

Digital Arts Inc. (2326)



FY 03/18 Consolidated Financial Results
For Fiscal Year Ended March 31, 2018
(April 1, 2017 through March 31, 2018)

Reference Slides
May 8, 2018

FY 03/18 Financial Results Reference Slides

KEY FINANCIAL POINTS

- ① **The drop-off in large projects for government agencies and local governments received during the previous year was offset by the growth in the enterprise sector, resulting in higher sales and profits, although forecasts were not achieved**
 - The decrease in large projects for government agencies and local governments won during the previous fiscal year was offset by growth in i-FILTER and m-FILTER to the enterprise sector, resulting in higher sales and profits, but forecasts were not achieved
- ② **Solid sales through current customers upgrading to i-FILTER Ver.10 and m-FILTER Ver. 5**
 - 2,000 firms, 200 million licenses attained by end of March (quickest upgrading rate so far)
 - Released internet security solution i-FILTER Ver.10 and e-mail security solution m-FILTER Ver.5. These provide increased ability to block malwares and data leakages from Web and e-mail
 - Solid flow of current customers upgrading to the new versions
- ③ **Steady business in consulting opportunities**
 - Due to the increased awareness of information security, there have been a steady orders received by subsidiary, Digital Arts Consulting, contributing to the overall group sales

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CONSOLIDATED RESULTS HIGHLIGHTS

**Consolidated
Net Sales**JPY **5,116** million (YoY JPY +58 million / +1.2%)

Despite the decrease in demand due to the completion of large public tenders, the increase in the enterprise market contributed to growth

**Operating
Income**JPY **1,902** million (YoY JPY +78 million / +4.3%)

Increased due to the YoY increase in sales, the revision of the organization and personnel strategy targeting medium- to long-term growth, and curbing of personnel expenses by optimally allocating resources

**Ordinary
Income**JPY **1,909** million (YoY JPY +98 million / +5.4%)

Due to the increase in the operating income, ordinary income also increased

Net Income
Attributable to
Owners of ParentJPY **1,281** million (YoY JPY +156 million / +13.9%)

Increased due to the YoY increase in profits, and the tax-reducing effect due to Group restructuring

Consolidated Results

(Unit: JPY million)

	FY03/17	FY03/18	YoY	FY03/18 Forecast
Net Sales	5,058	5,116	+1.2%	5,800
Gross Profits	4,051	4,041	△0.2%	4,700
Selling, General and Administration Expense	2,227	2,138	△4.0%	2,200
Operating Income	1,824	1,902	+4.3%	2,500
Ordinary Income	1,811	1,909	+5.4%	2,500
Net Income attributable to owners of parent	1,125	1,281	+13.9%	1,619
ROE	23.0%	22.5%	—	—
Dividend per share	24.00	28.00	—	36.00

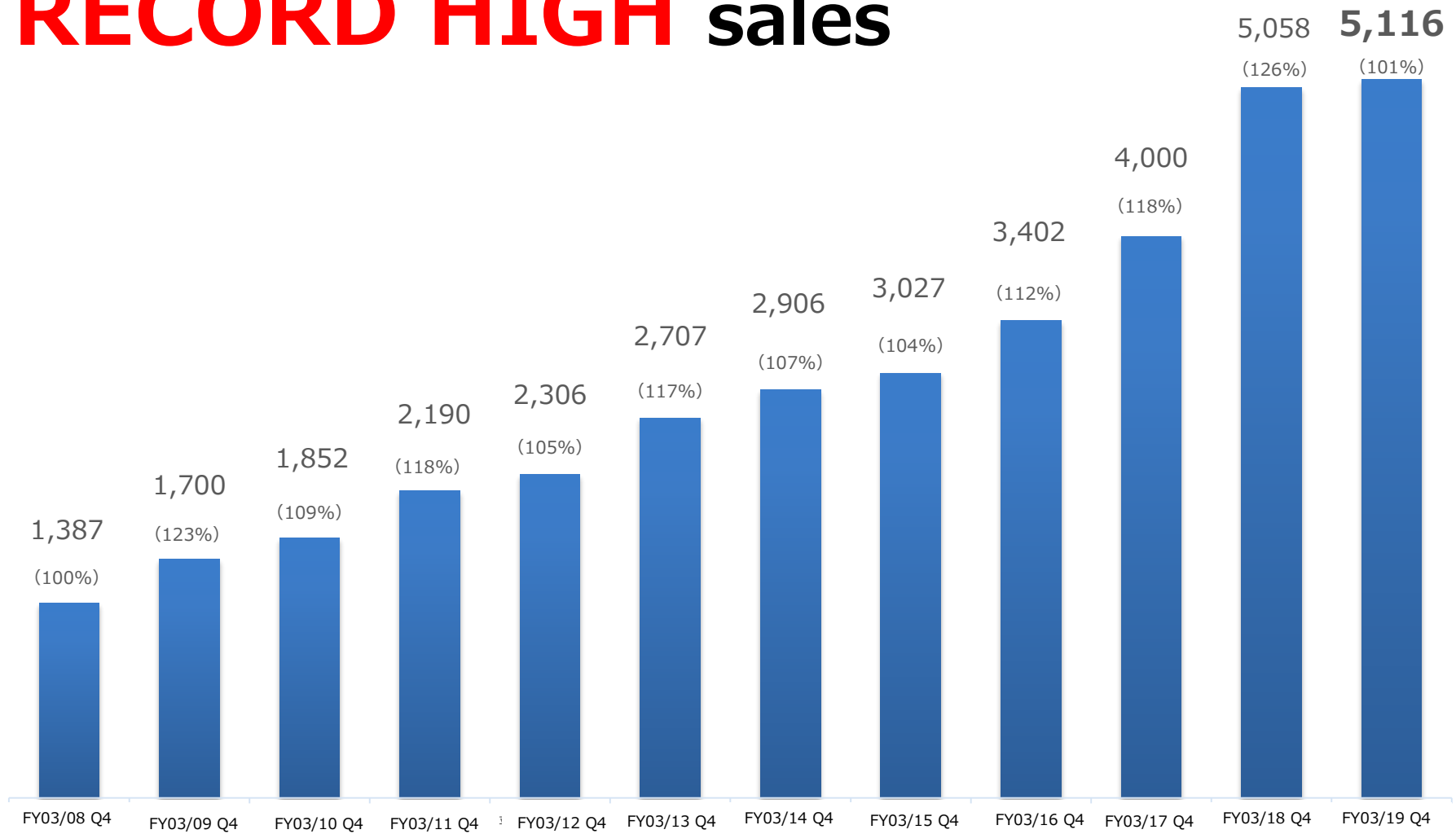
Non-Consolidated Results

(Unit: JPY million)

	FY03/17	FY03/18	YoY	FY03/18 Forecast
Net Sales	5,104	5,046	△1.1%	5,600
Gross Profits	4,028	3,986	△1.0%	4,250
Selling, General and Administration Expense	1,960	1,898	△3.2%	1,900
Operating Income	2,067	2,087	1.0%	2,350
Ordinary Income	2,056	2,097	2.0%	2,350
Net Income	1,339	860	△35.7%	1,598
ROE	24.8%	14.1%	—	—

(Unit: JPY million)

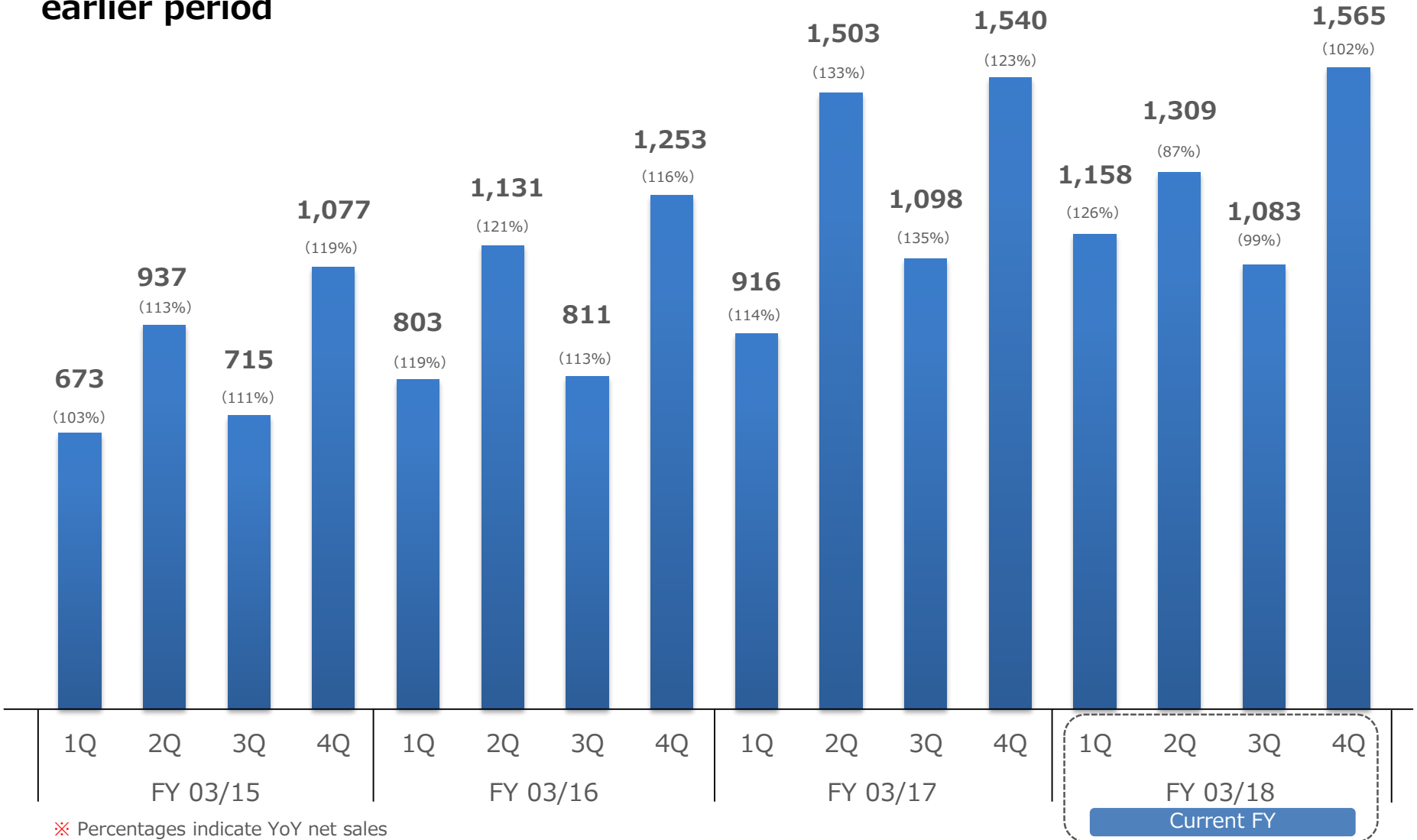
RECORD HIGH sales



※ Percentages indicate YoY net sales

Despite the drop-off in special demand to local governments, this was offset by the enterprise market, and sales were higher than the year-earlier period

(Unit: JPY million)



※ Percentages indicate YoY net sales

- COS and SG&A declined, mainly due to the revision of the organization and personnel strategy targeting medium- to long-term growth, and curbing of personnel expenses by optimally allocating resources

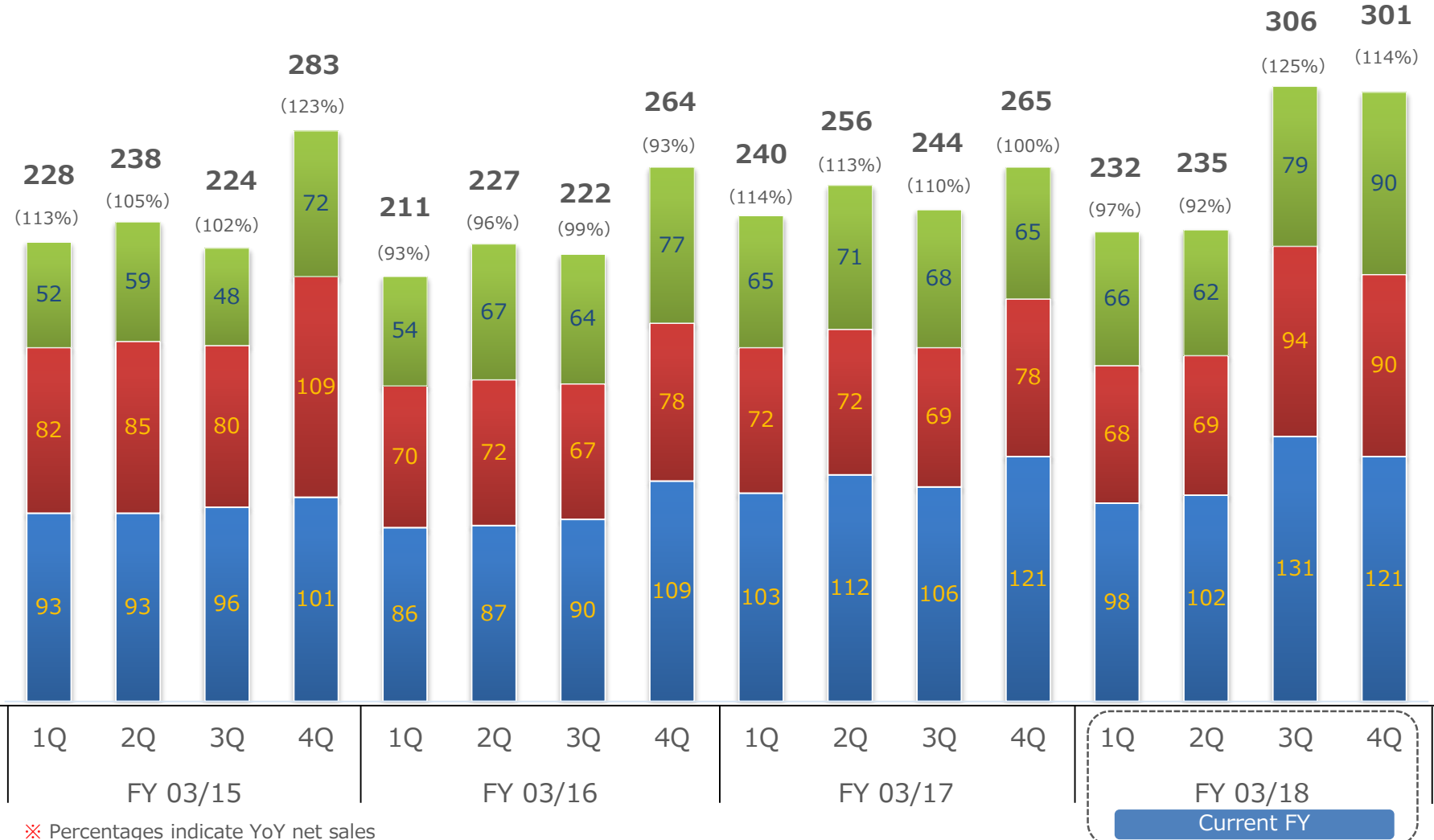
(Unit : JPY million)

	FY03/17	FY03/18	YoY Growth	Key Factors
Cost of Sales	1,007	1,075	+68	
Labor	443	453	+10	
Depreciation	293	322	+29	
Transfer to other accounts Misc production cost	270	298	+28	
Selling, General and Administrative Expenses	2,227	2,138	△88	
Personnel Expenses	1,183	1,050	△133	Personnel Expenses (Japan) -99M (Overseas) -34M
Publicity	309	287	△22	
Others	733	800	+67	Increase in rent for offices in Japan and fees for external advisors

Slight increase in depreciation due to new product releases

■ Labor ■ Depreciation ■ Other Accounts & Misc.

(Unit: JPY million)

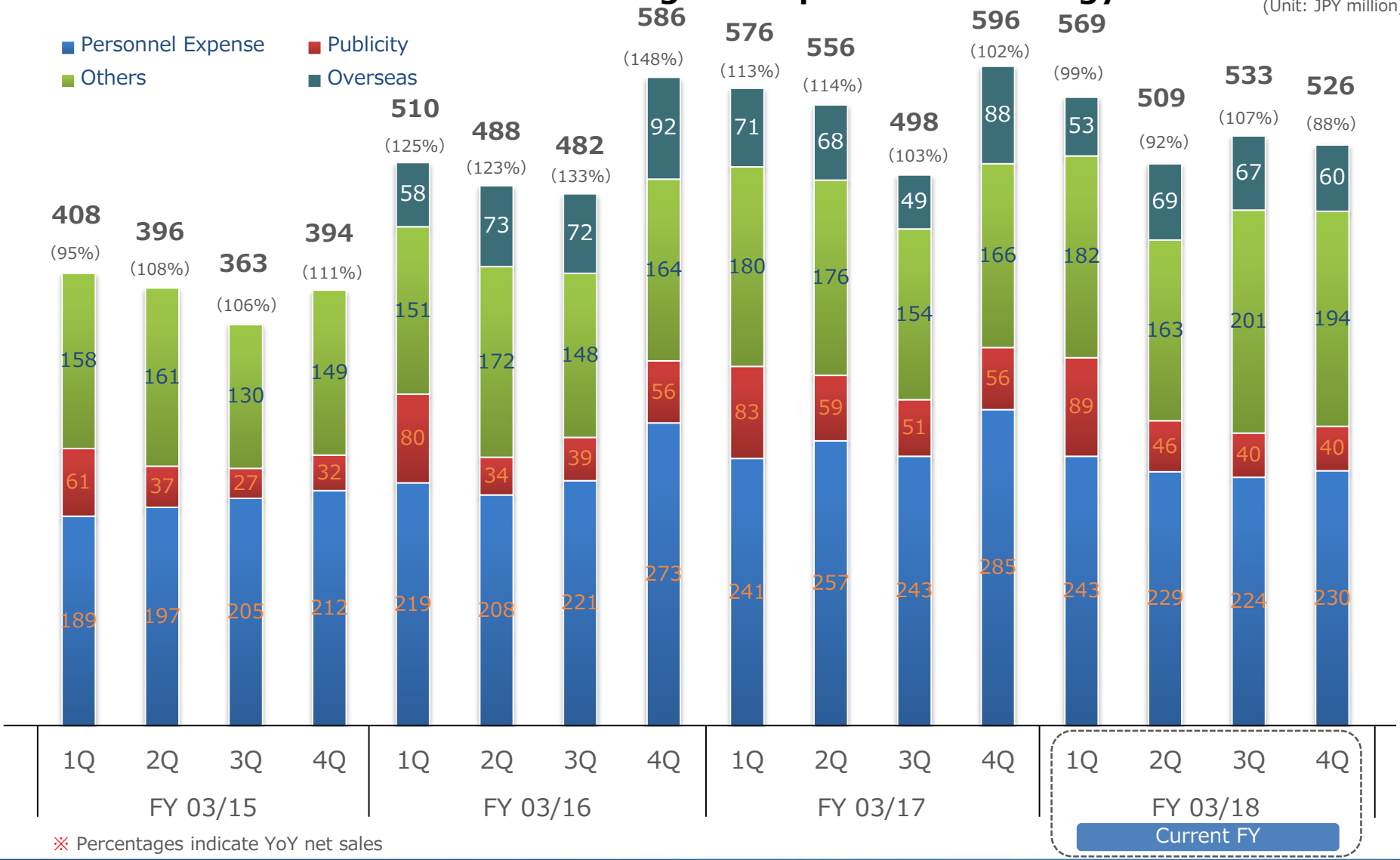


※ Percentages indicate YoY net sales

Revised the organizational structure, and effectively utilized resources in accordance with the medium- to long- term personnel strategy

(Unit: JPY million)

- Personnel Expense
- Publicity
- Others
- Overseas



※ Percentages indicate YoY net sales

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BY MARKET

- Despite the lack of large project such as those in the previous FY, managed to sustain a +1.2% growth
- Attained +16.9% growth in the enterprise sector, offsetting the decrease in the number of public sector projects and special demand from local governments
- Solid sales in the consumer sector due to growth of MVNOs

Consolidated
Net Sales

JPY **5,116** million (YoY JPY +58 million / +1.2%)

Enterprise

JPY **3,009** million (YoY JPY +435 million / +16.9%)

Public

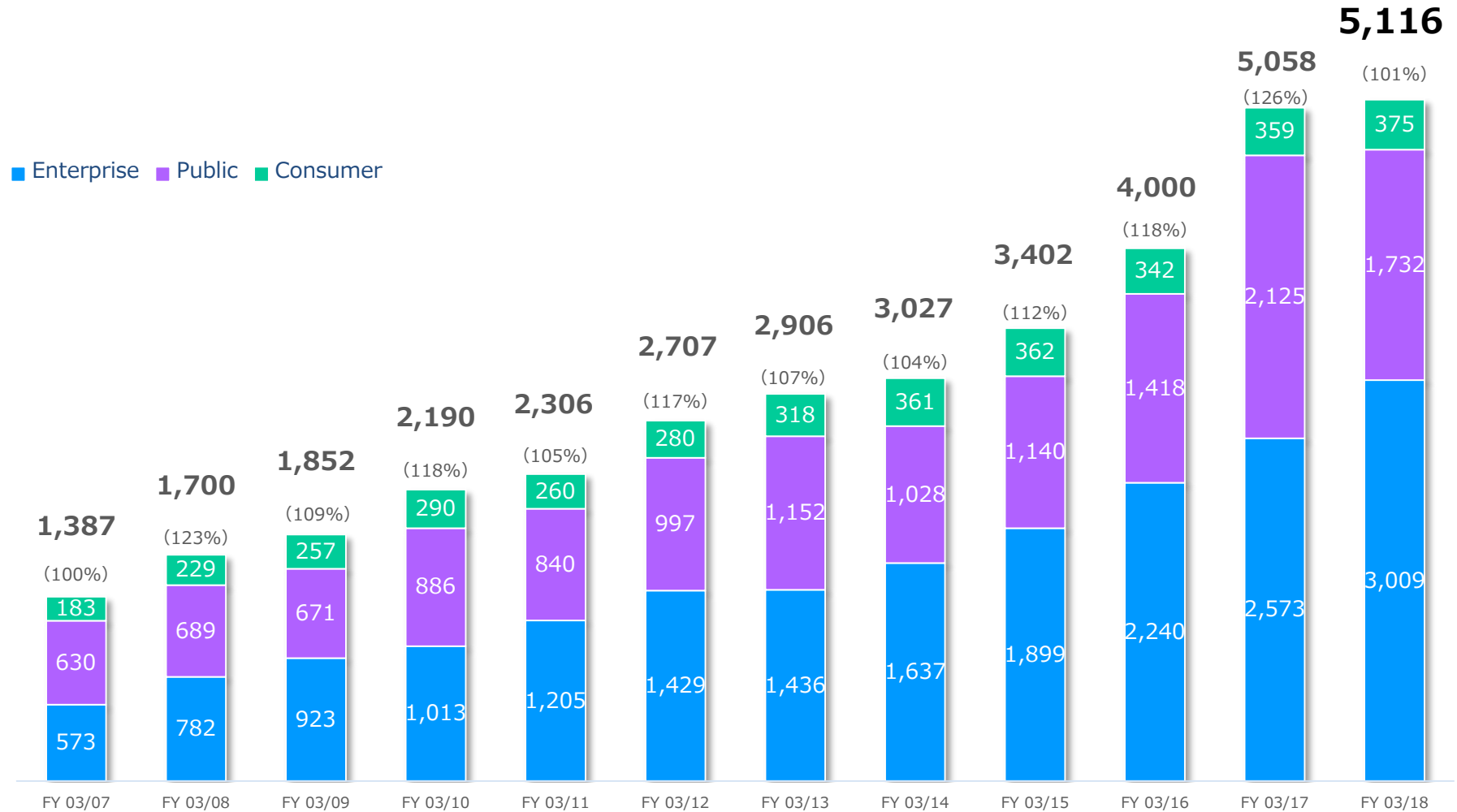
JPY **1,732** million (YoY JPY -393 million / -18.5%)

Consumer

JPY **375** million (YoY JPY +15 million / +4.4%)

Enterprise sales drove overall earnings

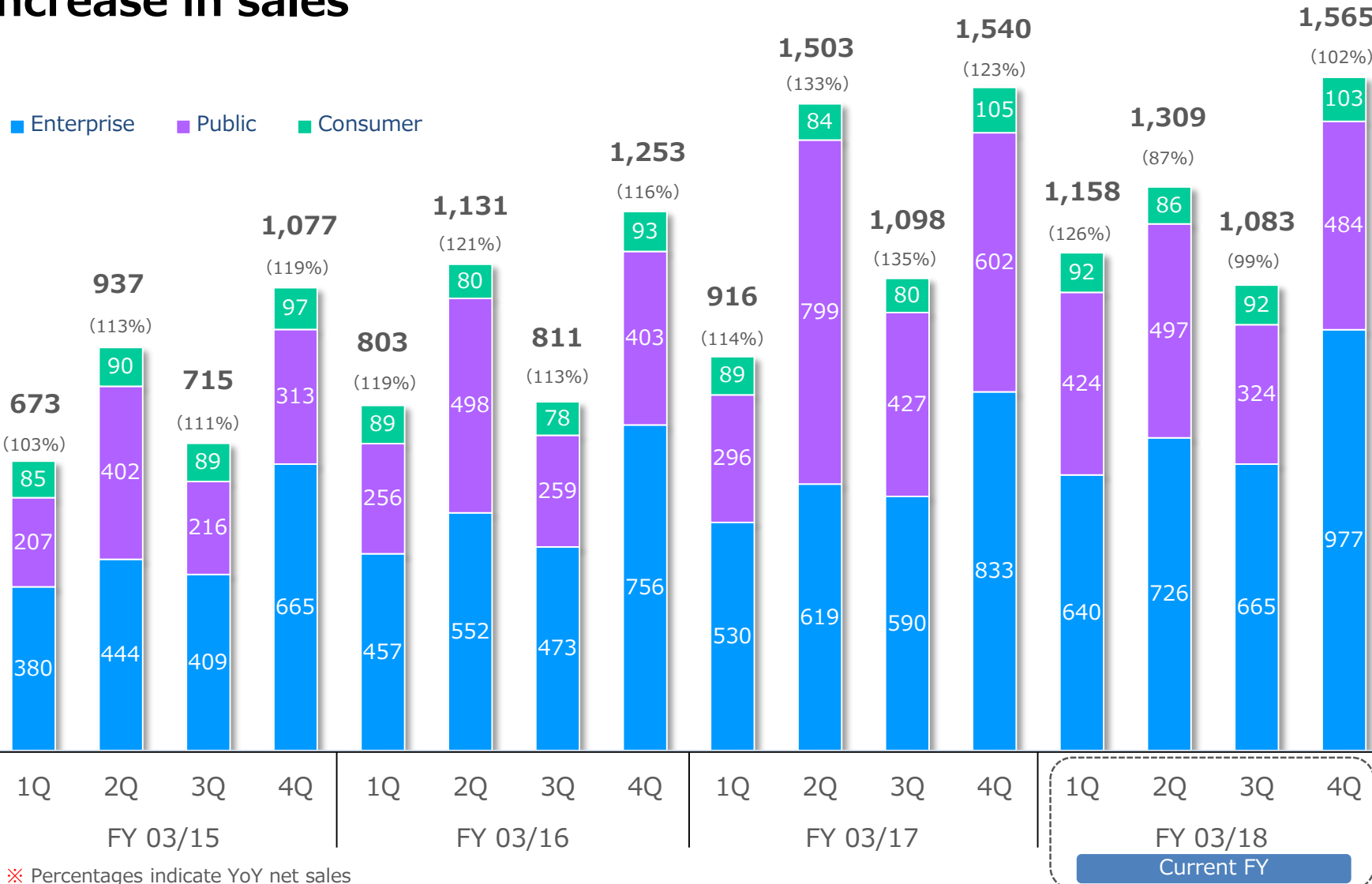
(Unit: JPY million)



※ Percentages indicate YoY net sales

Growth in sales in the enterprise sector led to company-wide increase in sales

(Unit: JPY million)



※ Percentages indicate YoY net sales

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ENTERPRISE SECTOR

- The needs of large companies wishing to find a solution to prevent targeted attacks and data leakage, i-FILTER continued to lead growth
- Additional licenses, and company-wide adoption of FinalCode resulted in a concentration of orders at the end of the fiscal year, but sustained growth was achieved

i-FILTER
Series YoY **113.6 %**



m-FILTER
Series YoY **109.3 %**



FINALCODE YoY **112.1 %**



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PUBLIC SECTOR

- Despite the steady introduction of mainstay products, we were unable to make up for the impacts from the completion of responding to increased security measures in municipalities during the previous consolidated fiscal year, the consolidation of Internet connections in prefectures, and the completion of measures to strengthen monitoring functions, along with the fact that large projects for government agencies were received in the previous fiscal year

i-FILTER
Series YoY **84.4 %**



m-FILTER
Series YoY **61.8 %**



FINALCODE YoY **159.2 %**



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CONSUMER SECTOR

- Promoted partnerships with MVNOs, mobile companies, and the sale of i-FILTER® (Consumer) for Multi-device, allowing users to use i-FILTER on multiple devices with one serial code
- Amid the decline in PC shipments in Japan, and the continued challenging business environment, sales of multi-year packages and sales of i-FILTER® for multi-devices grew steadily, contributing to solid sales

PC

YoY **108.4** %

Game console/TV

YoY **96.1** %

Mobile Device

YoY **102.7** %

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FY 03/19 FORECAST

Consolidated Forecast

- Japan: Bolster sales of new products released last September
- Release cloud service from May, expect growth in this area
- Subsidiaries: Conservative outlook for the forecast

(Unit: million JPY, except where stated otherwise)

	FY 03/18 Actual	FY 03/19 Forecast	Growth Rate
Net Sales	5,116	5,800	13.3 %
Gross Profit	4,041	4,700	16.3 %
Selling, General and Administration Expense	2,138	2,200	2.9 %
Operating Income	1,902	2,500	31.4 %
Ordinary Income	1,909	2,500	30.9 %
Net Income Attributable to Owners of Parent	1,281	1,619	26.3 %
Dividend per Share	28 JPY	36 JPY	—

Non-Consolidated Forecast

- Japan: Bolster sales of new products released in September
- Release cloud service from May, expect growth in this area

(Unit: million JPY, except where stated otherwise)

	FY 03/18 Actual	FY 03/19 Forecast	Growth Rate
Net Sales	5,046	5,600	11.0 %
Gross Profit	3,986	4,250	6.6 %
Selling, General and Administration Expense	1,898	1,900	0.1 %
Operating Income	2,087	2,350	12.6 %
Ordinary	2,097	2,350	12.0 %
Net Income	860	1,598	85.7 %

■ Dividend Distribution

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

Projected dividend payout ratio for the period ending March 2019:
30.9% of consolidated net income for the current period

The annual dividend amount for the period ending March 2019:
Estimated at JPY **36.00** per share

	Dividend per share (in JPY)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY 03/18	14.00	14.00	28.00	30.3%
FY 03/19 (Forecast)	18.00	18.00	36.00	30.9%

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FY 03/18 INITIATIVES

■ Enterprise and Public Sector Initiatives

Expand sales of i-FILTER Ver.10 and m-FILTER Ver. 5

- Make it possible to defend against targeted attacks with the introduction of i-FILTER and m-FILTER
- By using both, clients will be able to completely counter Web infections, data loss, and malware from e-mails
- Continue to enhance products and develop new functions to provide more precise security environments

Start cloud service for i-FILTER and m-FILTER

- As Web services and the e-mail environment rapidly shift to the cloud, needs for cloud security are also increasing, and we will commence cloud-based services for i-FILTER and m-FILTER
- It will provide protection for companies of any size against targeted attacks and data leakage through a few simple steps
- The cloud service will also provide a safe environment to browse the internet as well as allow the user to open any email without hesitation

The addition of strongly requested functions for FinalCode will secure additional customers

- The addition of functions highly sought after by current users and prospective users
- Accelerate the attainment of new users and sales expansion

■ Overseas Market Initiatives

Implement a new strategy based on a new system, centered on FinalCode, Inc.

- Implement aggressive marketing activities centered on FinalCode, Inc.
- There has been a global increase in interest in file security, and there has been an increase in detailed projects both for governments and companies
- In order to attain the prospective projects, we have restructured the organization and have formulated a new business plan
- New members with lots of experience will spearhead the effort to capture projects globally

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 the management's current assumptions and beliefs in light of the information currently available to it. However, environmental changes and other important factors may cause actual results to differ materially from those expressed herein. 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 stated otherwise, are rounded to the nearest million JPY

- DIGITAL ARTS, SBRAIN, i-FILTER, i-FILTER EndPoint Controller, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER File Scan and D-SPA are registered trademarks of Digital Arts Inc.
- FinalCode is a registered trademark of Digital Arts Group
- Other corporate and product names are trademarks or registered trademarks of the respective companies

The logo for Digital Arts features a large, stylized blue letter 'D' with a white swoosh that curves over its top and left side. To the right of the 'D', the words 'igitalArts' are written in a blue, italicized, sans-serif font. A registered trademark symbol (®) is located at the end of the word 'Arts'.

DigitalArts®

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