Workspace ID
Activity management	Log management and portal

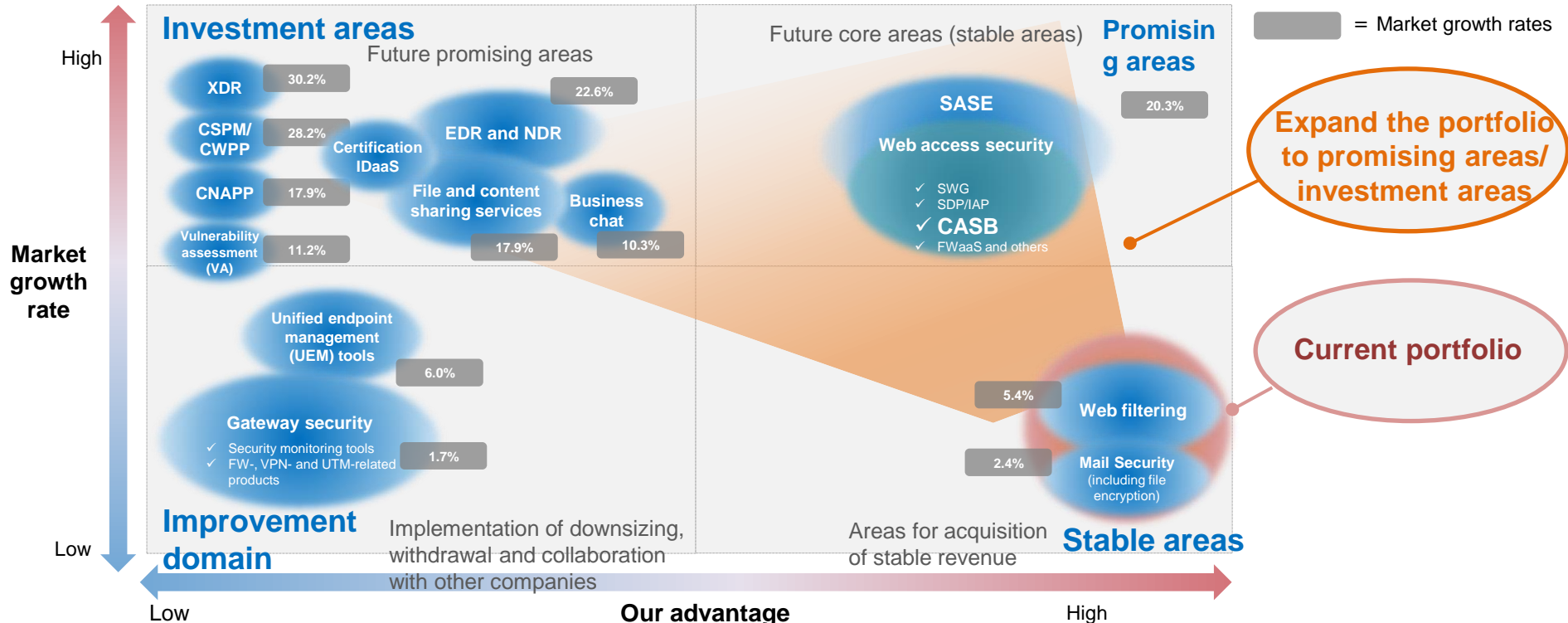### Original robust authentication and simple ID management

Its robust authentication feature ensures a high security level even in a cloud environment.

ID provisioning, AD collaboration and other features reduce the ID management burden.

ID/PW

Positional information — Third party

Visibility — Increased robustness

Activity management — Regular authentication

Strategy in Security Products Market

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In addition to consistent growth in market share in stable areas, continue to expand the product portfolio to investment areas with high market growth rates and other promising areas to meet needs for comprehensive security

Investment areas

Future promising areas

Future core areas (stable areas)

Promising areas

= Market growth rates

High

XDR — 30.2%

22.6%

20.3%

CSPM/CWPP — 28.2%

Certification IDaaS

EDR and NDR

CNAPP — 17.9%

File and content sharing services

Business chat

SASE

Web access security
- ✓ SWG
- ✓ SDP/IAP
- ✓ **CASB**
- ✓ FWaaS and others

Expand the portfolio to promising areas/ investment areas

Vulnerability assessment (VA) — 11.2%

17.9%

10.3%

Market growth rate

Unified endpoint management (UEM) tools — 6.0%

Current portfolio

5.4%

Web filtering

Gateway security
- ✓ Security monitoring tools
- ✓ FW-, VPN- and UTM-related products

1.7%

2.4%

Mail Security (including file encryption)

Low

Improvement domain

Implementation of downsizing, withdrawal and collaboration with other companies

Areas for acquisition of stable revenue

Stable areas

Low   **Our advantage**   High

Return to Shareholders for Fiscal Year Ending March 31, 2024

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, 2024: **31.6%**

Annual dividends of surplus forecasted for fiscal year ending March 31, 2024: **80.00 yen** per share.

We expect to increase the annual dividend by **5.00 yen** per share.

	Dividend (in yen) per share			Consolidated payout ratio
	2Q-end	**Year-end**	**Annual**	
FY March 2023	35.00	40.00	75.00	34.4%
FY March 2024 (forecast)	**40.00**	**40.00**	**80.00**	**31.6%**

Notes on Descriptions

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.

- デジタルアーツ、DIGITAL ARTS、i-FILTER、i-FILTER Anti-Virus & Sandbox、i-FILTER@Cloud Anti-Virus & Sandbox、D-SPA、Anti-Virus & Sandbox for D-SPA、ホワイト運用、m-FILTER、m-FILTER MailFilter、m-FILTER Anti-Virus & Sandbox、m-FILTER@Cloud Anti-Virus & Sandbox、FinalCode、i-フィルター、DigitalArts@Cloud、Desk、Desk Event、StartIn、f-FILTERand other logos and icons related to Digital Arts Inc. and its products are trademarks   or registered trademarks of Digital Arts Inc.
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