

Digital Arts Inc. (2326)



**FY03/17 Consolidated Financial Results  
for Third Quarter Ended December 31, 2016**  
(April 1, 2016 through December 31, 2016)

Reference Slides  
January 30, 2017

**FY03/17 Third Quarter Financial Results**

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# **KEY FINANCIAL POINTS**

- ① **Steady increase in opportunity acquisitions due to dramatic increase in demands related to “cloud solutions for local government data security” and “local government data security enhancement measures”**
  - Mainstay i-FILTER (or D-SPA) and m-FILTER sales soared in the public sector: Government agencies at the prefectural and local levels performed measures to enhance cyber security in accordance to a guideline issued by the Ministry of Internal Affairs and Communications to fundamentally enhance information security in local municipalities.
- ② **FinalCode continues rapid growth**
  - Increase in sales of FinalCode Ver. 5, providing advanced files security for companies and organizations that handle large volumes of customer data.
  - Steady increase in deployment of FinalCode Limited Edition for Local Government, an edition that responds to needs specific to prefectural, city and local municipality governments.
- ③ **Steady increase in acquisition of consulting opportunities**
  - Increased awareness on data security measures resulted in steady increase of orders received by Digital Arts Consulting, contributing to the Group’s sales growth.

FY03/17 Third Quarter Financial Results

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# CONSOLIDATED RESULTS HIGHLIGHTS

## Consolidated Net Sales

¥ 3,518 million (YoY +¥770 million / +28.1%)

Significant growth in mainstay i-FILTER and m-FILTER by capturing the needs of clients adhering to guidelines issued by Ministry of Internal Affairs and Communications

## Operating Income

¥ 1,145 million (YoY +¥540 million / +89.3%)

Surge in sales absorbed costs, such as increase in domestic personnel expenses, for a considerable increase in operating income

## Ordinary Income

¥ 1,134 million (YoY +¥524 million / +85.8%)

Secured substantial growth compared to 2Q due to the turn to the weakening yen and a decrease in foreign exchange loss

## Net Income Attributable to Owners of Parent

¥ 693 million (YoY +¥333 million / +92.7%)

Achieved extensive increase in revenues due to an increase in operating income resulting from growing sales in the domestic market

## Consolidated Results

(million yen)

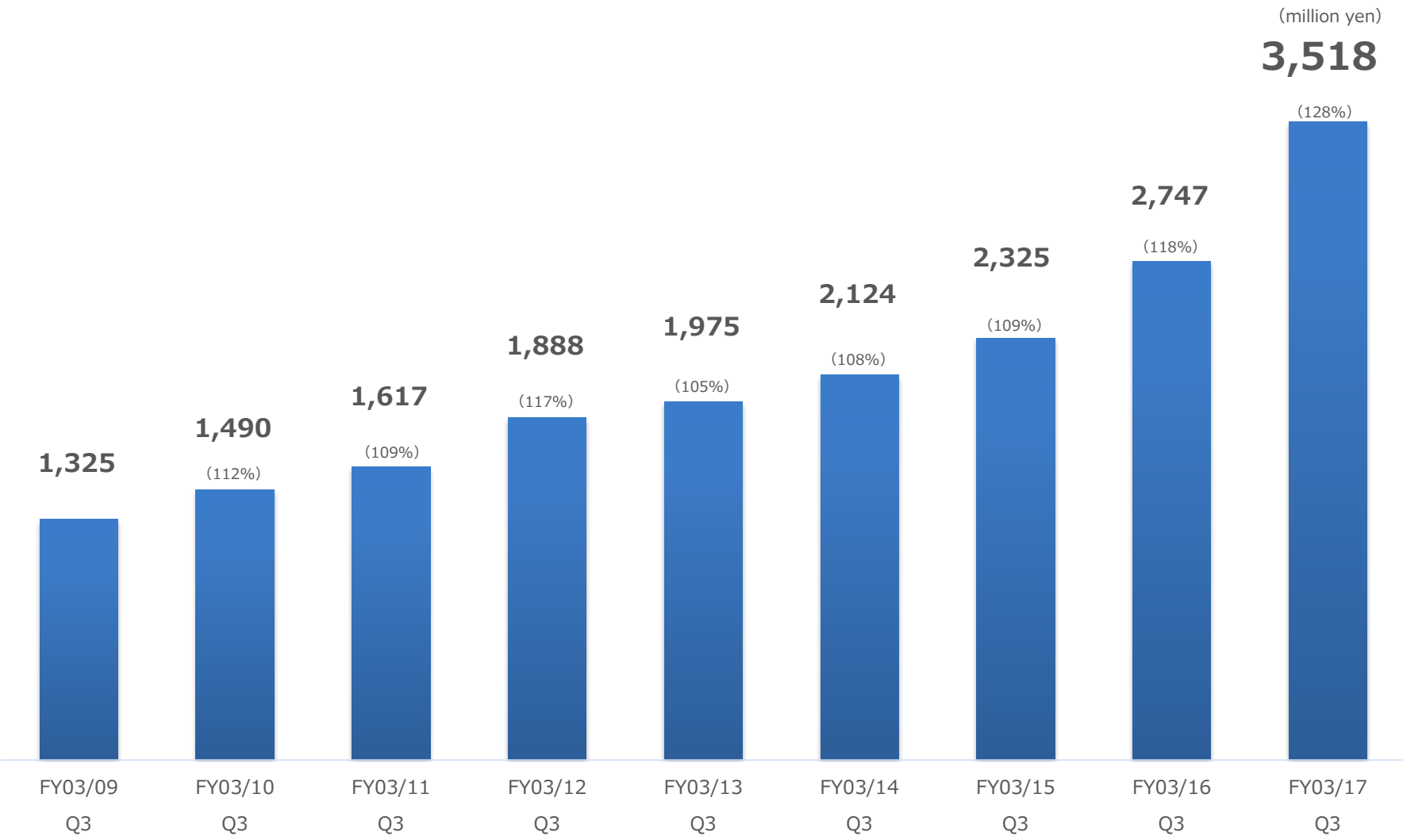
	FY03/16 Third Quarter	FY03/17 Third Quarter	YoY Growth	FY03/17 Forecast
Net Sales	2,747	3,518	+28.1%	4,600
Gross Profit	2,086	2,776	+33.1%	3,652
Selling, General and Administration Expense	1,481	1,631	+10.1%	2,252
Operating Income	604	1,145	+89.3%	1,400
Ordinary Income	610	1,134	+85.8%	1,400
Net Income Attributable to Owners of Parent	360	693	+92.7%	870
ROE	8.4%	14.8%	—	—

## Non-Consolidated Results

(million yen)

	FY03/16 Third Quarter	FY03/17 Third Quarter	YoY Growth	FY03/17 Forecast
Net Sales	2,744	3,575	+30.3%	4,598
Gross Profit	2,129	2,765	+29.8%	3,555
Selling, General and Administration Expense	1,290	1,451	+12.5%	1,843
Operating Income	839	1,313	+56.5%	1,712
Ordinary Income	844	1,302	+54.1%	1,712
Net Income	559	880	+57.3%	1,182
ROE	12.4%	17.0%	—	—

Continue to mark RECORD HIGH sales!!

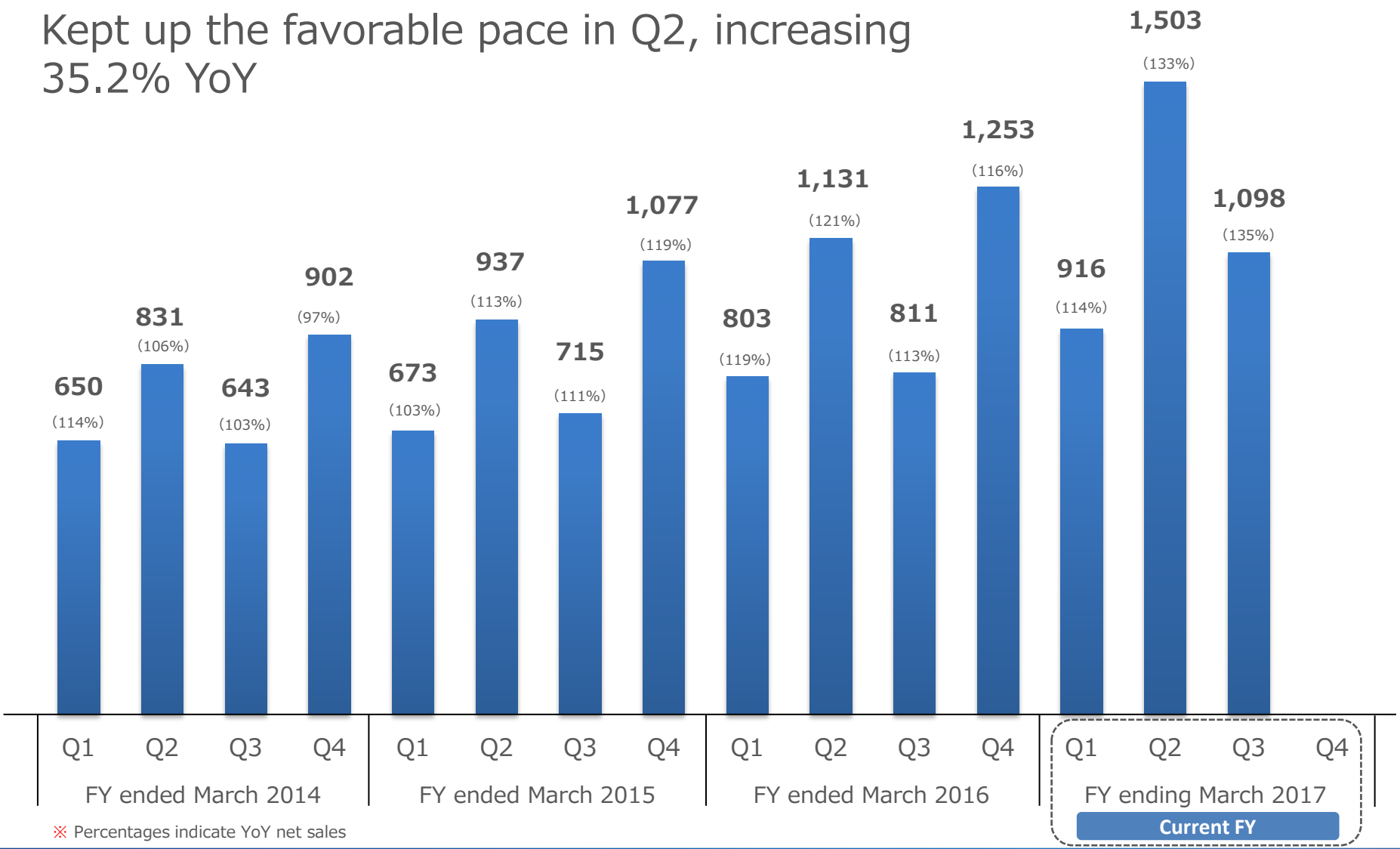


※ Percentages indicate YoY net sales



(million yen)

Kept up the favorable pace in Q2, increasing 35.2% YoY



※ Percentages indicate YoY net sales

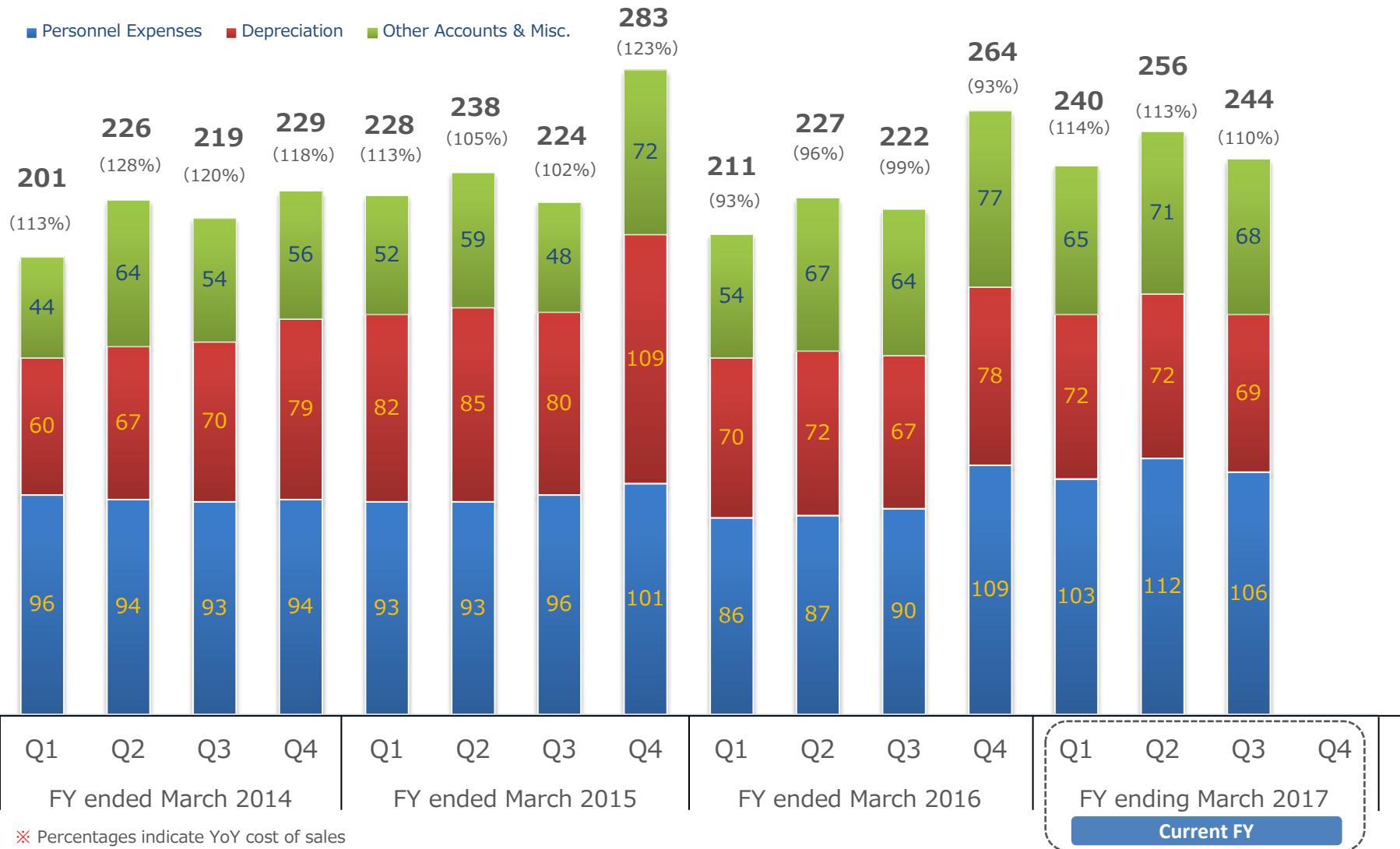
- COS and SG&A increased slightly due to increased personnel expenses in Japan  
However, COS and SG&A trends remain largely according to period start forecast

(million yen)

	FY03/16 Third Quarter	FY03/17 Third Quarter	YoY Growth	Key Factors
<b>Cost of Sales</b>	661	741	+80	
Labor	264	321	+57	
Depreciation	210	214	+4	
Transfer to other accounts Misc production cost	186	205	+18	
<b>Selling, General and Administrative Expenses</b>	1,481	1,631	+150	
Personnel Expenses	788	856	+68	Incl. domestic personnel expenses (+92 M)
Publicity	190	236	+46	Incl. sales promotion expenses (+34 M)
Others	502	538	+35	Incl. increased tax expenses due to tax reform (+24M)

(million yen)

No significant changes in the breakdown of cost of sales



※ Percentages indicate YoY cost of sales

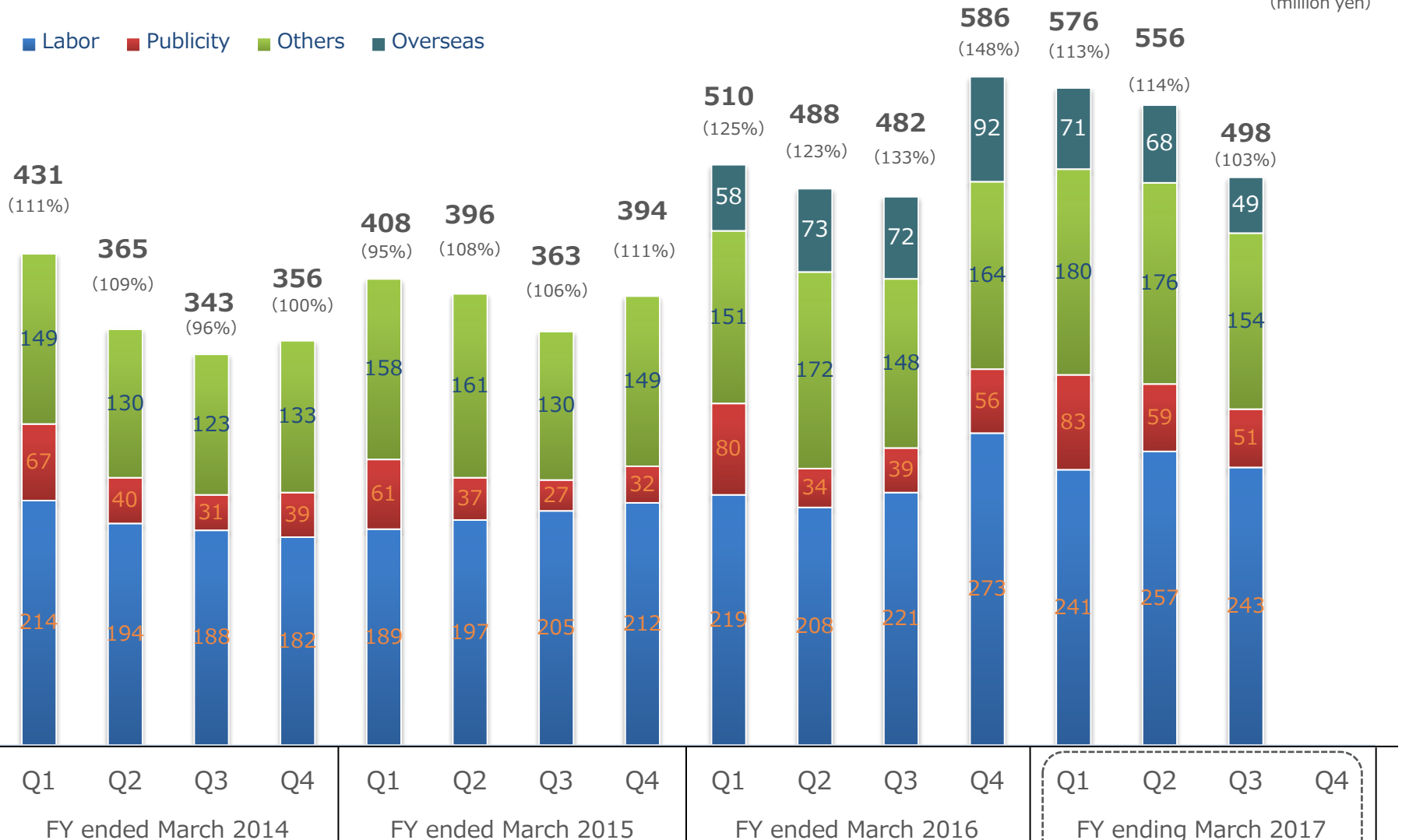
# Selling, General and Administrative Expenses (by Quarter)



SG&A increased due to increase in domestic personnel

(million yen)

■ Labor ■ Publicity ■ Others ■ Overseas



※ Percentages indicate YoY cost of sales

FY ending March 2017  
**Current FY**

## FY03/17 Third Quarter Financial Results

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# BY MARKET

- +28.1% YoY growth in consolidated sales
- Enterprise: continue steady growth at +17.3% YoY
- Public : dramatic increase of +50.1% YoY with cloud solutions to enhance data security in local municipalities
- Consumer: held firm despite steep decline in domestic consumer PC shipments

## Consolidated Net Sales

Net sales: ¥ 3,518 million ( ¥ +770 million / +28.1% YoY )

## Enterprise

Net sales: ¥ 1,740 million ( ¥ +256 million / +17.3% YoY )

## Public

Net sales: ¥ 1,523 million ( ¥ +508 million / +50.1% YoY )

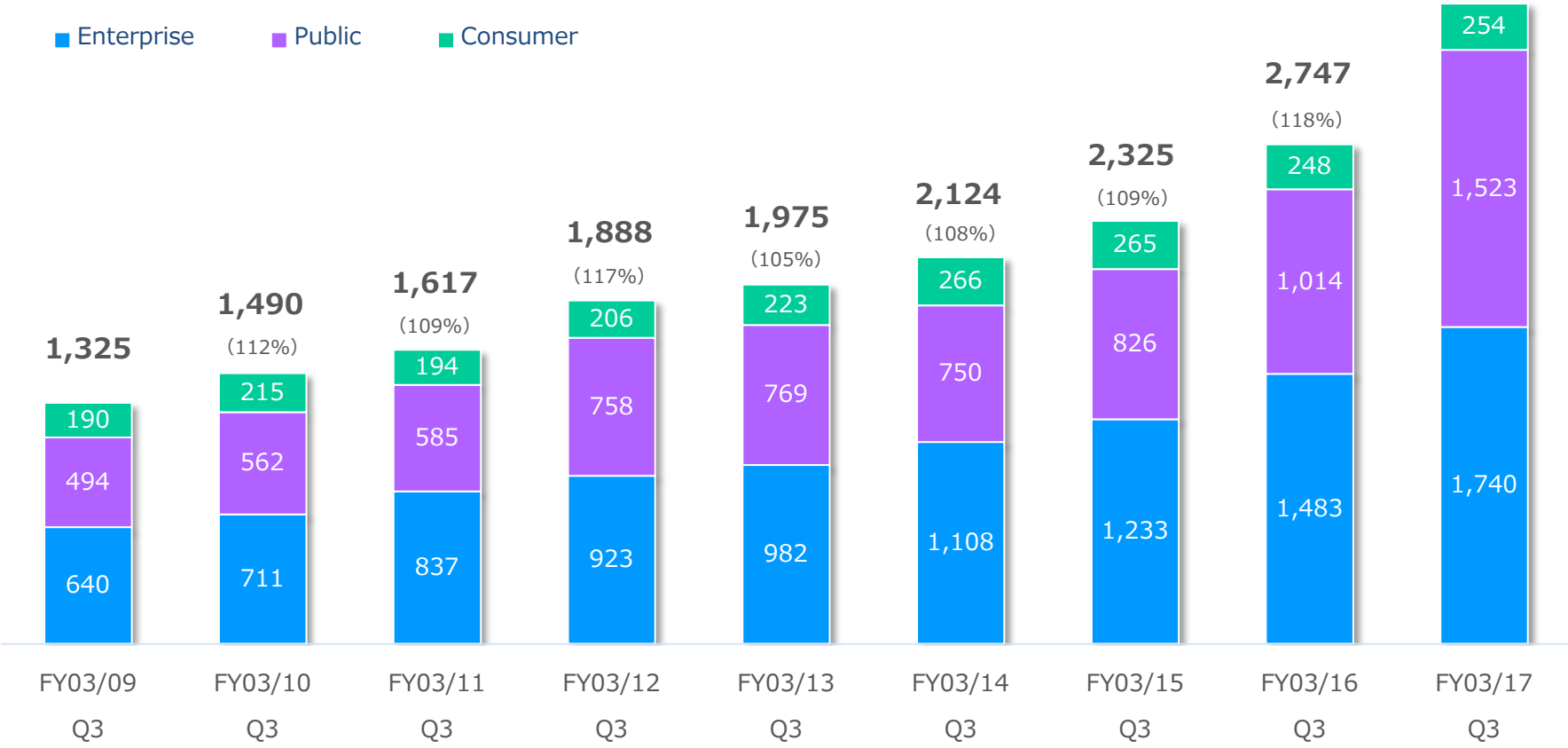
## Consumer

Net sales: ¥ 254 million ( ¥ +5 million / + 2.3% YoY )

Public sector grew significantly from Q2 mainly by offering solutions that satisfy the level of security demanded in the Ministry of internal Affairs and Communications' guidelines on strengthening local government security

(million yen)

■ Enterprise   ■ Public   ■ Consumer



※ Percentage indicates YoY net sales

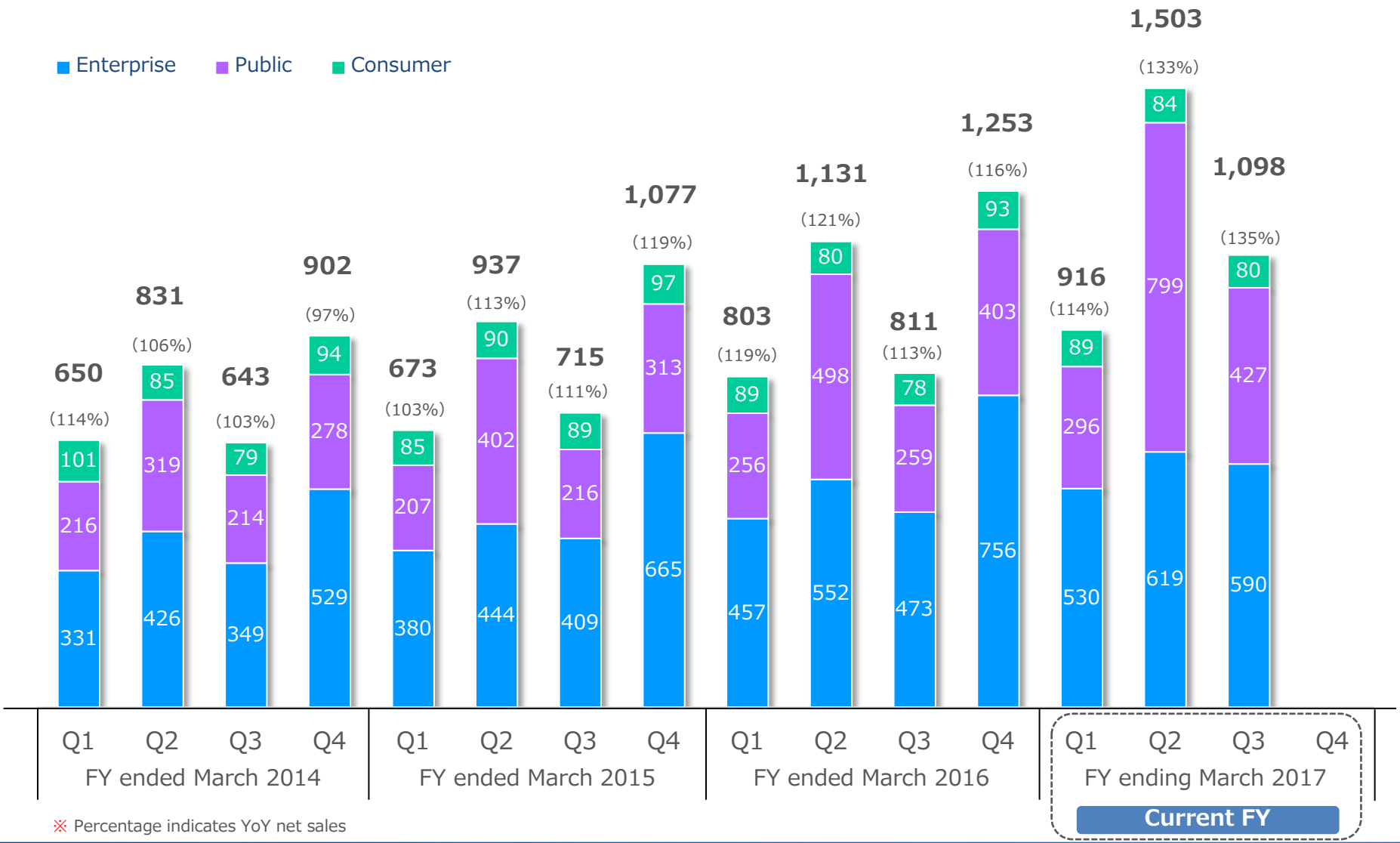
# Quarterly Net Sales by Market



Significant growth in Public Sector drove overall performance

(million yen)

■ Enterprise   ■ Public   ■ Consumer



※ Percentage indicates YoY net sales

**Current FY**



**FY03/17 Third Quarter Financial Results**

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# **ENTERPRISE SECTOR**

- Robust sales in mainstay i-FILTER series and FinalCode
- Successful turnaround for m-FILTER series due to steady accumulation of sales opportunities
- Amid a series of incidents with large-scale leak of customer information, sales for FinalCode 5 steadily increased with its company-wide advanced file security solution, meeting the needs of corporations that handle large volume of customer data

**i-FILTER**  
Series + 14.9 %



**m-FILTER**  
Series + 1.3 %



**FINALCODE** + 113.8 %



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# PUBLIC SECTOR

- i-FILTER series and m-FILTER series, the two main offerings for the public sector, soared as government in prefectural and local levels are improving 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 + 38.0 %



**m-FILTER**  
Series + 139.5 %



**FINALCODE**  
+ 441.2 %



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# **CONSUMER SECTOR**

- Continued to enter tie-ups with mobile operators and MVNO operators to expand sales and increase collaboration for the mobile device version of i-FILTER (Consumer) for Smartphones
- Firm sales for the PC version of i-FILTER (Consumer) due to OEM-driven sales and robust shipments of multi-year packaged products, despite a decline 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

+4.5 %

Game Console/TV

- 11.7 %

Mobile Device

+8.9 %

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# **FY03/17 FORECAST**

## FY03/17 Consolidated Forecast

Digital Arts maintains its full-year forecast, however given the favorable environment that is projected to continue, the consolidated forecast for FY03/17 (April 1, 2016 through March 31, 2017) is currently under review and will make timely disclosures as necessary.



## FY03/17 Consolidated Forecast

- FY03/16 favorable domestic market conditions are projected to continue
- Conservative guidance for overseas operations although has started to produce concrete sales results
- Expects revenue growth to accelerate as overseas investment will be limited to a slight increase

(million yen)

	FY03/16 Actual	FY03/17 Forecast	Growth Rate
Net sales	4,000	4,600	15.0 %
Gross Profit	3,074	3,652	18.8 %
Selling, General and Administration Expense	2,067	2,252	9.0 %
Operating Income	1,006	1,400	39.1 %
Ordinary Income	994	1,400	40.8 %
Net Income Attributable to Owners of Parent	545	870	59.5 %
Dividends per Share	15 yen	20 yen	—

## FY03/17 Non-Consolidated Earnings Forecast

- Favorable domestic market environment in FY03/16 is projected to continue

(million yen)

	FY03/16 Actual	FY03/17 Forecast	Growth Rate
Net Sales	4,018	4,598	14.4 %
Gross Profit	3,123	3,555	13.8 %
Selling, General and Administration Expense	1,788	1,843	3.0 %
Operating Income	1,335	1,712	28.3 %
Ordinary Income	1,328	1,712	28.9 %
Net Income	840	1,182	40.7 %

## ■ Dividend Distribution

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

Projected dividend payout ratio for FY03/17:

32.0% of consolidated net income of the current period

The amount of annual dividends for the period ending March 2017:

Estimated at 20.00 yen per share.

	Dividends per share (in yen)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY03/16	7.00	8.00	15.00	38.2%
FY03/17	10.00			
FY03/17 (forecast)		10.00	20.00	32.0%

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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-Contributing to a more convenient, comfortable and safe internet-