

Digital Arts Inc. (2326)



**FY03/17 Consolidated Financial Results**  
**For Fiscal Year Ended March 31, 2017**  
(April 1, 2016 through March 31, 2017)

Reference Slides  
May 9, 2017

**FY03/17 Financial Results Reference Slides**

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# **KEY FINANCIAL POINTS**

## ① **Dramatic increase in demands related to Local Government Security Cloud and Local Government Security Enhancement initiatives**

- Sales for i-FILTER series and m-FILTER series, the main offerings for the Public Sector, increased as a result of Ministry of Internal Affairs and Communications guidance to fundamentally strengthen local government security where each prefectural and municipality government executed plans to enhance cyber security.

## ② **Successfully closed large new sales with government agency**

- Closed i-FILTER sales with large-scale governmental agency requiring a solution to stop multi-faceted, sophisticated, and advanced targeted attacks.

## ③ **Increase in FinalCode sales**

- FinalCode 5 met stringent file security requirements by enterprises handling large volumes of customer data, which led to surge in sales.
- Steady deployment of FinalCode Limited Edition for Local Government, a special edition that responds to needs specific to prefectural, city and local municipality governments.

## ④ **Steady business in consulting opportunities**

- Increasing awareness on data security boosted orders received by Digital Arts Consulting, Inc., a subsidiary of the Group, which contributed to the Group's overall sales growth.

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# CONSOLIDATED RESULTS HIGHLIGHTS

## Consolidated Net Sales

**¥ 5,058 million**

(YoY +¥1,058 million / +26.4%)

Dramatic increase due mainly to large sales related to Local Government Security Cloud initiatives in the public sector.

## Operating Income

**¥ 1,824 million**

(YoY +¥817 million / +81.2%)

Personnel expenses due to increase in Japan headcount were absorbed by growth of net sales, resulting in substantial increase in profit.

## Ordinary Income

**¥ 1,811 million**

(YoY +¥816 million / +82.2%)

Rise in operating income as a result of dramatic increase in domestic sales led to substantial YoY increase in ordinary income.

## Net Income Attributable to Owners of Parent

**¥ 1,125 million**

(YoY +¥579 million / +106.1%)

Rise in operating income as a result of dramatic increase in domestic sales led to substantial YoY increase in net income.

## Consolidated Results

(million yen)

	FY03/16	FY03/17	YoY	FY03/17 Forecast*
Net Sales	4,000	<b>5,058</b>	+26.4%	5,000
Gross Profit	3,074	<b>4,051</b>	+31.8%	—
Selling, General and Administration Expense	2,067	<b>2,227</b>	+7.7%	—
Operating Income	1,006	<b>1,824</b>	+81.2%	1,700
Ordinary Income	994	<b>1,811</b>	+82.2%	1,700
Net Income Attributable to Owners of Parent	545	<b>1,125</b>	+106.1%	1,050
ROE	12.4%	<b>23.0%</b>	—	—
Dividend per Share	15 yen	<b>24 yen</b>	—	24 yen

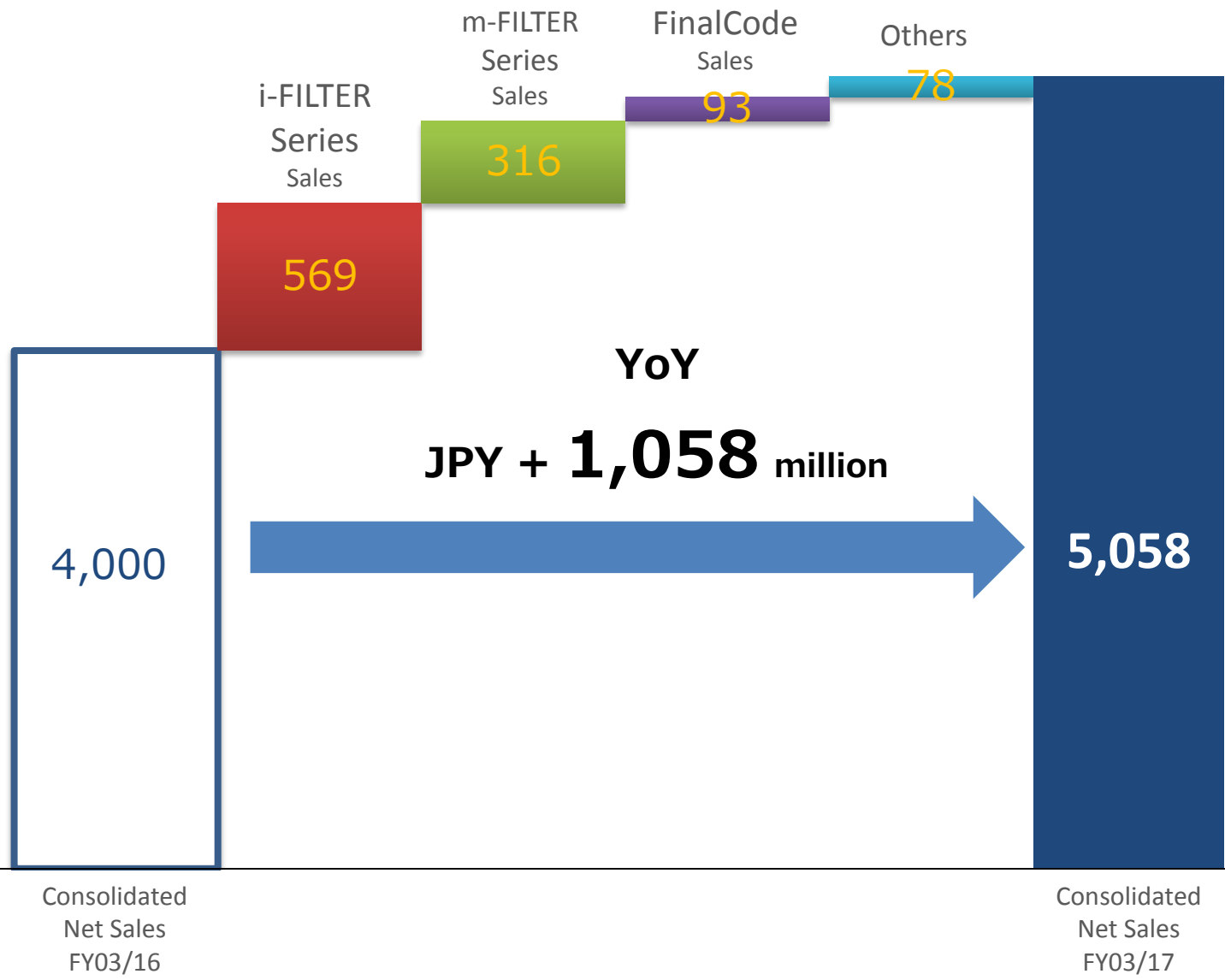
\* FY03/17 Forecast announced on March 23, 2017

## Non-Consolidated Results

(million yen)

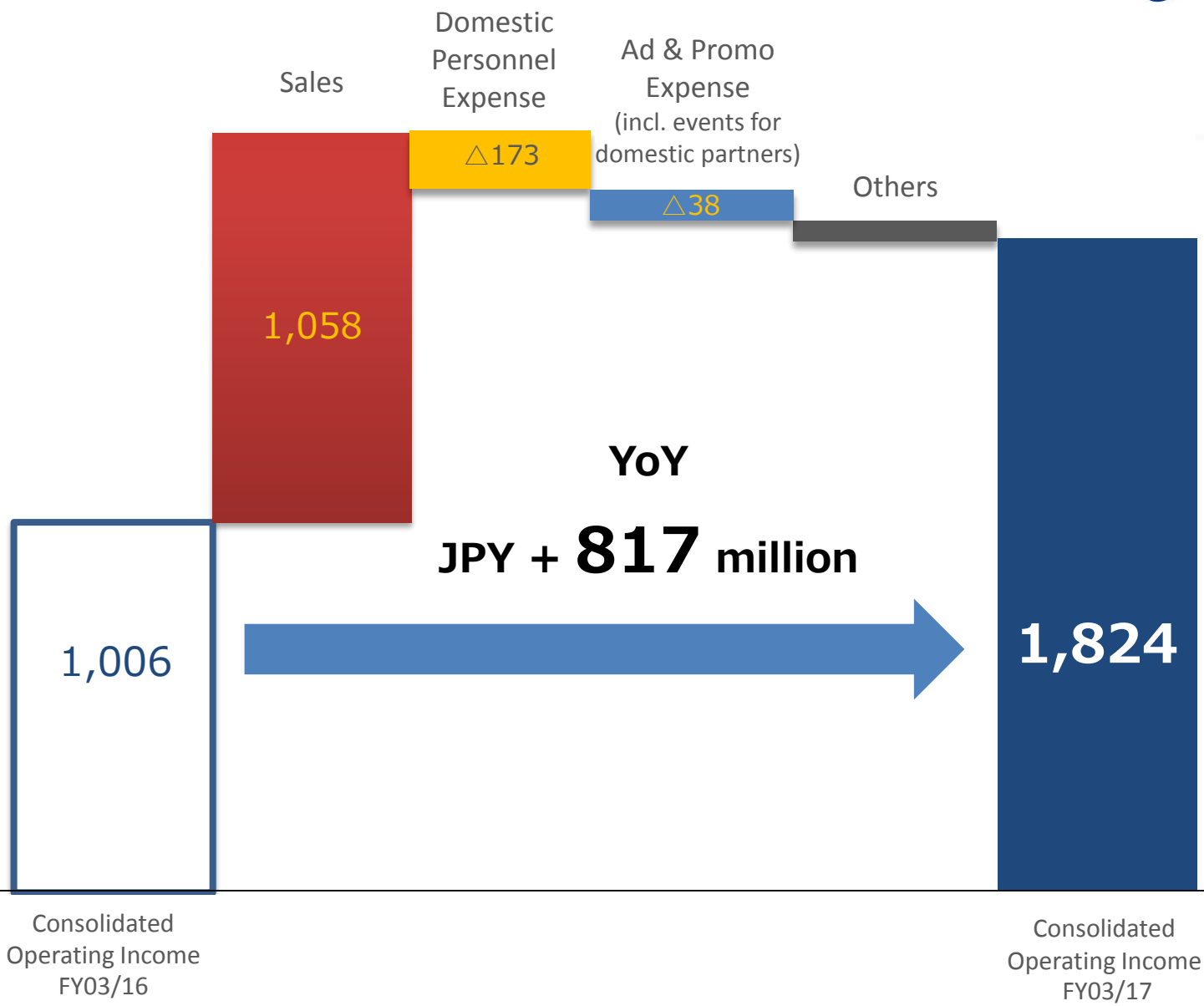
	FY03/16	FY03/17	YoY	FY03/17 Forecast*
Net Sales	4,018	<b>5,104</b>	+27.0%	5,000
Gross Profit	3,123	<b>4,028</b>	+28.9%	—
Selling, General and Administration Expense	1,788	<b>1,960</b>	+9.6%	—
Operating Income	1,335	<b>2,067</b>	+54.9%	—
Ordinary Income	1,328	<b>2,056</b>	+54.8%	1,950
Net Income Attributable to Owners of Parent	840	<b>1,339</b>	+59.3%	1,300
ROE	18.0%	<b>24.8%</b>	—	—
Dividend per Share	—	—	—	—

\* FY03/17 Forecast announced on March 23, 2017





# Contributing Factors to Operating Income



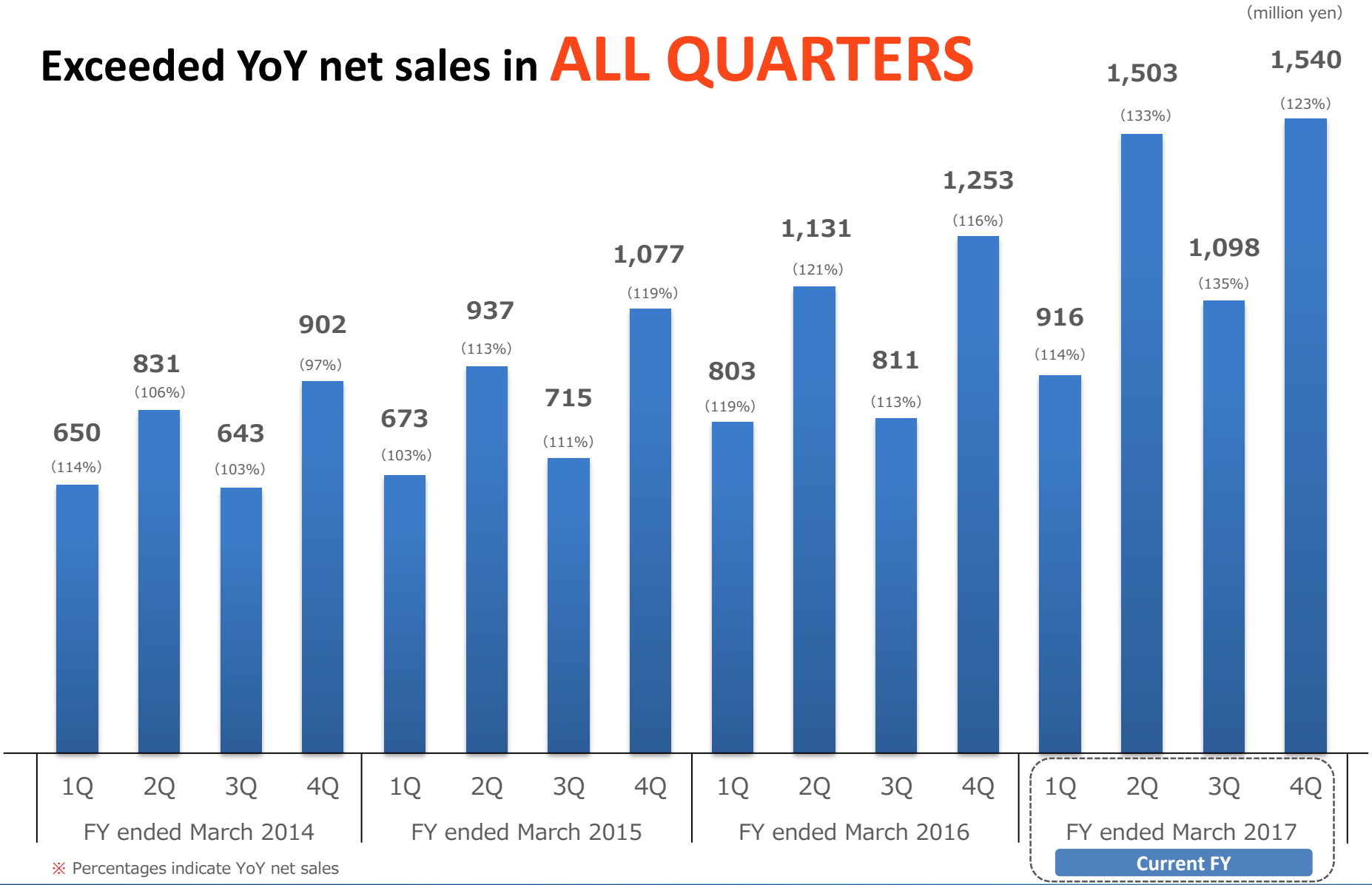
Continue to mark **RECORD HIGH** sales



※ Percentages indicate YoY net sales

(million yen)

## Exceeded YoY net sales in **ALL QUARTERS**



※ Percentages indicate YoY net sales

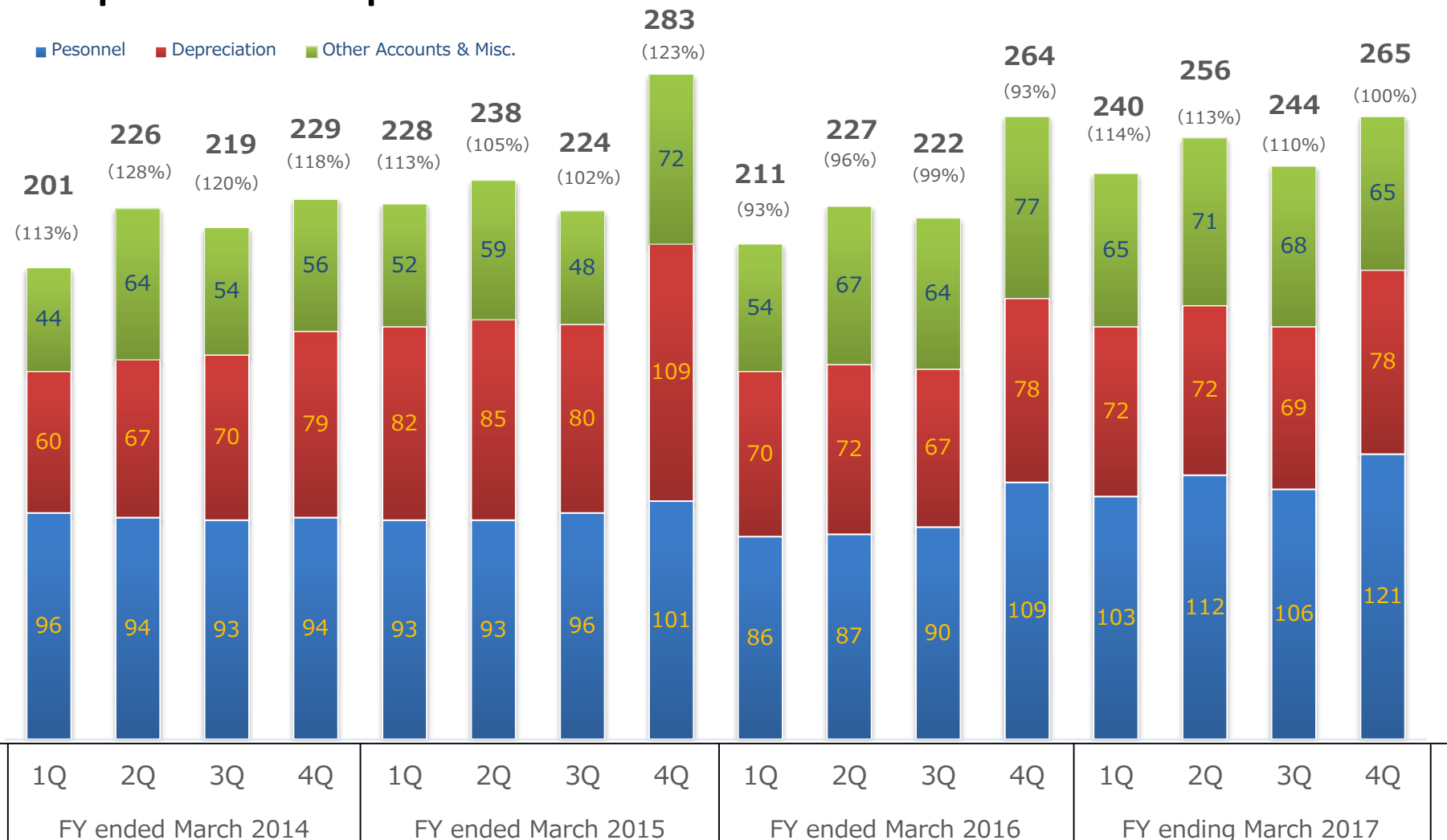
- COS and SG&A increased due to personnel expense increase in Japan. Overseas investment remained within period start forecast.

(million yen)

	FY03/16	FY03/17	YoY Growth	Key Factors
<b>Cost of Sales</b>	926	<b>1,007</b>	+81	
Labor	373	<b>443</b>	+69	Increase in development and consulting headcount in Japan
Depreciation	288	<b>293</b>	+4	
Transfer to other accounts Misc production cost	263	<b>270</b>	+6	
<b>Selling, General and Administrative Expenses</b>	2,067	<b>2,227</b>	+159	
Personnel Expenses	1,115	<b>1,183</b>	+68	Includes personnel expenses in Japan (+104M)
Publicity	271	<b>309</b>	+38	Events in Japan (+14M) Partner incentive program (+28M)
Others	680	<b>733</b>	+53	Increase in tax expenses due to increased tax rate (+28M)

## Increase in development personnel cost due to reinforcement in new product development

(million yen)



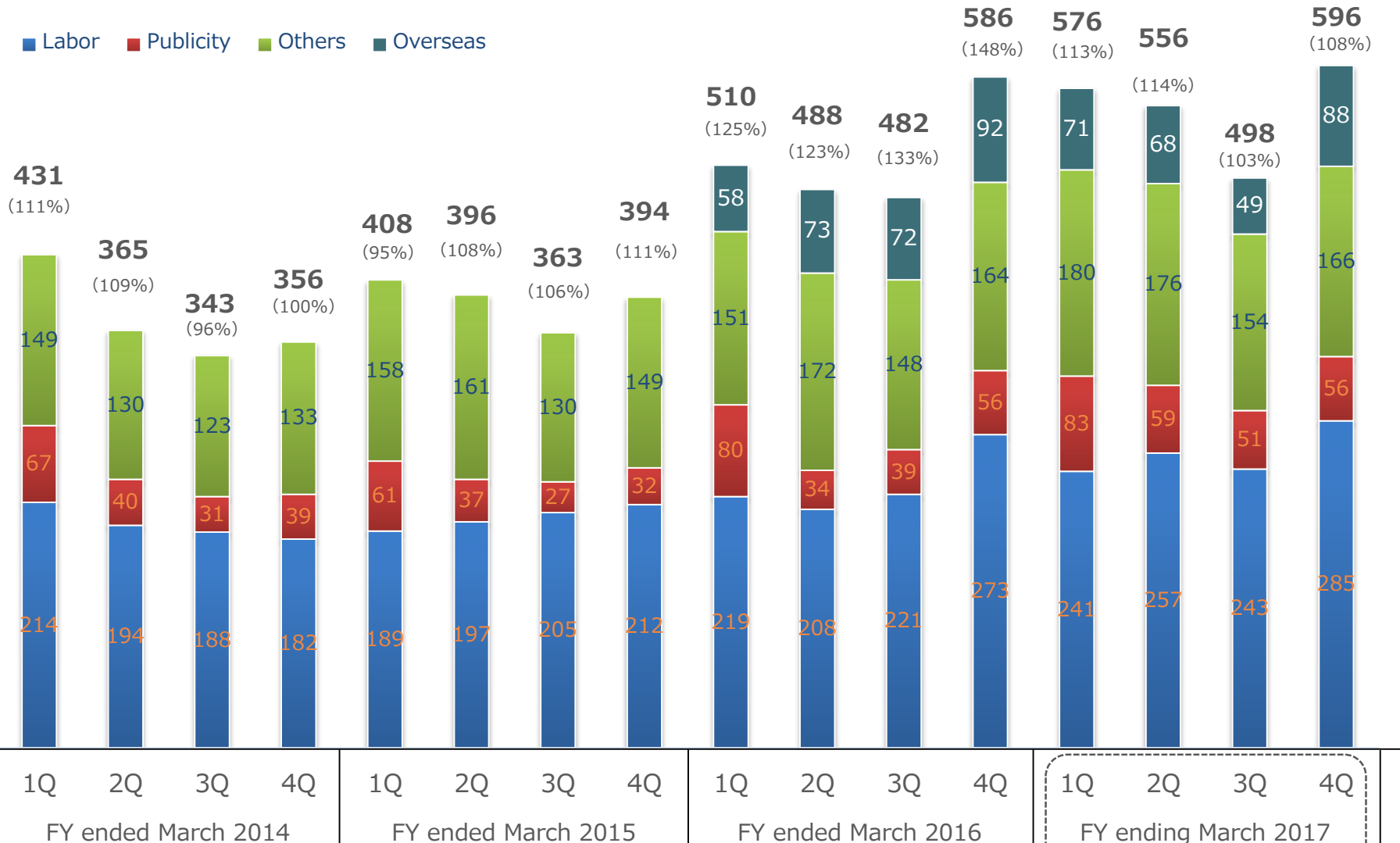
※ Percentages indicate YoY cost of sales

Current FY

## SG&A increased due to increase in domestic personnel expenses

(million yen)

■ Labor ■ Publicity ■ Others ■ Overseas



※ Percentages indicate YoY cost of sales

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# BY MARKET

- **+26.4%** YoY growth in consolidated sales (Prev FY: +17.6% YoY)
- Enterprise Sector resulted in a modest **+14.9%** YoY (Prev FY: +17.9% YoY) while Public Sector's **+49.9%** YoY growth (Prev FY: +24.4 YoY) led overall performance.
- Consumer Sector held firm despite steep decline in domestic consumer PC shipments.

## Consolidated Net Sales

Net sales: ¥ **5,058** million ( ¥ +1,058 million / +26.4% YoY )

## Enterprise

Net sales: ¥ **2,573** million ( ¥ + 333 million / +14.9% YoY )

## Public

Net sales: ¥ **2,125** million ( ¥ + 707 million / +49.9% YoY )

## Consumer

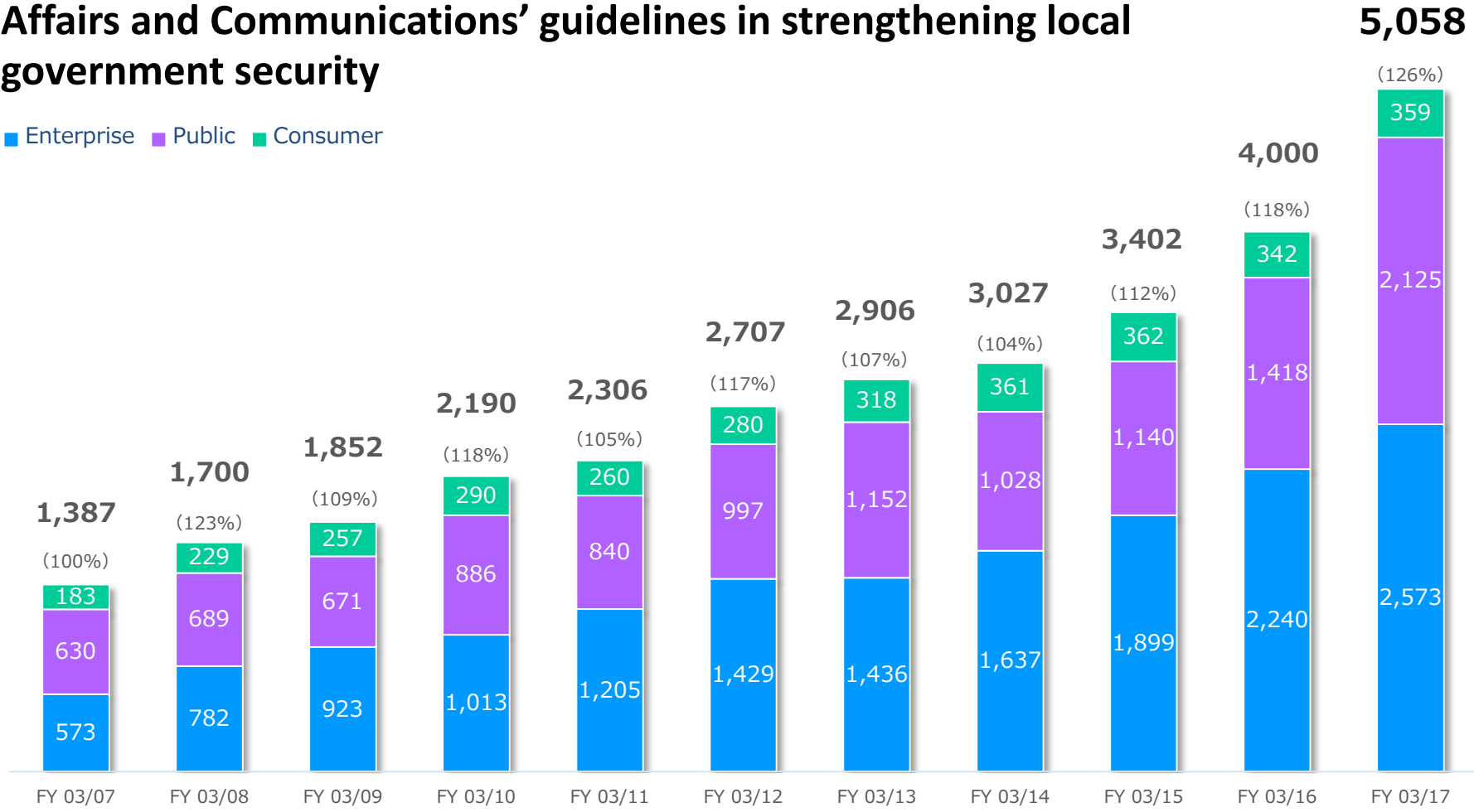
Net sales: ¥ **359** million ( ¥ +17 million / + 5.0% YoY )



**Public sector led the Group's performance by leveraging on solutions that satisfy the level of security demanded by the Ministry of internal Affairs and Communications' guidelines in strengthening local government security**

(million yen)

■ Enterprise ■ Public ■ Consumer

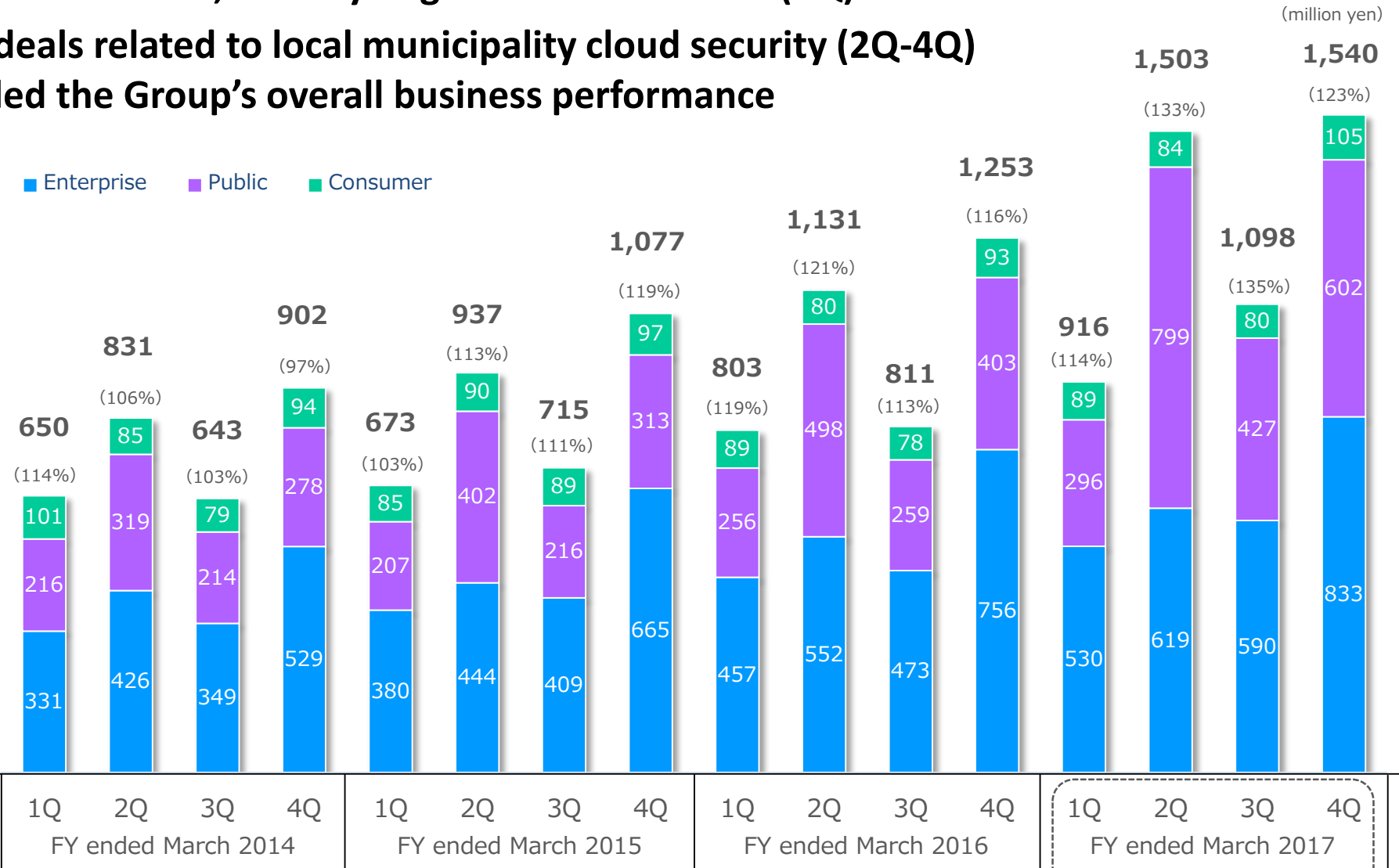


※ Percentage indicates YoY net sales

**Public Sector, notably large civil service deals (2Q) and deals related to local municipality cloud security (2Q-4Q) led the Group's overall business performance**

(million yen)

■ Enterprise   ■ Public   ■ Consumer



※ Percentage indicates YoY net sales

**Current FY**

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# ENTERPRISE SECTOR

- Robust sales in mainstay i-FILTER series and FinalCode.
- Successful turnaround for m-FILTER series in 2H for stable year-to-date growth.
- Amid a series of incidents with large-scale leak of customer information, sales for FinalCode 5 surged leveraging enterprise-wide advanced file security, responding to needs of corporations handling large volume of customer data.

**i-FILTER**  
Series **+ 9.2 %**



**m-FILTER**  
Series **+ 8.3 %**



**FINALCODE** **+ 97.7 %**



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# PUBLIC SECTOR

- i-FILTER series and m-FILTER series, two main offerings in the Public Sector, soared as prefectural and local government executed plans to enhance cyber security under the Ministry of Internal Affairs and Communications' guidelines on fundamental strengthening of local government security.
- Robust implementation of FinalCode Limited Edition for Local Government, providing simple functions that public organizations want.

**i-FILTER**  
Series + **33.6 %**



**m-FILTER**  
Series + **189.6 %**



**FINALCODE** + **47.8 %**



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# CONSUMER SECTOR

- Continued to partner with mobile and MVNO operators to expand sales and collaboration of i-FILTER (Consumer) for Smartphones.
- PC version of i-FILTER (Consumer) held firm due to OEM-driven sales and robust shipments of multi-year packaged products, despite declines in the number of domestic consumer PC shipments.
- Sales expanded for i-FILTER (Consumer) for Multi-Device, which can be used on multiple OS with a single serial ID.

PC

+ 5.5 %

Game Console/TV

- 13.0 %

Mobile Device

+ 15.8 %

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# **FY03/18 FORECAST**

## Consolidated Forecast

- Japan: anticipate continuous and stable growth with the launch of an innovative new product, making an entry into a new market.
- Overseas: conservative guidance at beginning of year.

(million yen)

	FY 03/17 Actual	FY 03/18 Forecast	Growth Rate
Net sales	5,058	<b>5,600</b>	10.7 %
Gross Profit	4,051	<b>4,450</b>	9.8 %
Selling, General and Administration Expense	2,227	<b>2,450</b>	10.0 %
Operating Income	1,824	<b>2,000</b>	9.6 %
Ordinary Income	1,811	<b>2,000</b>	10.4 %
Net Income Attributable to Owners of Parent	1,125	<b>1,240</b>	10.2 %
Dividends per Share	24 yen	<b>28 yen</b>	—

## Non-Consolidated Forecast

- Japan: anticipate continuous and stable growth with the launch of an innovative new product, making an entry into a new market.

(million yen)

	FY 03/17 Actual	FY 03/18 Forecast	Growth Rate
Net Sales	5,104	<b>5,550</b>	8.7 %
Gross Profit	4,028	<b>4,450</b>	10.5 %
Selling, General and Administration Expense	1,960	<b>2,100</b>	7.1 %
Operating Income	2,067	<b>2,350</b>	13.7 %
Ordinary Income	2,056	<b>2,350</b>	14.3 %
Net Income	1,339	<b>1,621</b>	21.1 %

## ■ Dividend Distribution

Digital Arts plans to return profit to its shareholders as follows:

Projected dividend payout ratio for the period ending March 2018 :  
31.2% of consolidated net income of the current period

The amount of annual dividends for the period ending March 2018:  
Estimated at 28.00 yen per share

	Dividends per share (in yen)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY 03/17	10.00	14.00	24.00	29.7%
FY 03/18 (Forecast)	14.00	14.00	28.00	31.2%

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# **FY03/18 INITIATIVES**

## ■ Enterprise and Public Sectors

### i-FILTER Series / m-FILTER Series

#### **Leverage internal dev team to offer protection against enterprise data loss and make a full-fledge entry into the external threat market**

- Next release of i-FILTER and m-FILTER, when installed together, realize endpoint protection against targeted attacks.
- Offer stronger security in two key areas: computer virus and data loss via internet, and malware attached to email messages.
- A solution to cut excess multi-layer defense and training/education cost.

#### **Respond to national plans to place Wi-Fi in all public elementary and middle schools**

- Ministry of Internal Affairs and Communications plans to place Wi-Fi in over 30,000 public schools and community centers nationwide by 2020 as a measure for disaster prevention.
- Several billion yen budgeted for FY2017: budget includes Wi-Fi router, tablet devices, and related software.

## ■ Enterprise and Public Sectors

### FinalCode (Japan)

#### **Enterprise Sector: Anticipate growing demand in light of legal reforms**

- FinalCode satisfies the requirements by the Electronic Books Maintenance Act to electronically store accounting books in a form that prevents data manipulation.
- Could lessen reporting obligation required by the Amended Private Information Protection Law in an event of personal data security breach.

#### **Public Sector: Strong increase in FinalCode demand**

- Anticipate FinalCode installations to accelerate due to heightened security awareness across the sector by Local Government Security Cloud and Strengthening of Local Government Security initiatives.

## ■ Overseas

### FinalCode (Overseas)

#### **FinalCode, Inc. leads to drive and close sales in overseas market**

- U.S. subsidiary, FinalCode, Inc., takes the lead in driving aggressive sales to close deals and increase exposure in the overseas market.
- Awareness for file security is very high on a global scale, leading to more opportunities from governmental agencies and enterprises.
- Quickly close visible deals in order to recoup overseas investment at an early stage.



All statements herein, other than historical facts, contain forward-looking statements and are based on DA's current plans, strategies and financial forecasts. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, however environmental changes and other important factors could cause actual results to differ materially from those expressed in our forward-looking statements. All statements herein are not intended to express DA's commitment to fulfill any forward-looking statements. Updated information, if applicable, will be disclosed in a timely manner.

All numerical indications in this statement, unless noted, are rounded to the nearest million yen.

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