



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

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

Financial Results Briefing Materials

October 31, 2023

Digital Arts Inc.
(Securities Code: 2326)

Web

Enabling users to securely connect to websites without security concerns



i-FILTER.
i-FILTER@Cloud™

Endpoint Web security

i-FILTER.
ブラウザ & クラウド

Secure proxy appliance

ID-SPA.

Malicious website-filtering software for home use

いフィルター.

E-mail

Enabling users to securely send and receive email without security concerns



m-FILTER.
m-FILTER@Cloud™

Serverless solutions to prevent wrong email transmission by providing advice when necessary

Countermeasures to prevent wrong email transmission for email software

m-FILTER.
MailAdviser

Countermeasure against wrong email transmission for Outlook Web App (OWA)

NEW
m-FILTER.
MailAdviser OWA

file

File encryption solution

Automatically protecting files from the moment of creation and allowing users to delete them after transfer



FINALCODE®
FINALCODE@Cloud™

File transfer solution

Supporting secure file transfers without leaking critical information

NEW



f-FILTER™

IDaaS

Equipped with multi-factor authentication to ensure the secure management of IDs for cloud services

NEW



Start In™

Communication

Providing workplaces and places for education with secure and comfortable communication spaces

NEW



Chat and online conferencing

Desk.

Video conferencing tool

Desk Event.

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

01

Consolidated Results Highlights

Contracts

4,976 million yen

(up +239million yen
or +5.0% 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 gain new GIGA School Concept projects. However, the contract amount decreased, due to the rescheduling of some local government projects to 3Q and onwards.

Net sales

5,563 million yen

(up +479million yen
or +9.4% year on year)

- Net sales increased in the enterprise sector market thanks to growth in sales of cloud service products and DAC growth.
- In the public sector market, net sales increased slightly following sales for the GIGA School Concept projects and sales for government projects.

Operating profit

2,188 million yen

(△58 million yen
or △2.6% 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 DAJ and DAC, respectively.
- SG&A expenses increased due to expenses for sales promotion events for agents in conjunction with new product releases.

Consolidated Statement of Income



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 1H	FY March 2024 1H	Change YoY	FY March 2024 Full-Year Forecast
Contracts	4,737	4,976	+5.0%	-
Net sales	5,084	5,563	+9.4%	11,500
Cost of goods sold	1,668	2,128	+27.6%	3,850
Gross profit	3,416	3,435	+0.6%	7,650
Selling, general and administrative expenses	1,168	1,246	+6.7%	2,500
Operating profit	2,247	2,188	△2.6%	5,150
Operating margin	44.2%	39.3%	-	44.8%
Ordinary profit	2,263	2,201	△2.7%	5,150
Profit attributable to owners of parent	1,558	1,521	△2.4%	3,550
EBITDA	2,745	2,670	△2.7%	-

* 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

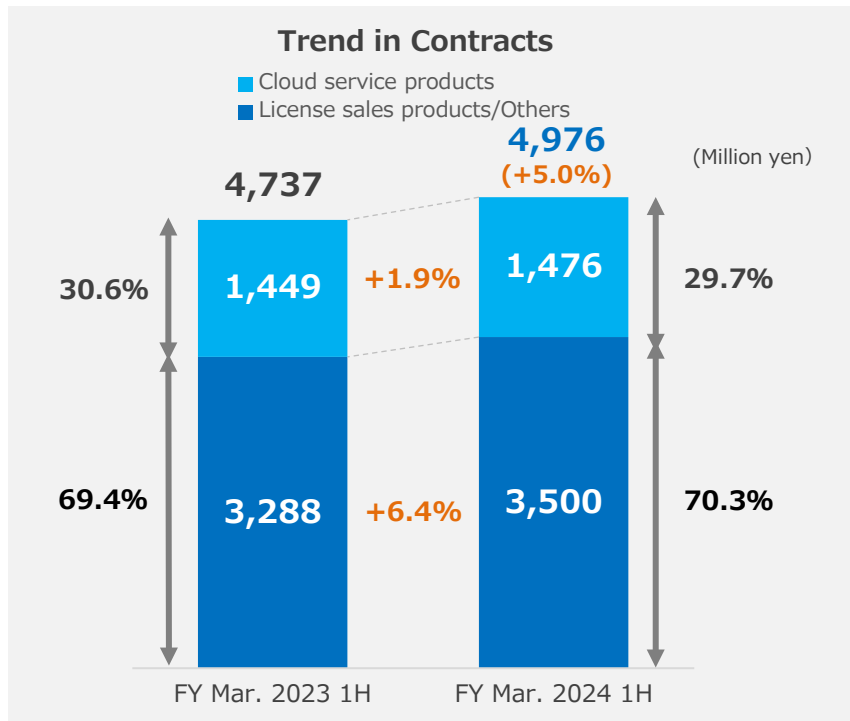


(Million yen)	FY March 2023 1H	FY March 2024 1H	Change YoY	Main Factors for Change
Cost of goods sold	1,668	2,128	+460	
Labor	727	923	+195	Increase due to the enhancement of DAJ's ^{*1} development workforce (+24M) It rose with the strengthening of DAC's ^{*2} consultants (+142M)
Depreciation	423	411	△11	
Communication expenses	525	602	+77	Cloud server expenses rose as a result of an increase in licenses for cloud service products and foreign exchange fluctuations (+77M)
Other	415	651	+236	Increase due to the development of new DA products (+72M) Increase due to the expansion of DAC's business (+120M)
Transfer to other accounts	△423	△461	△37	
Selling, general and administrative expenses	1,168	1,246	+77	
Personnel expenses	583	614	+31	Increase in the number of personnel in DAJ ^{*1} (+13M) Increase in the number of personnel in DAC ^{*2} (+18M)
Advertising expenses	151	160	+8	
Other	433	471	+37	

*1: DAJ = Digital Arts Inc.

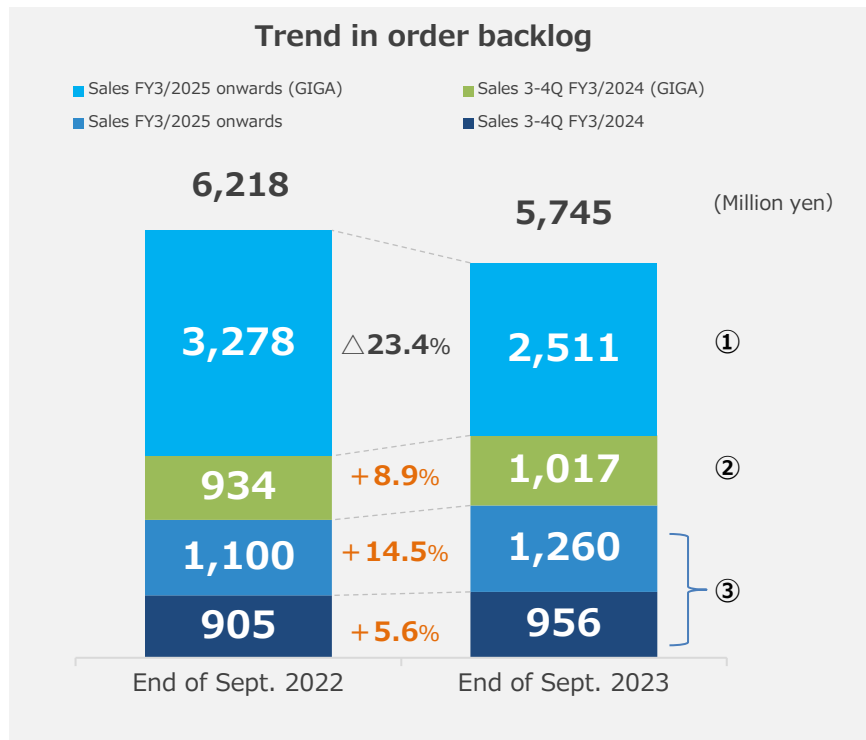
*2: DAC = Digital Arts Consulting Inc.

Consolidated contracts totaled **4,976 million yen**, up **+5.0%** year on year.



- Contracts for cloud service products increased 1.9% 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 as in the previous fiscal year.
- In the license sales products and other category, contracts rose 6.4% because DAC's contracts grew despite orders from some local governments being pushed off to 3Q and later in the public sector market.

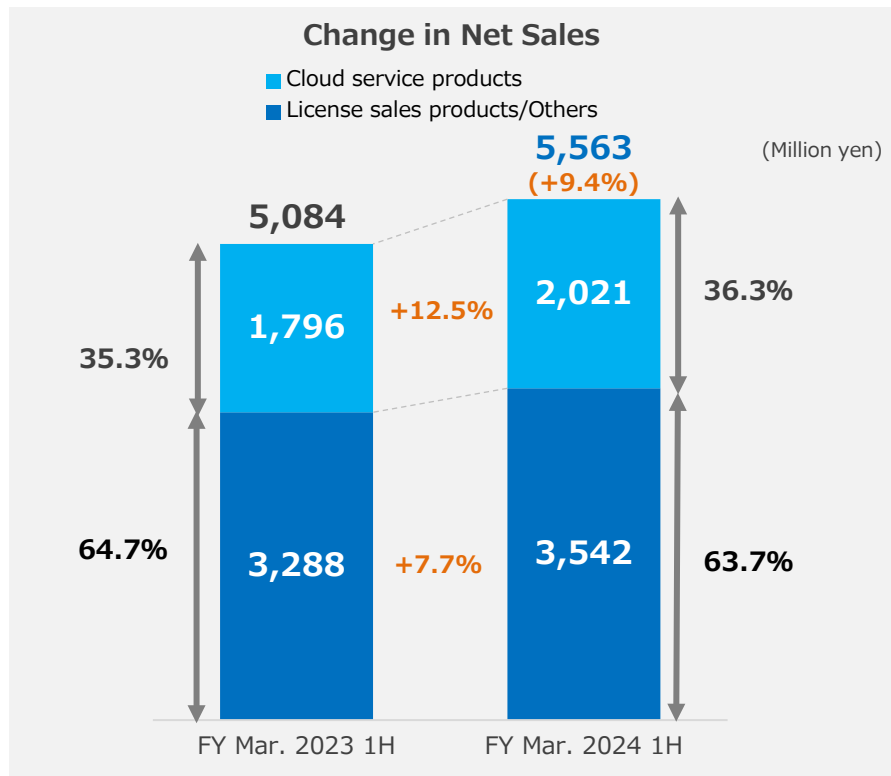
The order backlog excluding GIGA School projects **increased** despite a reduction of total contracts.



- ① 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.**
- ② Sales to be recorded in the 3Q-4Q period of the fiscal year under review will rise because the Group has been continuously gaining new GIGA School Concept projects.

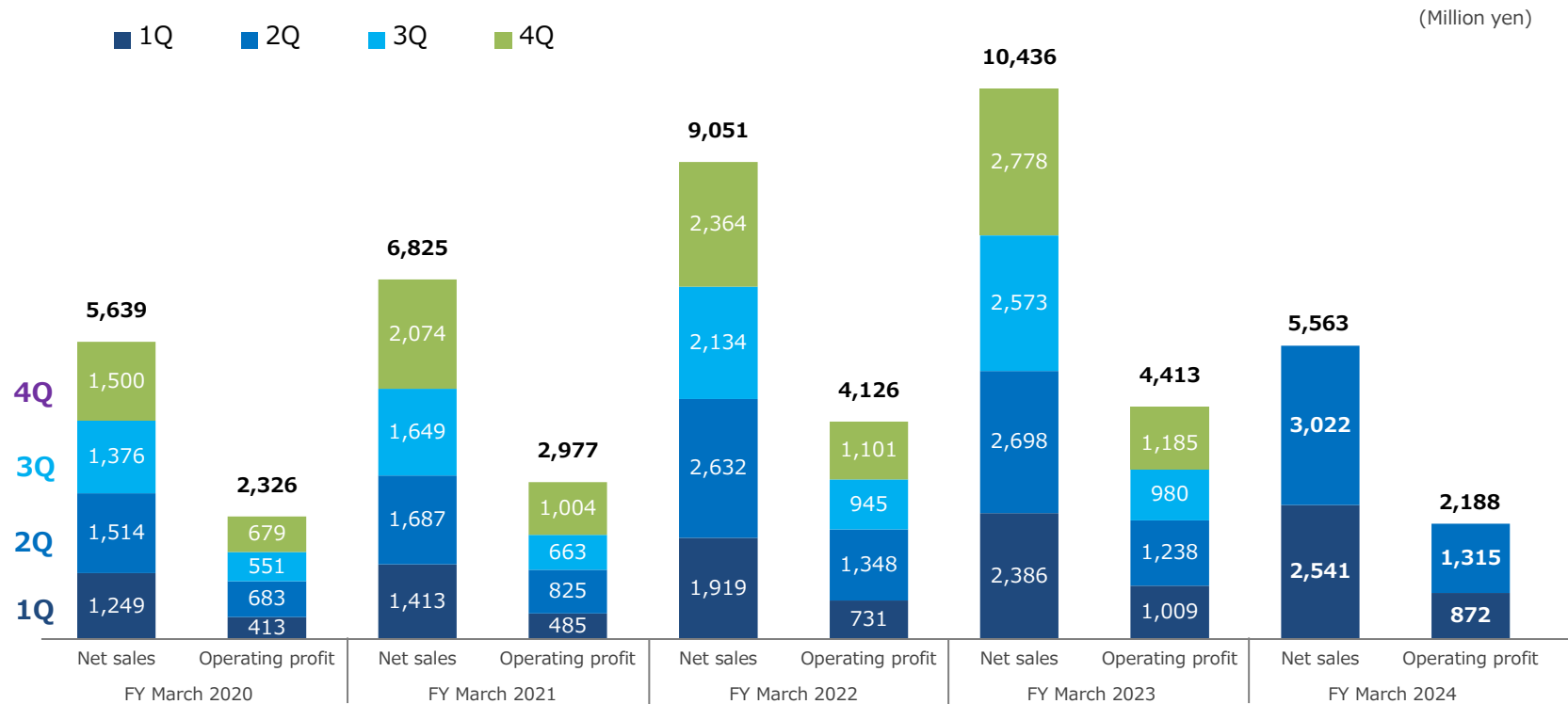
Contracts are expected to **rally sharply** following an increase in projects related to the NEXT GIGA School Concept that started in FY March 2024.
- ③ The order backlog is steadily increasing, reflecting **the gradually growing percentage of enterprise contracts that are for cloud service products**. Many of these are one-year contracts.

Consolidated net sales grew **9.4%** year on year, to **¥5,563 million**.



- Net sales of cloud service products increased 12.5% year on year, reflecting the steady acquisition of new projects in the enterprise sector market amid growing demand for cloud services, as well as continued success in receiving new GIGA School projects.
- Net sales of license sales products and other increased 7.7% year on year as a result of the growth of DAC's sales although orders from some local governments were pushed off to 3Q and later in the public sector market.

Net sales hit a record high in the Second quarter under review.

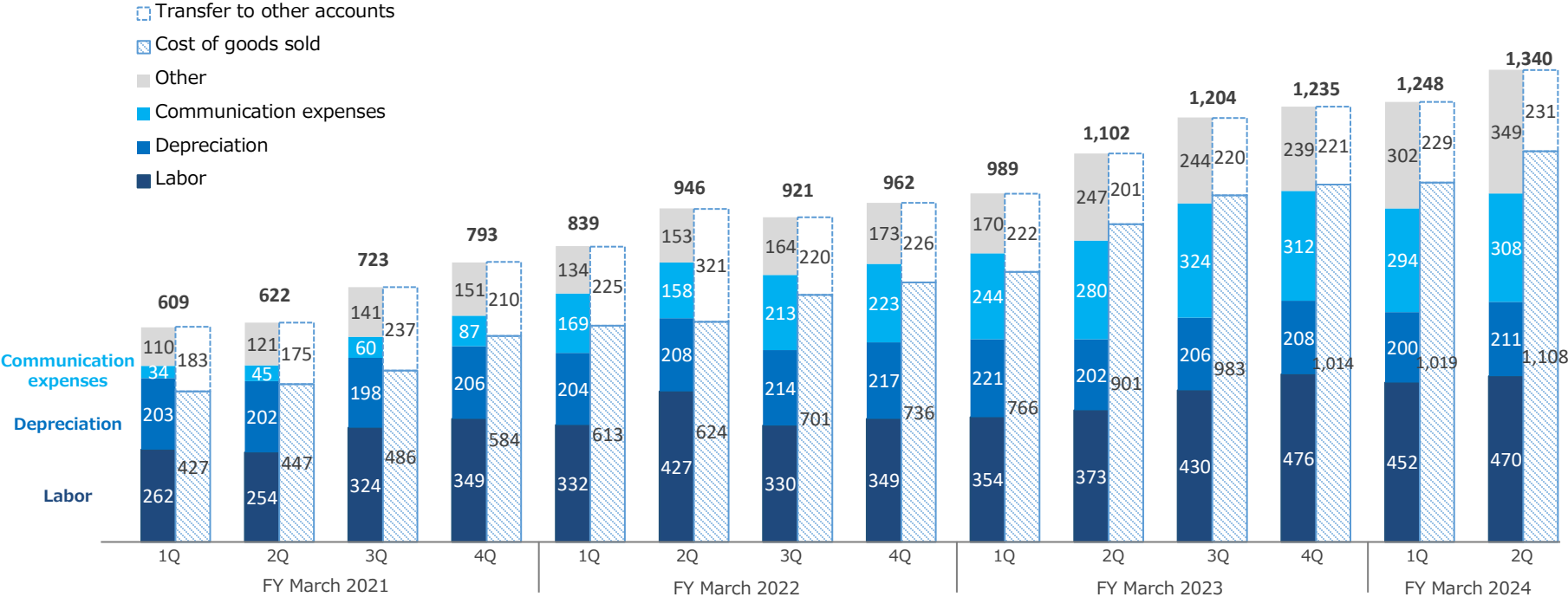


Quarterly Trend in Consolidated Cost of Goods Sold



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)

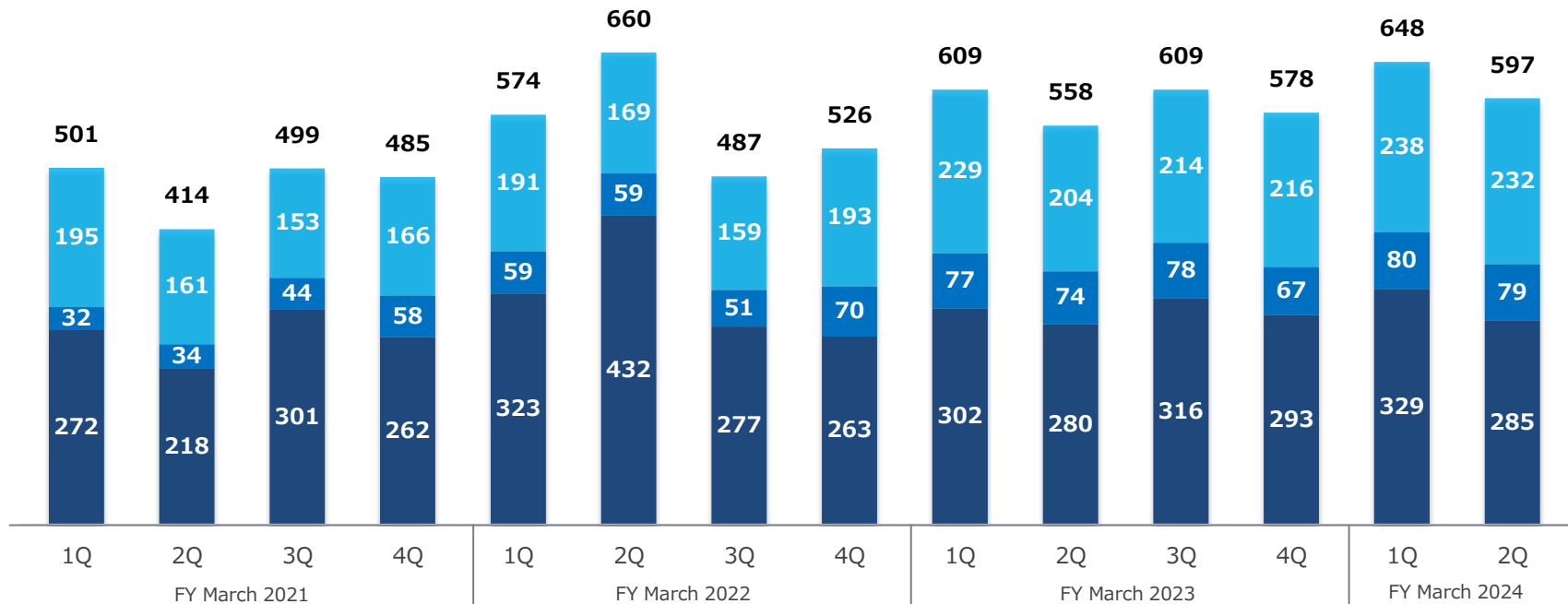


Quarterly Trend in Consolidated Selling, General and Administrative Expenses



- Personnel expenses
- Advertising expenses
- other

(Million yen)



Consolidated Balance Sheet



The equity ratio increased to 68.1%, reflecting a decrease in total assets after the acquisition of treasury shares and payment of dividends.

(Million yen)

	As of end of 2Q FY March 2023	As of end of FY March 2023	As of end of 2Q FY March 2024	Change from end of FY March 2023	Main Factors for Change
Current assets	18,088	18,925	18,637	△1.5%	
(Cash and deposits)	16,654	17,018	16,259	△4.5%	Treasury share buy-back fund △1,500M
Non-current assets	2,217	2,223	2,259	+1.6%	
Total assets	20,305	21,149	20,896	△1.2%	
Current liabilities	7,090	6,924	6,582	△4.9%	Income taxes payable △114M Decreased 144 M following the payment of accounts payable - trade for license purchases and others △144M
(Advanced received)	5,748	5,187	5,172	△0.3%	
Non-current liabilities	50	50	50	+0.1%	
Equity capital	13,131	14,141	14,229	+0.6%	Treasury share buy-back △877M, Dividends paid △561M, Profit +1,521M
Net assets	13,164	14,173	14,262	+0.6%	
Equity ratio	64.7%	66.9%	68.1%	-	
ROE	12.3%	23.3%	10.7%	-	
ROA	7.9%	15.1%	7.2%	-	

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

02

Non-consolidated Results Highlights

SG&A expenses increased due to the development of new products and a rise in communication expenses (cloud server expenses).

(Million yen)

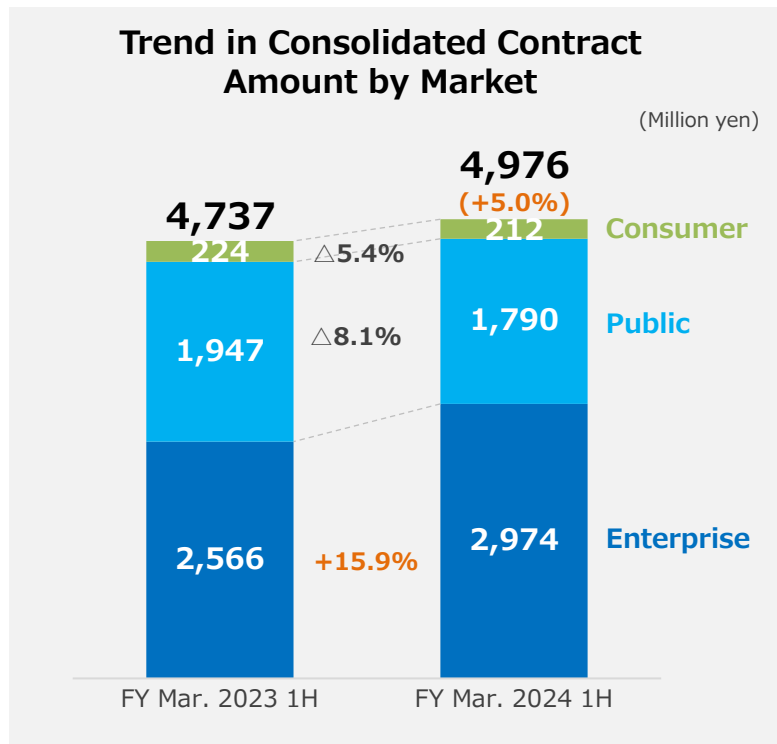
	FY March 2023 1Q	FY March 2024 1Q	Change YoY	FY March 2024 Full-Year Forecast
Contracts	4,032	3,962	△1.7%	-
Net sales	4,379	4,548	+3.9%	10,000
Cost of goods sold	1,093	1,244	+13.8%	2,650
Gross profit	3,285	3,304	+0.6%	7,350
Selling, general and administrative expenses	1,067	1,133	+6.2%	2,350
Operating profit	2,218	2,171	△2.1%	5,000
Operating margin	50.7%	47.7%	-	50.0%
Ordinary profit	2,225	2,183	△1.9%	5,000
Profit	1,538	1,512	△1.7%	3,450

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

**Material on Consolidated Financial Results
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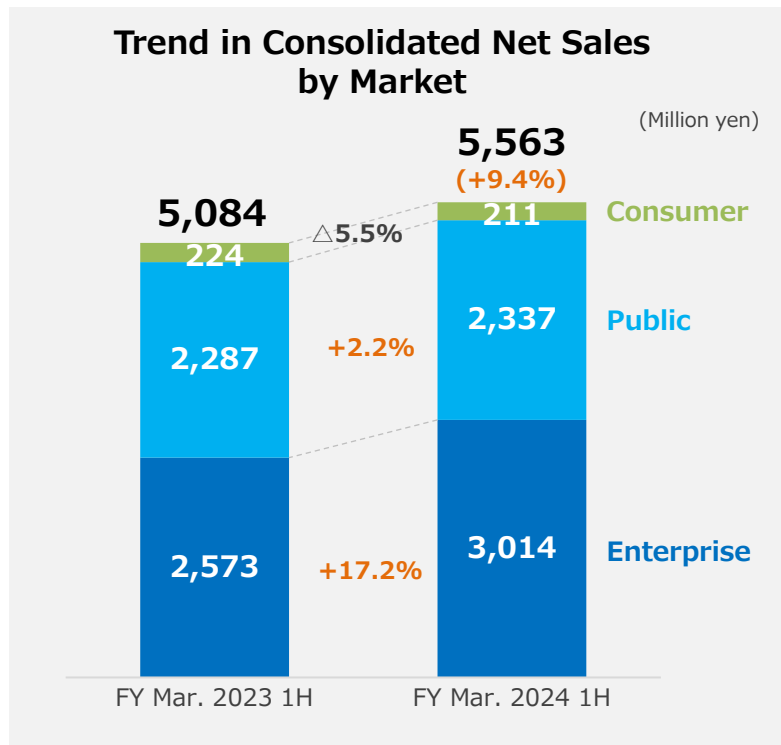
03 Net Sales by Market

The contract amount expanded in the enterprise sector market while it contracted in the public sector market.



- In the enterprise sector market, the contract amount was up 408 million yen or 15.9% 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 and a large project from a public agency. However, the contract amount was down 157 million yen or 8.1% year on year, impacted by the postponement of projects for some local governments to 3Q and the closure of conventional classes using computers.

Positive growth was achieved in both the enterprise sector market and in the public sector market.

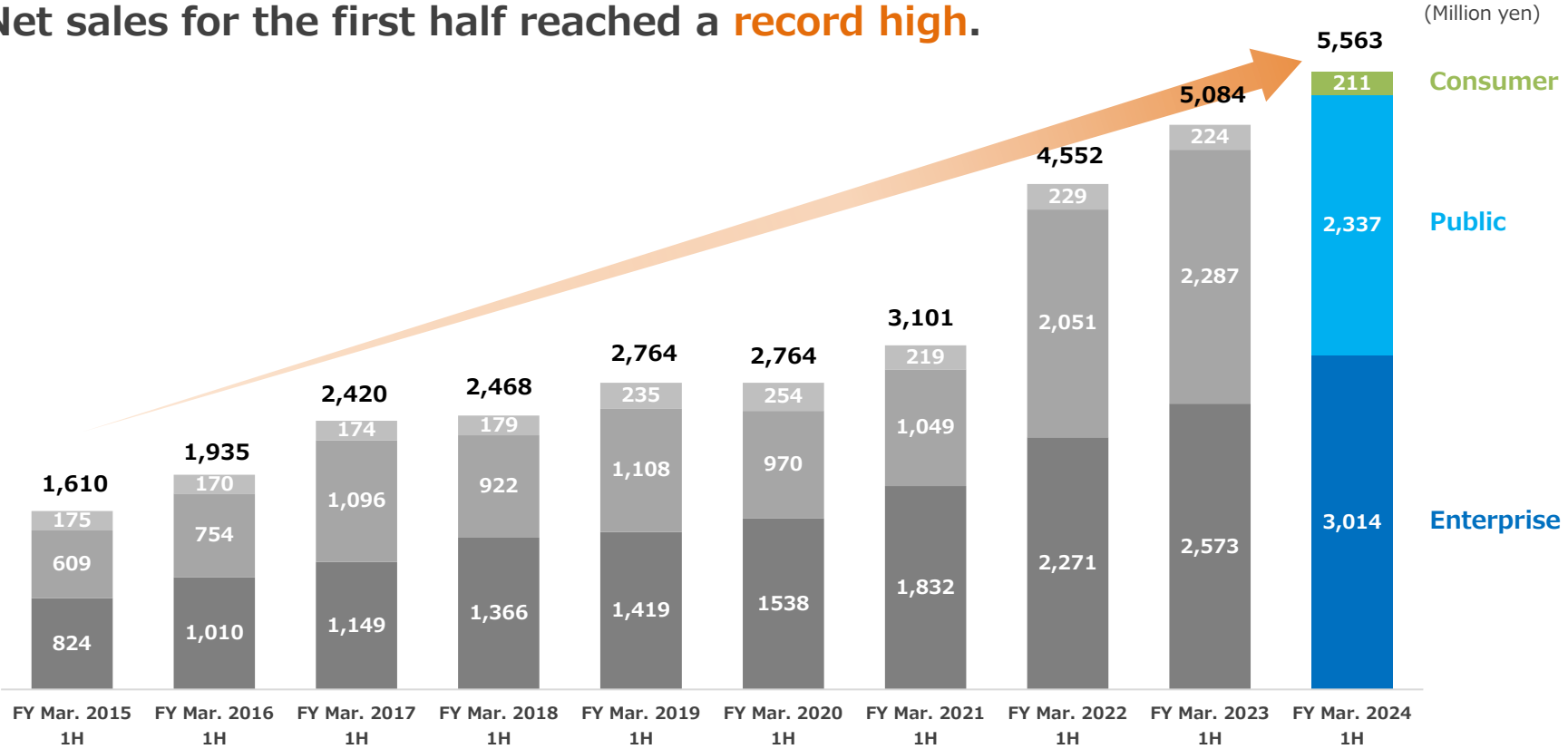


- In the enterprise sector market, net sales increased 17.2%, or 441 million yen, due to a rise in the number of new projects in response to growing demand for cloud services, coupled with the acquisition of new customers for DAC.
- In the public sector market, net sales rose 2.2% or 50 million yen. This was a result of the posting of sales from new GIGA School Concept projects that have continuously been received and sales from a large project from a public agency, although the postponement of orders from some local governments to 3Q and later and the decline in sales of license sales products after the closure of conventional classes using computers did have a negative impact.

Trend in Consolidated Net Sales by Market



Net sales for the first half reached a **record high**.

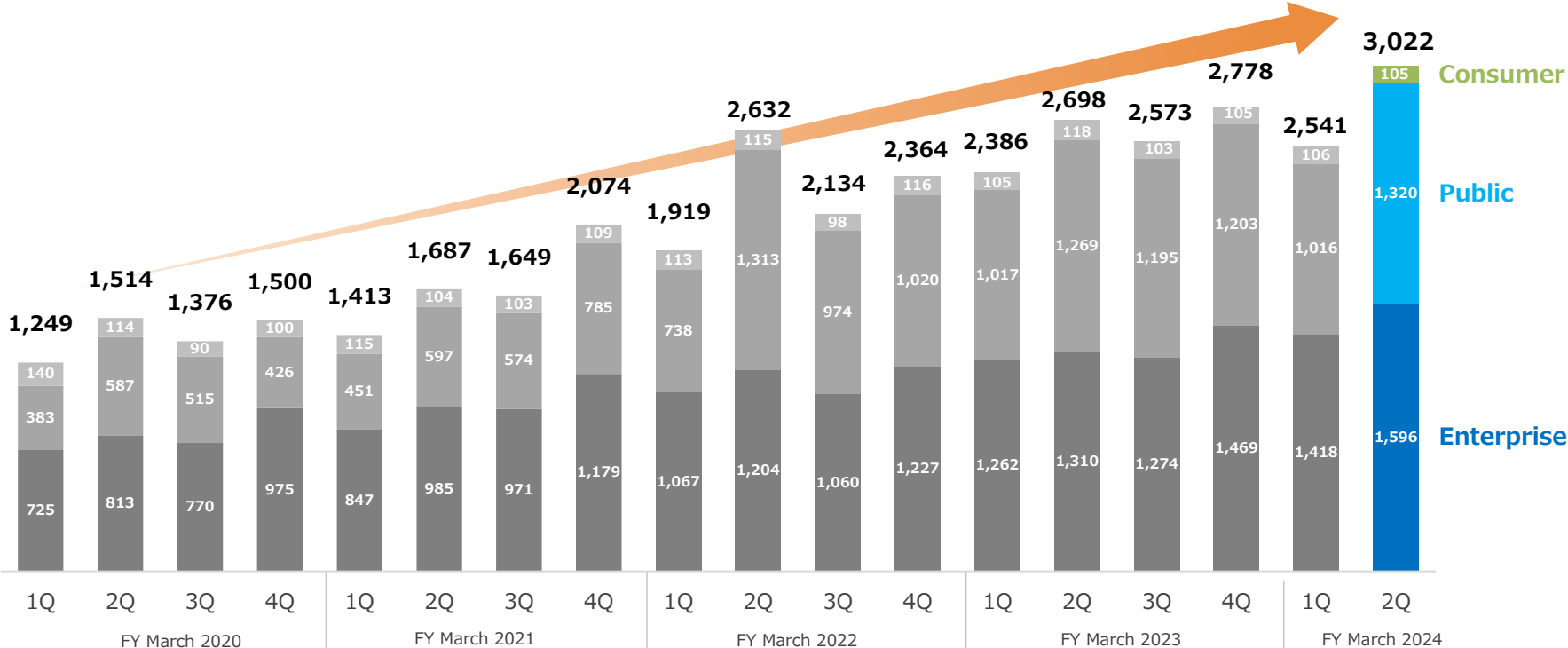


Quarterly Trend in Consolidated Net Sales by Market



Net sales for the second quarter were a **record high**.

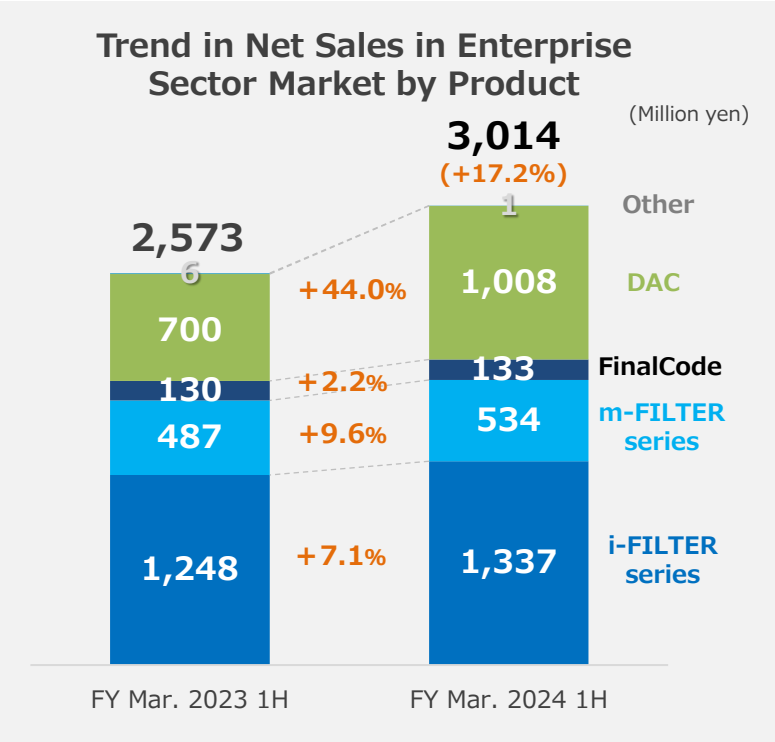
(Million yen)



03 Net Sales by Market

Enterprise Sector

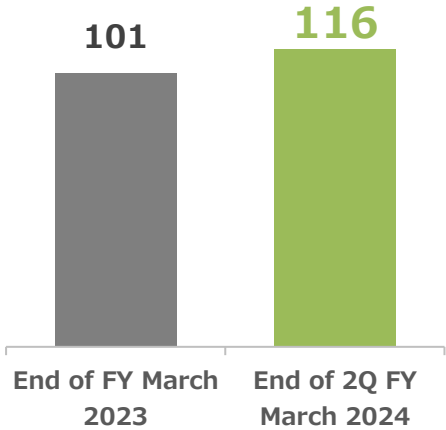
In response to the expansion of the scope of protection following the increasing frequency of damage from more diverse cyber attacks and the expansion of scope for security in line with the trend towards one-stop security measures, the Group released new products and functions enabling a healthy increase in new projects.



- Sales of the i-FILTER series were brisk amid the growing demand for Internet security in cloud environments following the shift from the traditional boundary protection model to a zero trust model. (+88 million yen/+7.1%)
- The m-FILTER series captured demand for countermeasures to address malware and the insecure practice of sending a password-protected zip file and a password for unzipping it separately by email (commonly known as PPAP in Japan). Sales were strong. (+46 million yen/+9.6%)
- The FinalCode series sold well, fulfilling the need to take measures to address PPAP and ransomware. (+2 million yen/+2.2%)
- DAC made good progress acquiring new clients and achieved substantial sales growth (up 308 million yen or 44.0%), reflecting growing DX needs and demand for security measures among enterprises.

Number of consultants

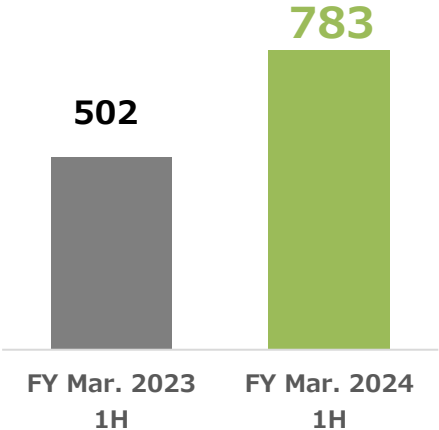
(Persons)



DAC actively recruited individuals with rich knowledge and experience in operational reforms and DX and with a high level of expertise in the area of technology and cybersecurity.

Security consulting sales*

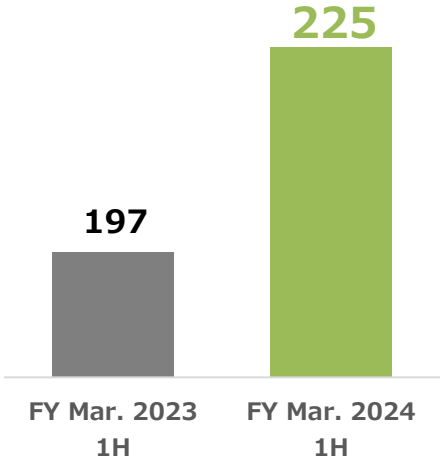
(Million yen)



Sales increased significantly after receiving projects for the comprehensive support of all processes including the examination, construction and operation for assisting the enhancement of security through the application of advanced technologies, as well as assisting the development of security governance systems such as the Information system Security Management and Assessment Program (ISMAP).

IT strategy consulting sales*

(Million yen)



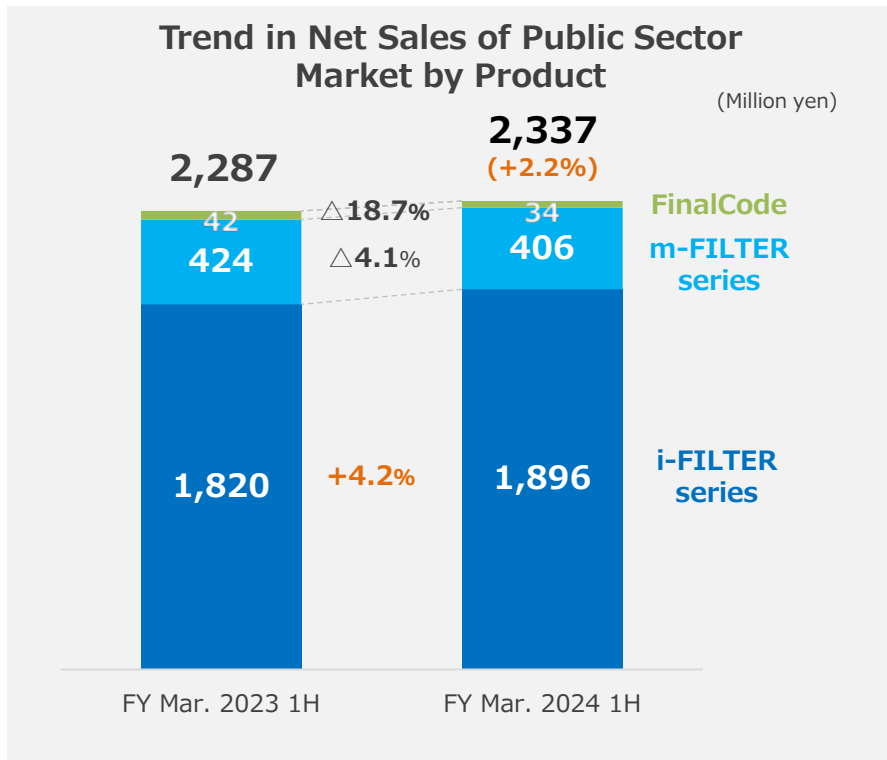
Sales grew steadily as a result of acquisition of consulting projects regarding the formulation of IT strategies, operational reforms, enhanced customer experience (CX) and other matters for establishing superiority through the positive utilization of digital technologies.

*DAC's net sales (after consolidated journal adjustments)

03 Net Sales by Market

Public Sector

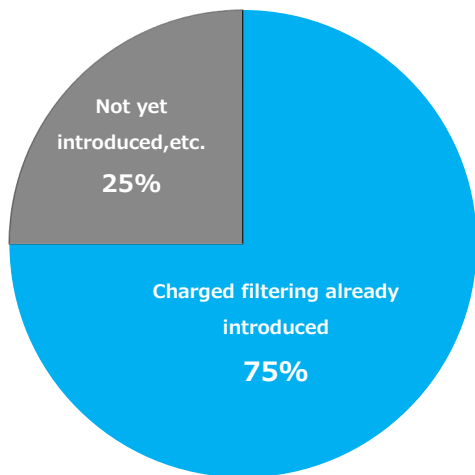
Notable changes in the market include the closure of classes using computers following the widespread use of GIGA terminals and the reduction of demand from local governments for the improvement of security.



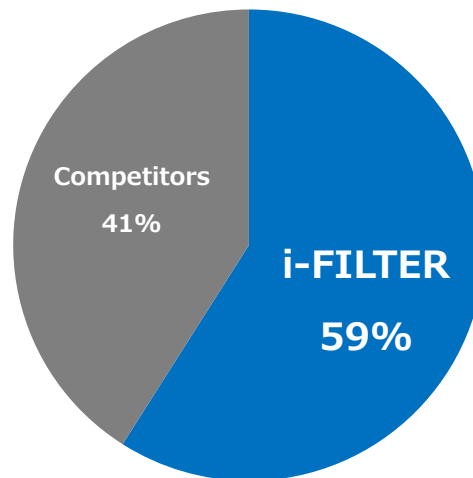
- While the rescheduling of orders from some local governments to 3Q and later and the closure of conventional classes using computers following the widespread use of GIGA terminals had a negative impact, sales of the i-FILTER series increased (by 75 million yen or 4.2%) following the continuation of GIGA School Concept projects from before the previous fiscal year and the recording of sales from a large project for a public agency.
- Sales of the m-FILTER series fell slightly (by 17 million yen or 4.1%). Although a large project for a local government was gained, procurement for enhanced security of local governments were less active than in the previous fiscal year.

Introduction of filtering under the GIGA School Concept*1

Introduction of charged filtering



Share of charged filtering introduced



- The percentage of boards of education that have adopted pay filtering increased to **75%**.

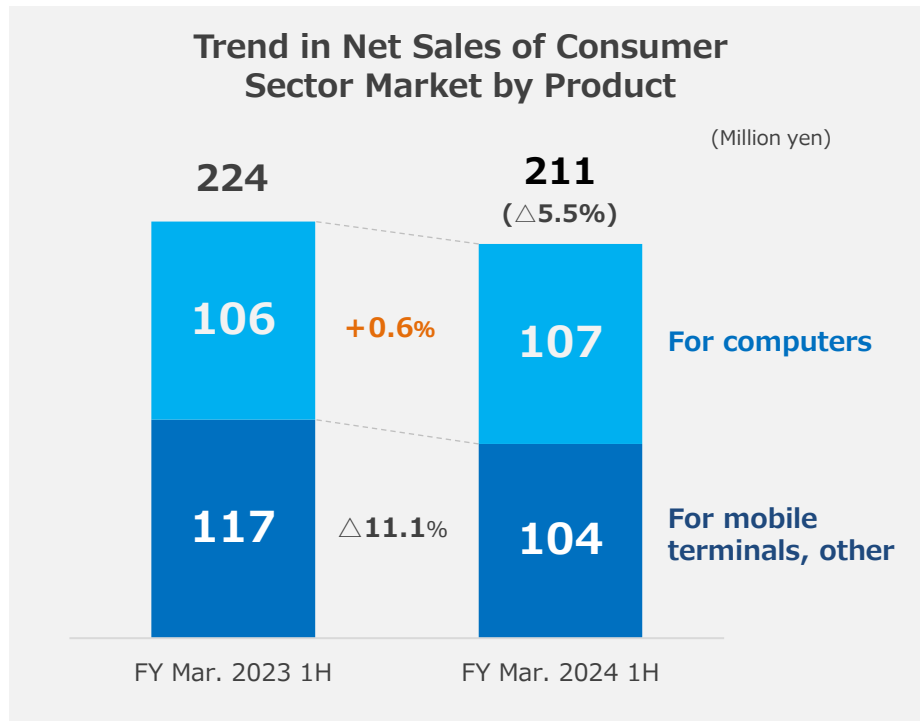
- i-FILTER's market share increased from 55% in 1Q to **59%**.

*1 : According to our survey of 1,741boards of education (Sept 2023)

03 Net Sales by Market

Consumer Sector

New issues raised include filtering measures for bring-your-own-devices (BYOD) for learning.

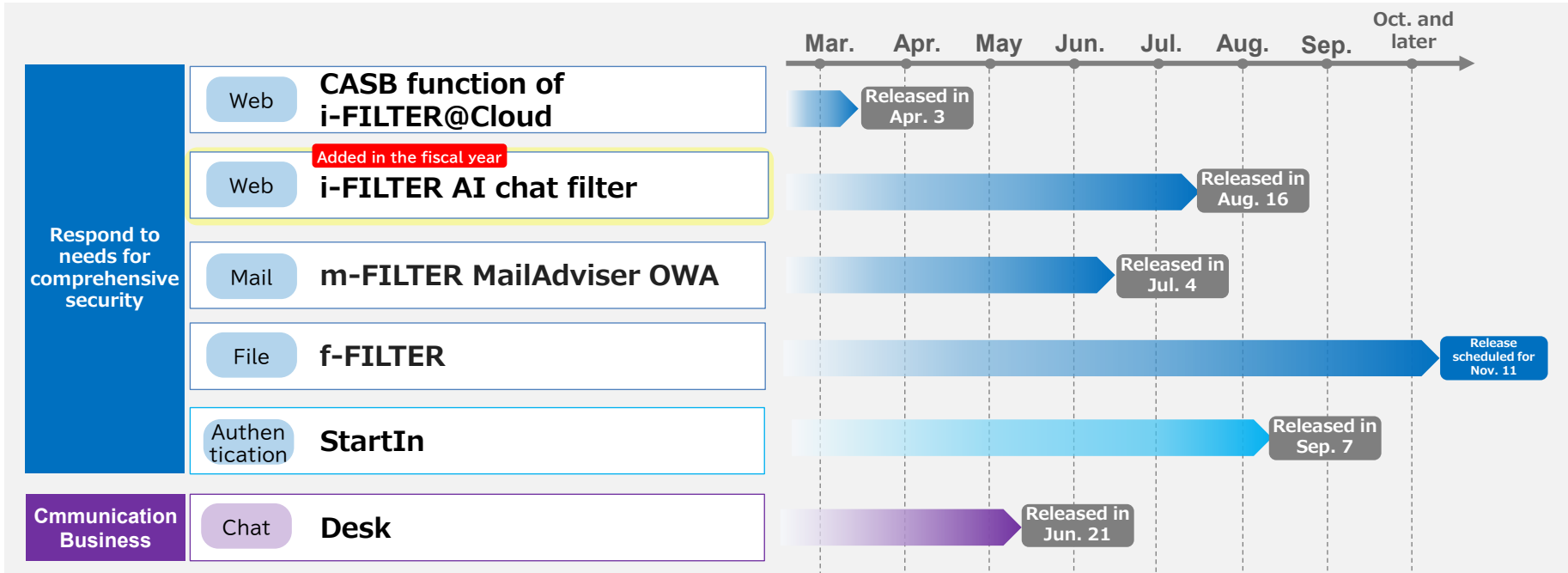


- In products for computers, the number of users of multiple-year package products and i-FILTER® for Multi-Device, which are available on multiple terminals, remained strong.
- Regarding products for mobile phones and other terminals, revenue from carriers decreased.

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

04 Status of Measures for the Fiscal Year Ending March 2024

- ◆ The functional upgrade to fulfill comprehensive security needs and new product releases, both of which were due to be done in the current fiscal year, were almost done by 2Q.
- ◆ Regarding the launch of the communication business, the product was released as scheduled.



- ◆ Introduction of new products to fulfill comprehensive security needs and implementation of active marketing efforts.
- ◆ Among the efforts for public entities and schools, products for enhancing security for local governments and GIGA School projects are bullish.

Measures

Actions

Respond to needs for comprehensive security

- ◆ Upgrade next-generation SWG functions by adding the CASB function to i-FILTER@Cloud
- ◆ Upgrade measures for detecting and responding to malware infections
- ◆ Improve measures against PPAP and wrong email transmission solution
- ◆ Develop non-VPN remote access products
- ◆ Encourage the smart utilization of generative AI
- ◆ Release IDaaS products with original authentication methods such as authentication using positional data and third-party authentication



Improve next-generation SWG functions and anti-malware measures

Total sales of Anti-Virus & Sandbox increased to 530 million yen from the previous fiscal year's 358 million yen.

Response to the PPAP, wrong email transmissions, generative AI, ID management and other issues

New products fulfilling security needs were released as scheduled.

i-FILTER@Cloud

CASB function

AI chat filter

m-FILTER

Mail Adviser OWA

F-FILTER

(Release scheduled for Nov. 13)

StartIn.

For public organizations and schools

- ◆ Expand sales in enhanced security for local governments
- ◆ Increase GIGA School Concept project market share and prepare for the next update.



Security improvements for local governments

Total contracts increased from 1,739 million yen in the previous fiscal year to 2,122 million yen.

GIGA School Concept

Total contracts increased from 8,700 million yen in the previous fiscal year to 9,300 million yen.

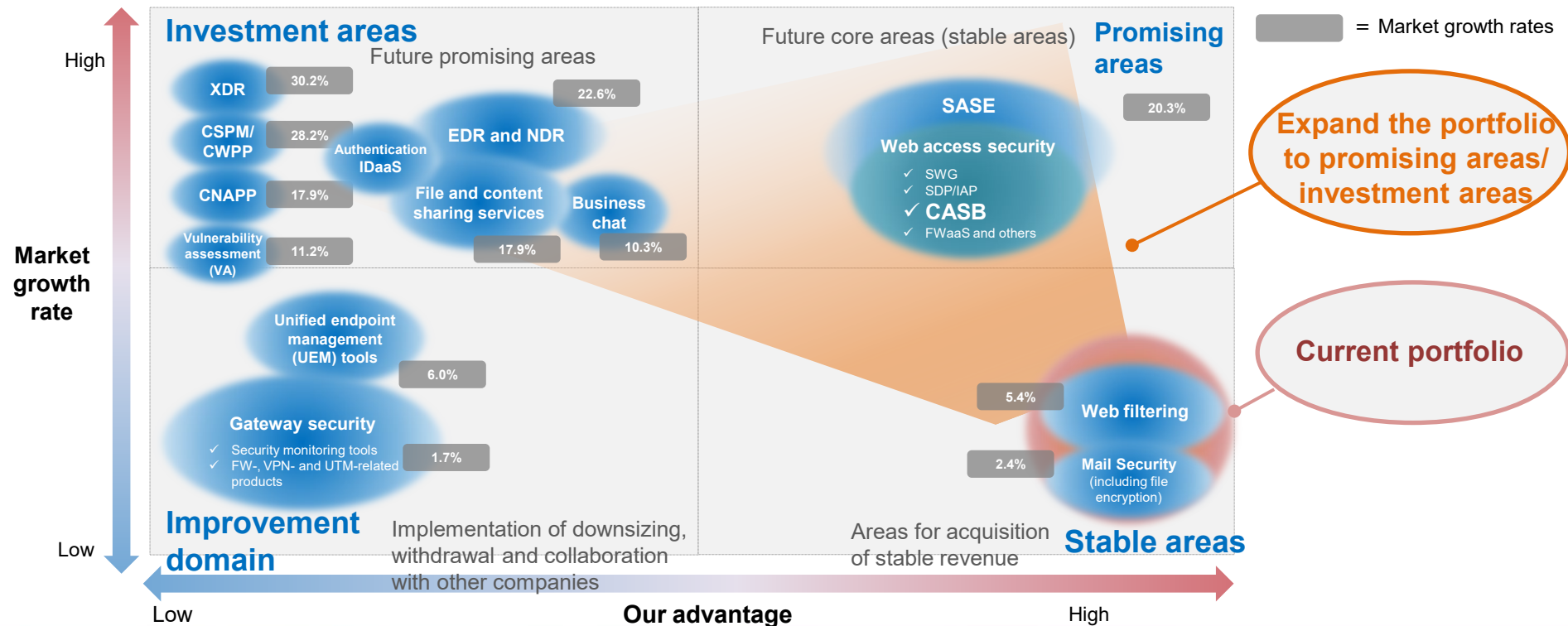
**Material on Consolidated Financial Results
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05 **FY03/24 Initiatives**

05 FY03/24 Initiatives

Responding to the ICT Environment

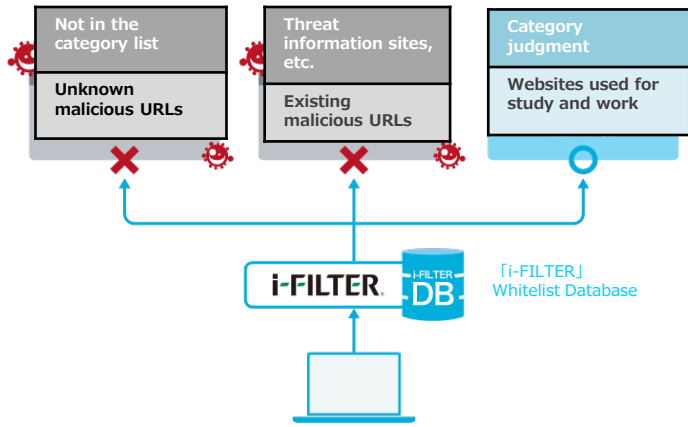
Expand the product portfolio to promote synergy in terms of the existing main products' functions and customer base.



Maximize synergy between the existing main products and new products, centering around **White Operation**, which is our strength.

What is White Operation?

The products adopt White Operation based on whitelist database, instead of blacklisting, which is a common concept of security measure. It protects an ICT environment from unknown and/or existing threats irrespective of user's literacy.



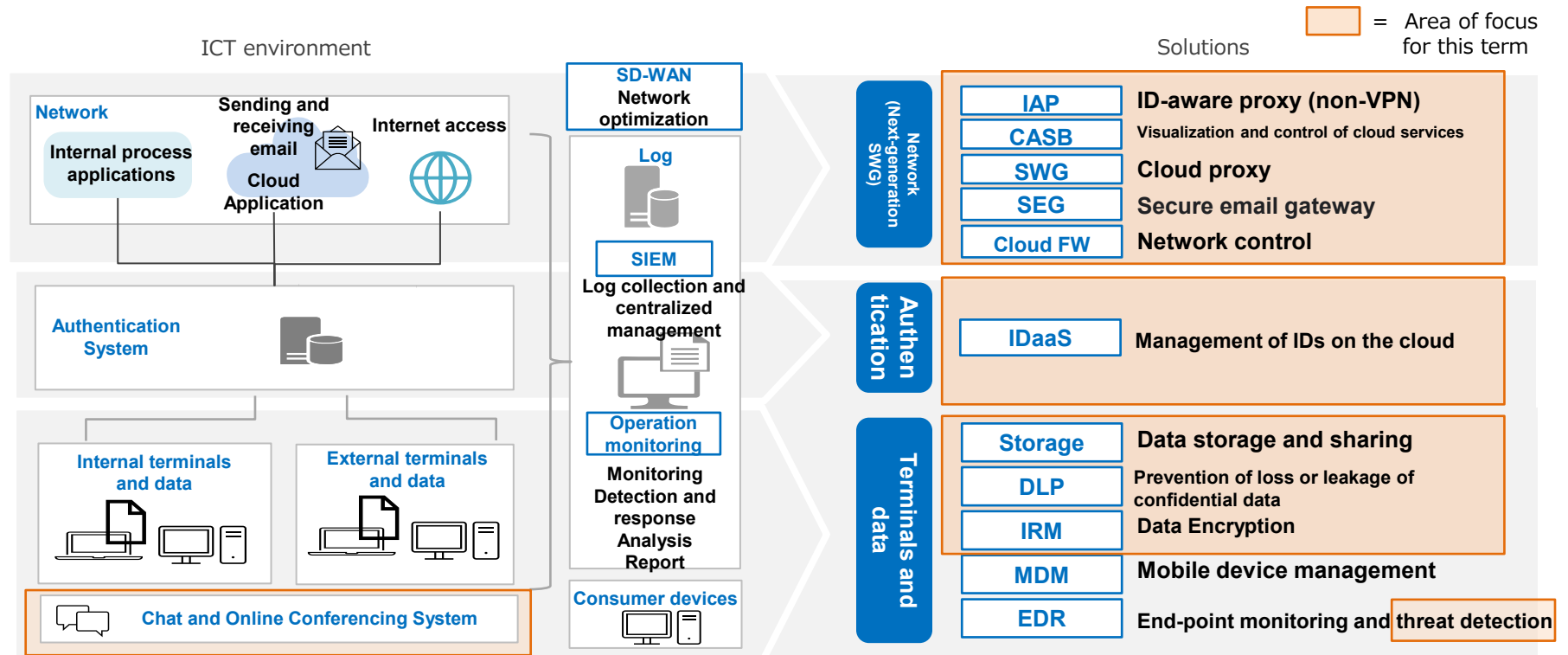
Features of White Operation:

- ✓ Digital Arts' unique operating method
- ✓ Constructing high coverage rate/high accuracy DB of whitelist
- ✓ Having countermeasures against falsification

Responding to the ICT Environment

Areas of Focus for This Term

Release new products/new functions for Network, Authentication, Terminal/Data and Chat and Online Conferencing System aiming at providing the total support for the ICT environment.



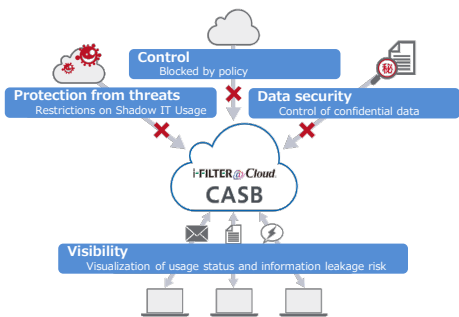
Network Security

Add the CASB function, to be one of the main functions in the next-generation SWG plan, and a new function for visualizing/controlling the status of use of generative AI increasingly in demand, to i-FILTER as standard features.

New features

i-FILTER@Cloud™

CASB function



- Visualize and control the status of use of cloud services
- Enabling flexible and robust countermeasures against information leakage

AI chat filter

No.	プロキシアドレス	グループ	日時	サービス	検出	検出単語
1	192.168.0.2	営業部	2023/07/13 13:48:44	OpenAI (ChatGPT)		-
2	192.168.0.2	営業部	2023/07/13 15:40:13	OpenAI (ChatGPT)	ブロック	検察官職
3	192.168.0.2	営業部	2023/07/13 15:47:27	OpenAI (ChatGPT)	ブロック	検察官
4	192.168.0.2	営業部	2023/07/13 15:44:41	bing AI	ブロック	検察官職

Support for confirmation of users who made a post, their group and time of posting/support for highlighting of detected words/reasons for detection

Support for confirmation of target generative AI

Support for confirmation of detected words and word category

Supporting flexible management/control of access to generative AI by service and by account

POINT

- ✓ The AI chat filter is a new function designed for companies and organizations willing to proactively use generative AI, which is a trendy tool.
- ✓ Aim at creating further projects and increasing user satisfaction, mainly targeting small and medium enterprises who cannot afford the high-priced products of foreign affiliates due to their limited budgets since both the functions are provided as standard features.

Network Security

- A product to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA) environment
- Equipped with the original function to solve PPAP issues, meeting a wide range of needs for security measures in email delivery



Indicating the number of problems in the Recipients, Text and Attached File tabs.

The categories displayed at the beginning of each domain are "external," "mobile," and "internal".

* In addition to the above categories, External, "Outside the unit" and "Within the unit" can be added.

The receiver can instantly be identified.
Automatically obtain information on each user's organization and convert the domain into the organization information so that erroneous addresses can be spotted right away.

Displaying the risks of erroneous sending at once

Click on the destination address itself to confirm

Pointing out what needs to be confirmed when a cursor is pointed at the address

The mail cannot be sent if any item is left unconfirmed
The mail cannot be sent unless all the tabs, "Recipients," "Text" and "Attached Files," are confirmed.

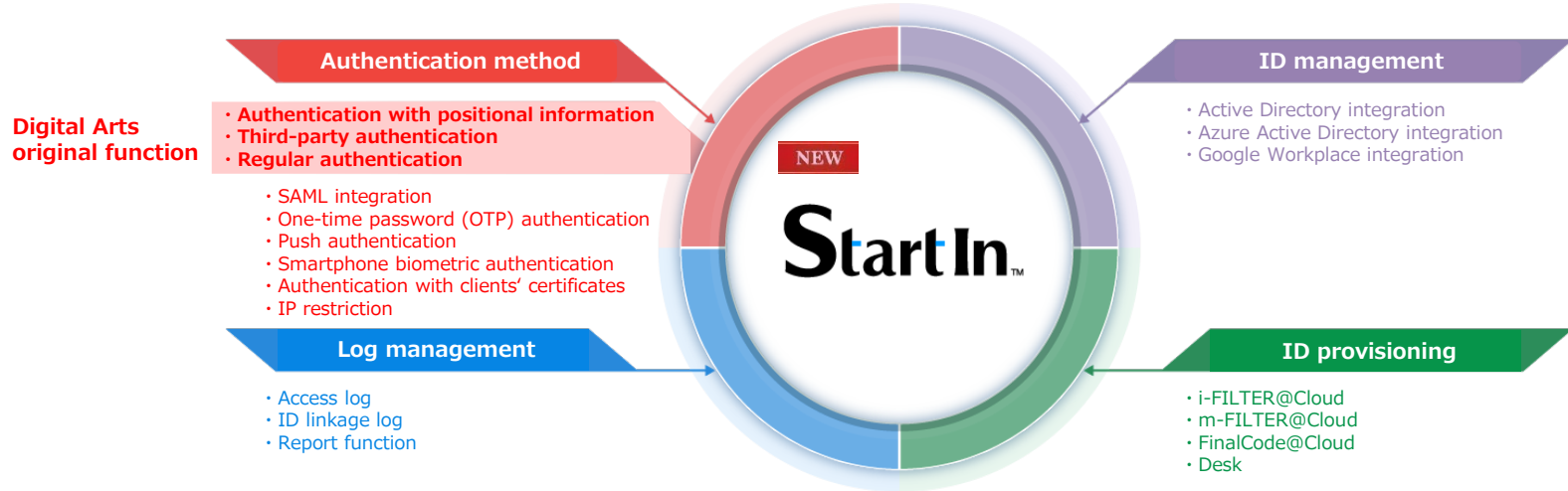
POINT

- ✓ More users choose the Microsoft 365's OWA environment as an environment to send and receive emails since it works in any terminal
- ✓ Providing the original function to solve PPAP issues in addition to the function to prevent email misdelivery and allowing easy introduction
- ✓ Aim at creating projects by understanding the needs for security measures for email deliveries that cannot be satisfied by OWA

- Measures to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA)
- Robust measures to prevent email misdelivery and solve PPAP issues

Authentication security

Release StartIn, a new product featuring the original multifactor authentication method, in addition to ID management, log management and ID provisioning, and providing secure authentication when using SaaS



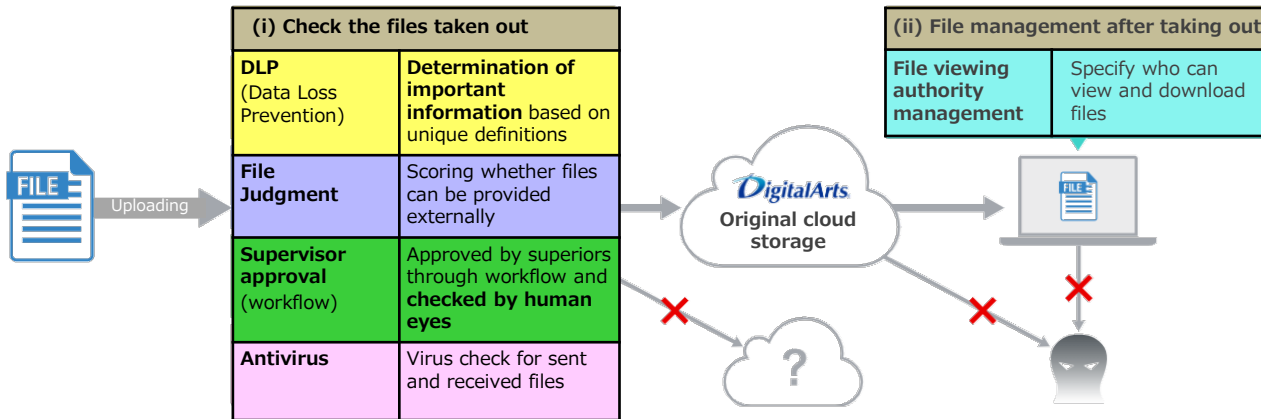
POINT

✓ The main target of the product is corporate and educational customers of the company.

Data security

- Release f-FILTER, an original solution to file transfer featuring the DLP function
- Meeting the needs for measures to prevent information leakage of terminals/data in the ICT environment

NEW f-FILTER™

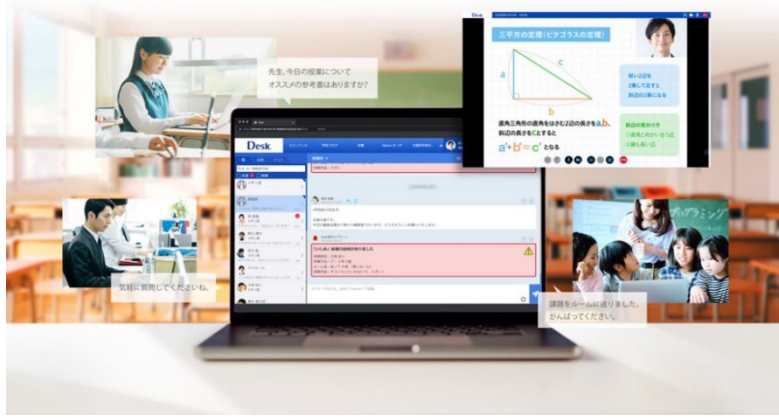


POINT

- ✓ Cross selling will be implemented to the existing users by stimulating their needs for integration of i-FILTER with m-FILTER.

Chat and Online Conferencing System

- Desk was released on June 21 (our anniversary of foundation), launching the communication business.
- Addressing security risks emerging in communication.



Chat and online conferencing

Desk®

Chats (for schools)

Desk® GIGAスクール版

Video conferencing tool

Desk Event™

POINT

✓ Sales promotion activities (to create users of the free edition) to increase consumer awareness of Desk GIGA School Edition were conducted targeting **education boards and schools** at first.

05 FY03/24 Initiatives

Education Business (GIGA School/School Affairs DX)

In the education business, **contracts can be expected to increase** due to the special demands for GIGA School Concept, Next-generation school affairs DX and DX high school* for the five years following the FY March 2024.



DX high school

Possibility of financial support up to **800 billion yen** for approx. 5 years starting 2024*

Renewal of the existing GIGA business



Increase of our market share due to enhanced products



Single year budget size
Approx. **¥195.3 billion** or more ※



Support for next-generation school affairs DX guideline

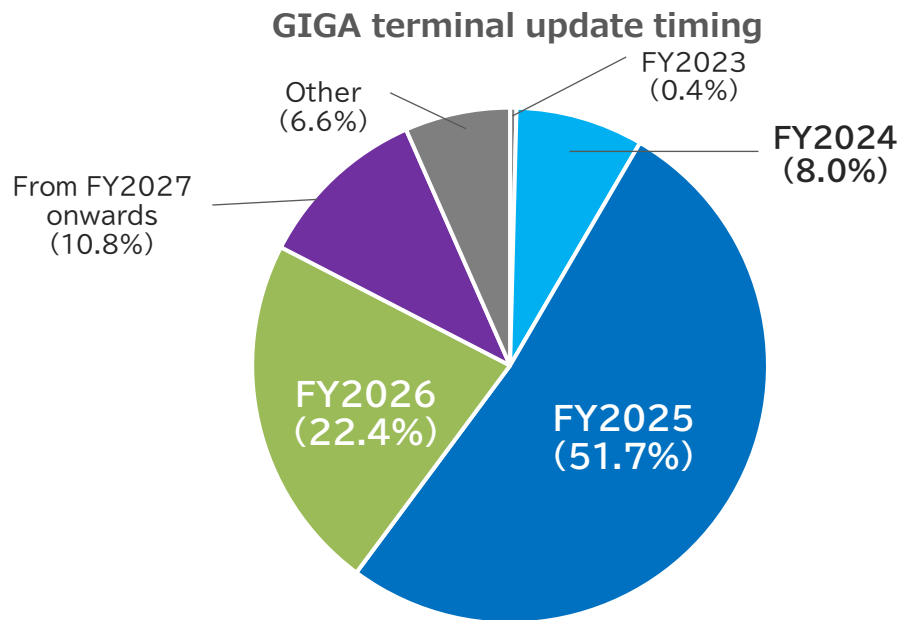
- Maintenance of information security in the network with the assumption of access control
- Expanded scope of security support provided by the new product

Increase in the introduction rate of pay filtering due to **NEXT GIGA**



*Created by the Company based on each press article

GIGA terminals are being gradually updated due to the NEXT GIGA School Concept since FY2024 and will go into full swing in FY2025.



POINT

- ✓ The Ministry of Education, Culture, Sports, Science and Technology publicized its research on the status of use of GIGA terminals, etc.
- ✓ As for the date of updating GIGA terminals, **approx. 60% of the education boards will be due for updating by the end of FY2025.**
- ✓ As for later dates of updating, **22.4% will be due for updating in FY2026 and 10.8% from FY2027 onwards.**

March 30, 2023, from a survey by the Ministry of Education, Culture, Sports, Science and Technology

The Ministry of Education, Culture, Sports, Science and Technology calls for the following implementation as the direction of the next-generation school affairs DX:

* As a regional fiscal measure, financial support of 180.5 billion yen on a single-year basis has always been provided for computerization of school affairs.

Work style reform

(i) Make it possible to reduce the burden on teaching staff and school officials working inside and outside the school, as well as on members of the education boards, and support the acceleration and activation of communication through active use of the general-purpose cloud tools.

This can be tackled by utilizing GIGA terminals and the existing network environment.

(ii) Develop an environment offering connection to the school affairs/learning systems from anywhere and allow flexible and safe work styles tailored to the individual needs of teaching staff

Integration of school affairs/learning networks

Data linking

(iii) Allow low-cost and real-time integration of data owned by school affairs system and the learning system.

Cloud migration of school affairs support system

(iv) Support the sophistication of school management, educational guidelines and education policies by visualizing various kinds of data in an integrated way by using the dashboard function.

Creation of data linkage platform (dashboard)

Resilience

(v) Allow securing operation continuity even in the event of a large-scale disaster.

Cloud migration of school affairs support system

Maintenance of security is essential for implementation in a safe and reassuring way.

Source: Created by the Company based on https://www.mext.go.jp/b_menu/shingi/chousa/shotou/175/mext_01385.html

Security measures in school affairs DX will **start from FY2024**, aiming to bring the system into operation in FY2025.

◆ Schedule for introduction/renewal of integrated school affairs support systems

Fiscal year	FY2025	FY2026	FY2027	FY2028	FY2029	No plans to introduce, etc.
Number of municipalities	317 (17.5%)	319 (17.6%)	216 (11.9%)	380 (20.9%)	353 (19.4%)	230 (12.7%)

◆ Example of schedule for environmental development aimed at the next-generation school affairs DX

System procurement will begin in 2024

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
		Development of model case Drafting of the next-generation school affairs DX guideline (provisional name), etc.				
Local governments scheduled to introduce/renew the system in FY2025	Consideration at the expert meeting	Consensus formation Specification formulation Budget request Steady implementation	Procurement contract System design/construction Trial operation of transitional initiatives	Next-generation system operation		
Local governments scheduled to introduce/renew the system in FY2026			Consensus formation Specification formulation Budget request Steady implementation of transitional initiatives	Procurement contract System design/construction Trial operation	Next-generation system operation	

Source: Ministry of Education, Culture, Sports, Science and Technology "Results of a survey on computerization of school affairs (as of September 2022)" https://www.mext.go.jp/content/20230308-mxt_jogai01-000027984_001.pdf

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

**06 Full-Year financial Forecast for
the Fiscal Year Ending March 2024**

Expand existing businesses and develop new businesses with the aim of increasing net sales and profit

(Million yen)

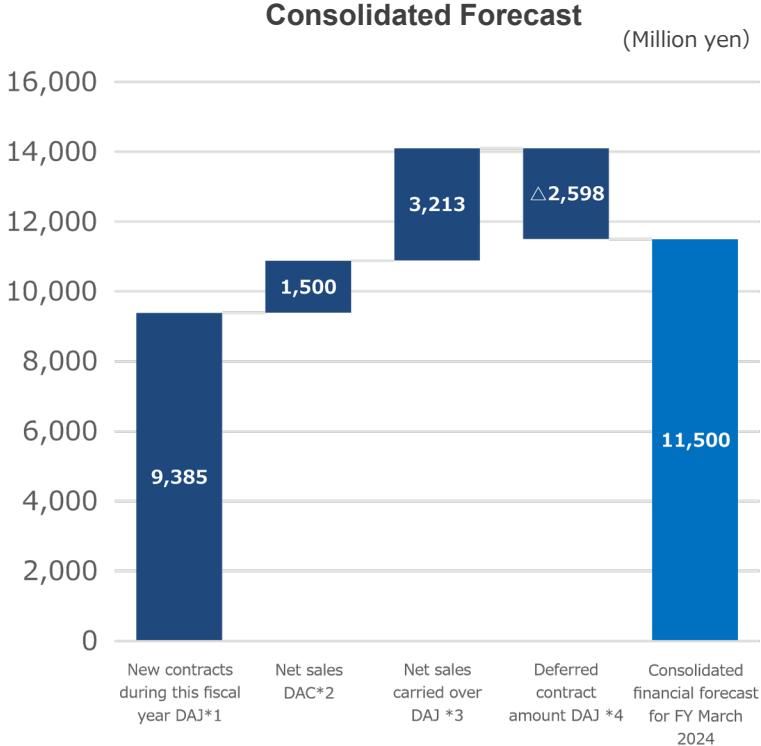
	FY March 2023 Full-Year Results	FY March 2024 Full-Year Forecasts	Change	% Change
Net sales	10,436	11,500	+1,063	+10.2 %
Cost of goods sold	3,666	3,850	+183	+5.0 %
Gross profit	6,769	7,650	+880	+13.0 %
Gross profit margin	64.9%	66.5%	-	-
Selling, general and administrative expenses	2,356	2,500	+143	+6.1 %
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 %

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	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 %

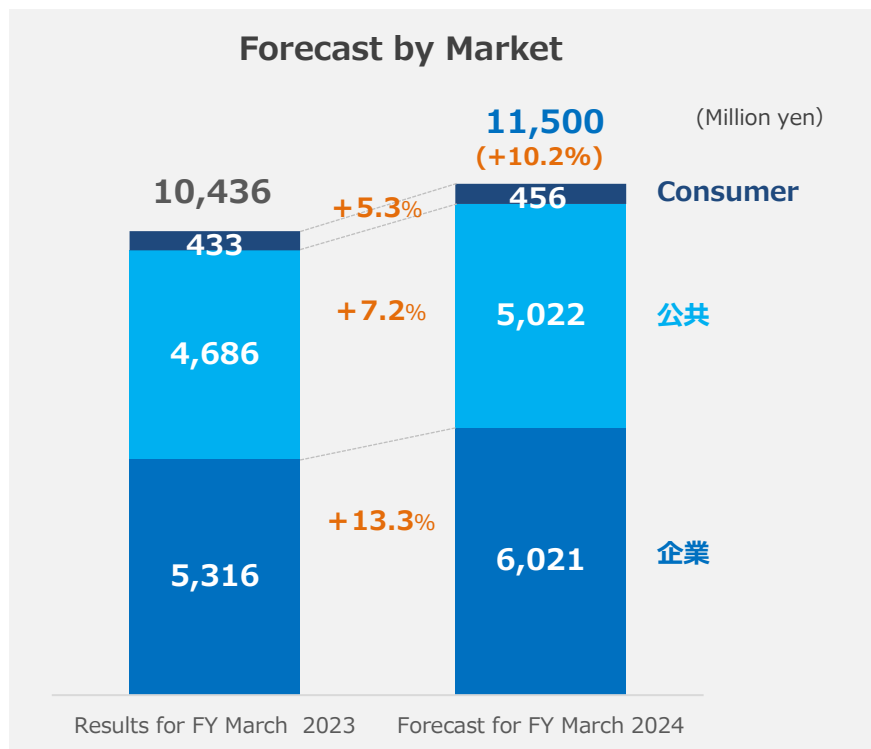
Consolidated net sales are forecast as follows:



- 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)

Consolidated net sales by market are forecast as follows:



- In response to corporate needs for total security solutions, we will **enhance the product lineup** 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



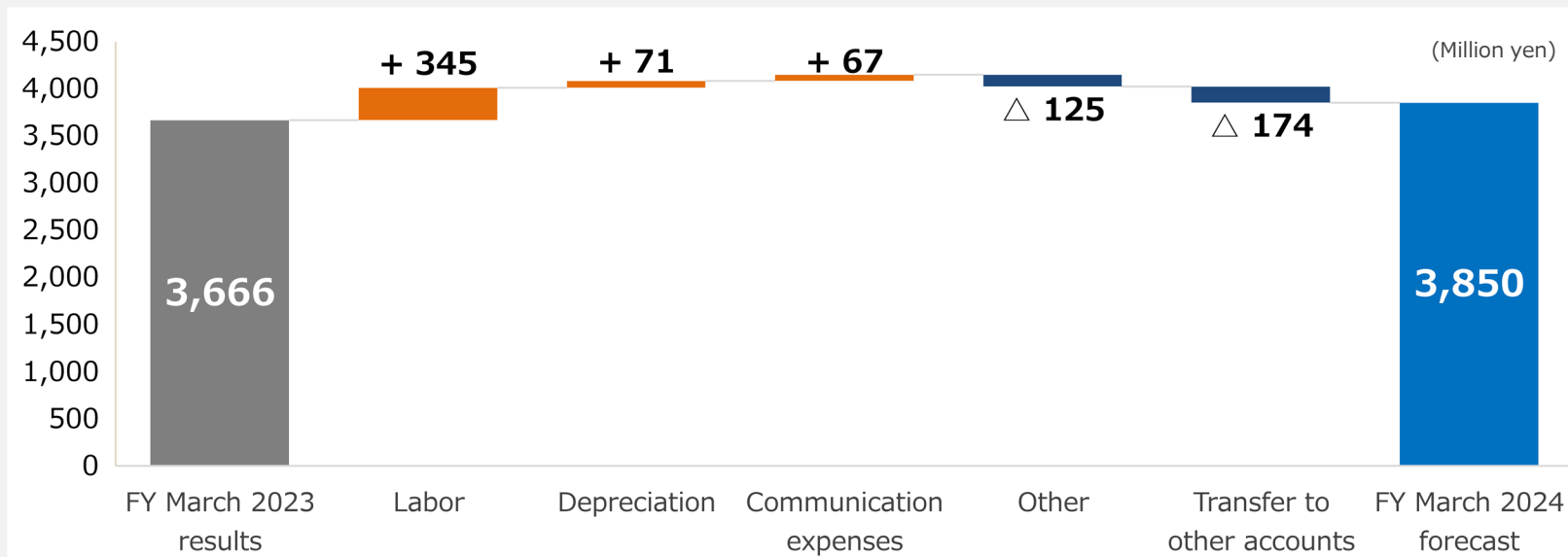
Labor costs, communication expenses and personnel expenses are expected to increase after the release of the new products/new functions.

(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.

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

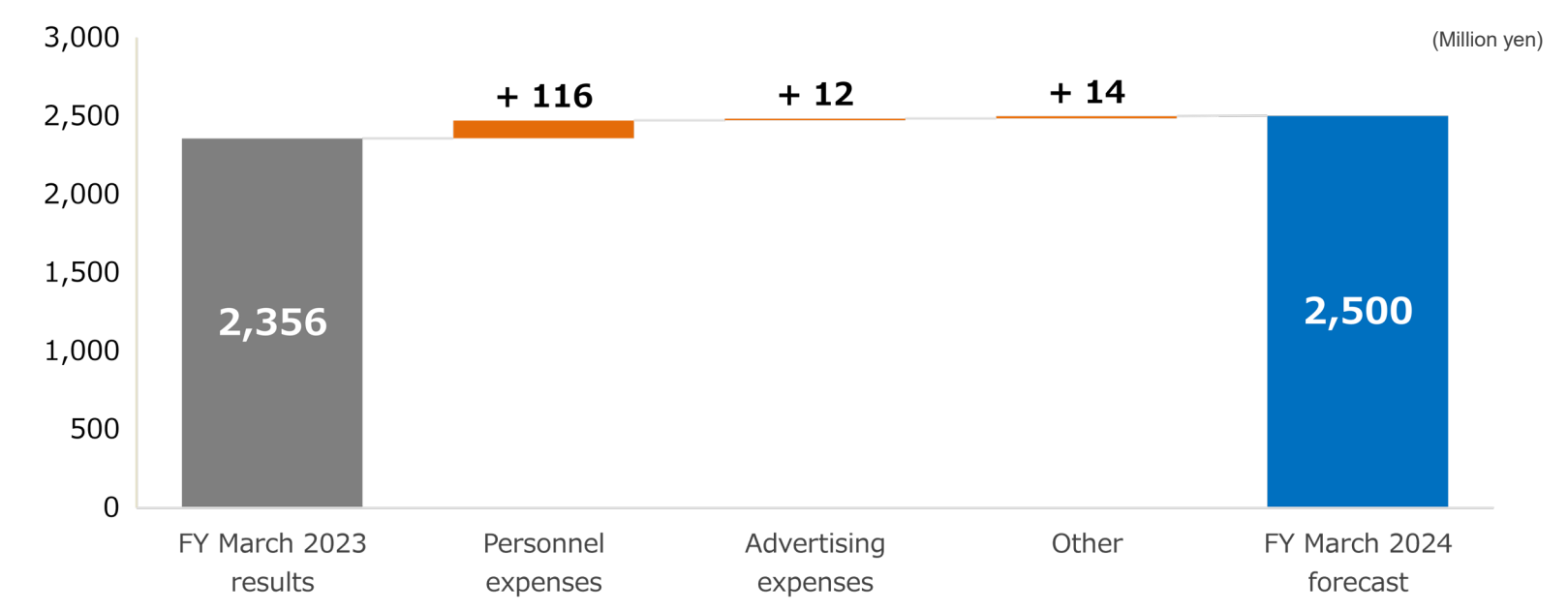


Status of Consolidated Cost of Goods Sold



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



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

07 **Return to Shareholders for the
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	40.00			
FY March 2024 (forecast)		40.00	80.00	31.6%

Treasury shares will be purchased using a flexible approach, with a focus on returns to shareholders while taking into consideration trends in business performance and stock market movements.

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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