

Digital Arts Inc. (2326)



FY 03/18 Third Quarter Consolidated Financial Results
(April 1, 2017 through December 31, 2017)

Reference Slides
January 31, 2018

FY03/18 Third Quarter Financial Results Reference Slides

KEY FINANCIAL POINTS

① **The decrease in large projects for government agencies and local governments was offset by the growth in the enterprise sector, resulting in higher sales and profits**

- 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

② **Solid sales through current customers upgrading to i-FILTER Ver.10 and m-FILTER Ver. 5**

- 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 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 **1,158** million (YoY JPY +32 million / +26.3%)

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 **356** million (YoY JPY +19 million / +1.7%)

Increased mainly due to YoY growth in sales, and lower costs including the completion of initial investment costs connected to the commencement of overseas business centered on the US subsidiary

Ordinary Income

JPY **360** million (YoY JPY +43 million / +3.8%)

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

Net Income

Attributable to
Owners of Parent

JPY **258** million (YoY JPY +83 million / +12.1%)

The increase was due to the relatively strong operating performance in Japan and the reduction in taxes in conjunction with the completion of up-front investments overseas

Consolidated Results

(Unit: JPY million)

	FY03/17 Third Quarter	FY03/18 Third Quarter	YoY	FY03/18 Forecast
Net Sales	3,518	3,551	+0.9%	5,600
Gross Profits	2,776	2,777	+0.0%	4,450
Selling, General and Administration Expense	1,631	1,612	▲1.2%	2,450
Operating Income	1,145	1,164	+1.7%	2,000
Ordinary Income	1,134	1,177	+3.8%	2,000
Net Income attributable to owners of parent	693	777	+12.1%	1,240
ROE	14.9%	14.3%	—	—

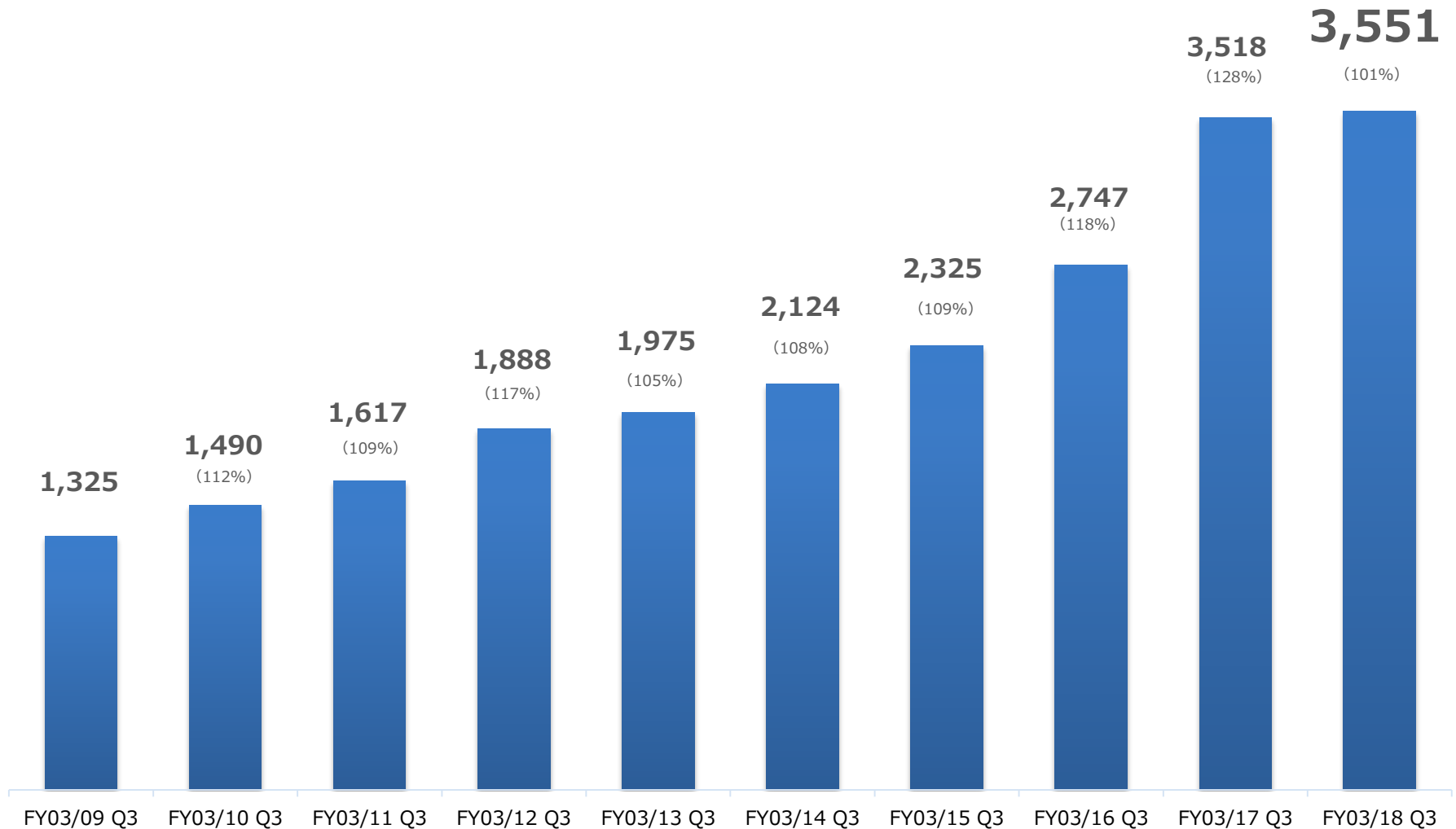
Non-Consolidated Results

(Unit: JPY million)

	FY03/17 Third Quarter	FY03/18 Third Quarter	YoY	FY03/18 Forecast
Net Sales	3,575	3,523	▲1.4%	5,550
Gross Profits	2,765	2,730	▲1.3%	4,450
Selling, General and Administration Expense	1,451	1,426	▲1.7%	2,100
Operating Income	1,313	1,303	▲0.8%	2,350
Ordinary Income	1,302	1,315	+1.0%	2,350
Net Income	880	947	+7.6%	1,621
ROE	17.0%	15.4%	—	—

Continue to mark **RECORD HIGH** sales

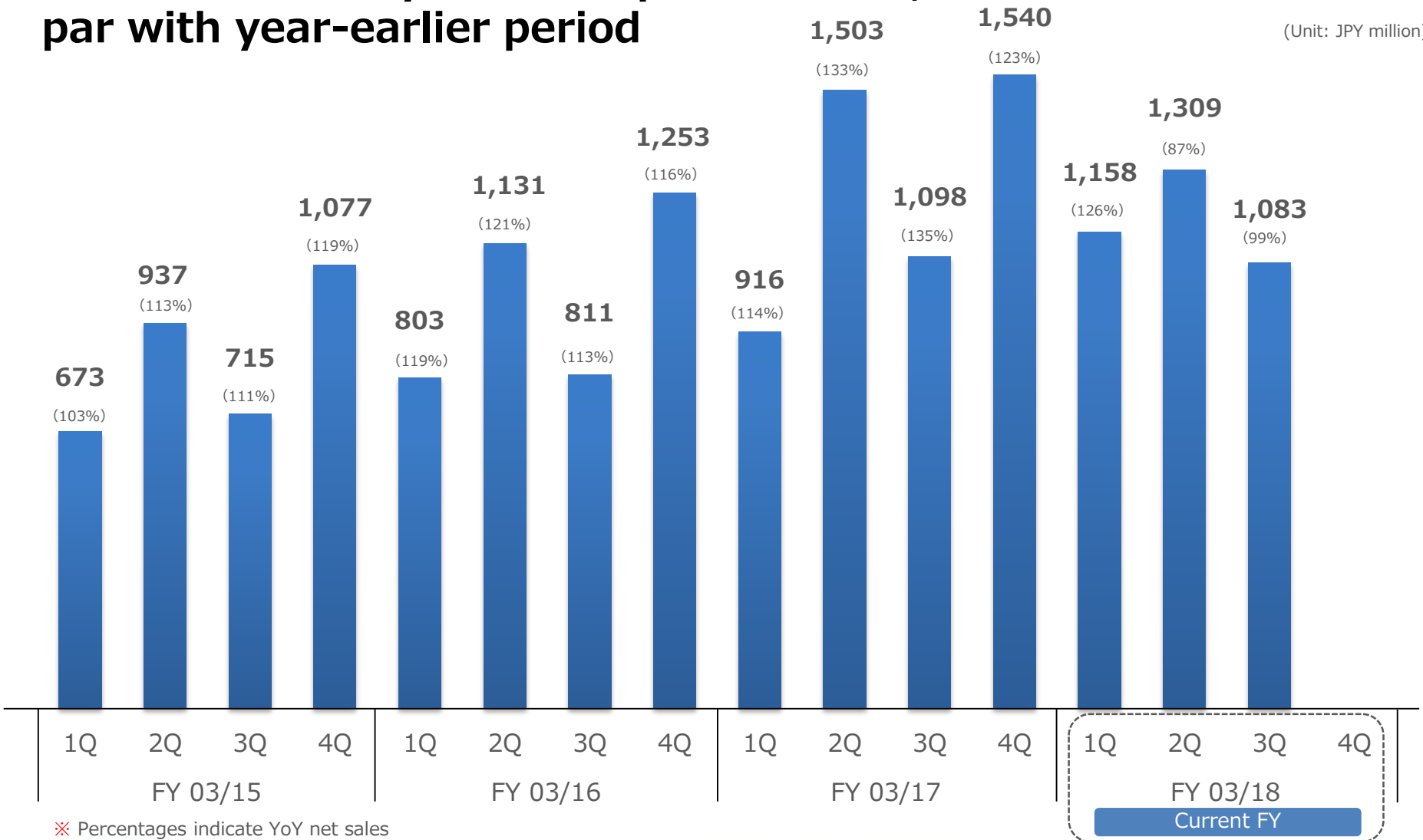
(Unit: JPY million)



※ 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 on par with year-earlier period

(Unit: JPY million)



※ Percentages indicate YoY net sales

- The completion of initial investment costs connected to the commencement of overseas business contributed to the reduction in COS and SG&A

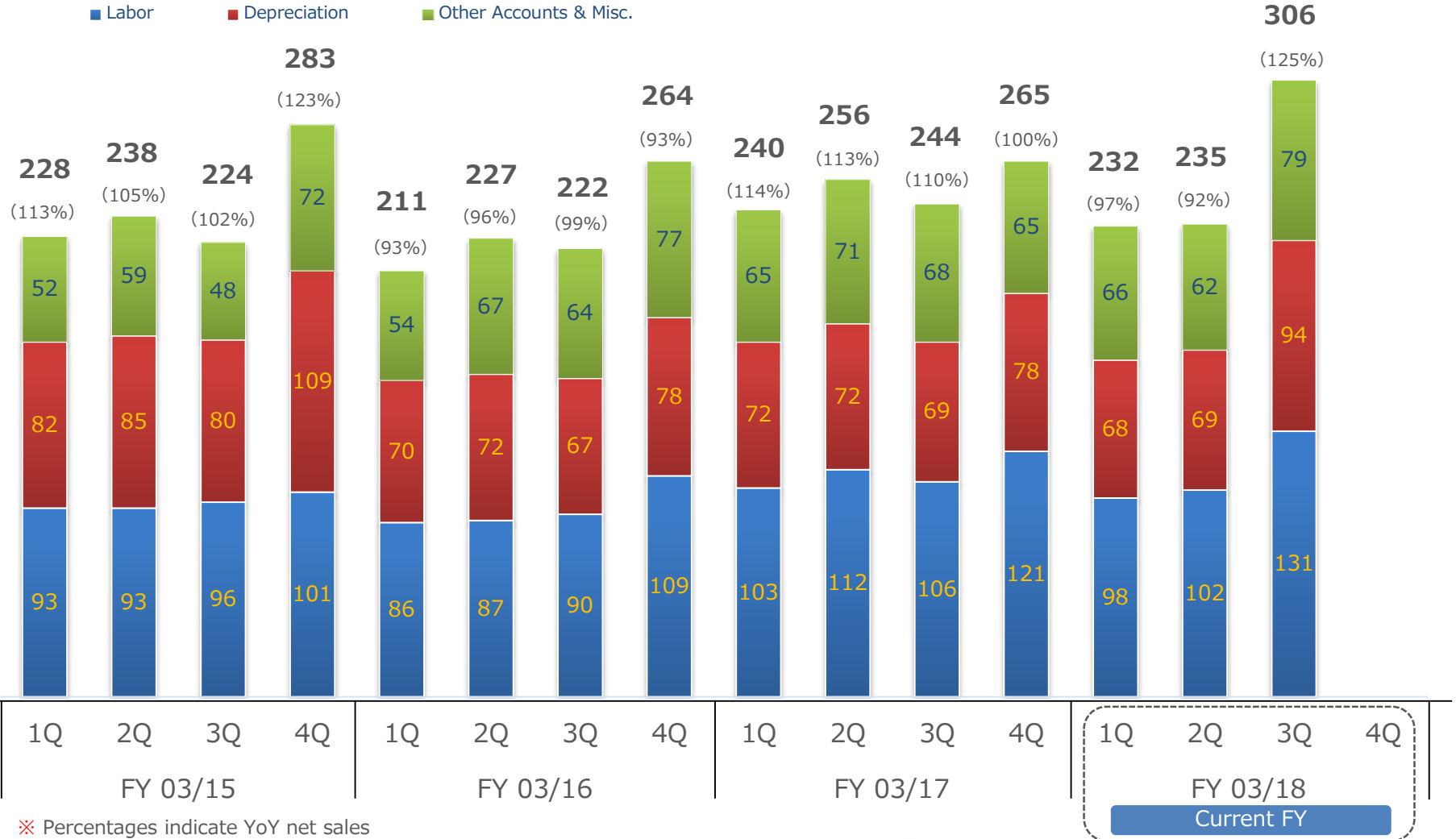
(Unit : JPY million)

	FY03/17 Q2	FY03/18 Q2	YoY Growth	Key Factors
Cost of Sales	741	774	+32	
Labor	321	332	+10	
Depreciation	214	232	+18	
Transfer to other accounts misc production cost	205	208	+3	
Selling, General and Administrative Expenses	1,631	1,612	▲19	
Personnel Expenses	856	795	▲60	Personnel Expenses (Japan) -43M (Overseas) -16M
Publicity	236	227	▲9	
Others	538	589	+50	Increase in rent for offices in Japan and fees for external advisors

The favorable results of the consulting subsidiary led to an increase in consulting personnel and related costs

(Unit: JPY million)

■ Labor ■ Depreciation ■ Other Accounts & Misc.

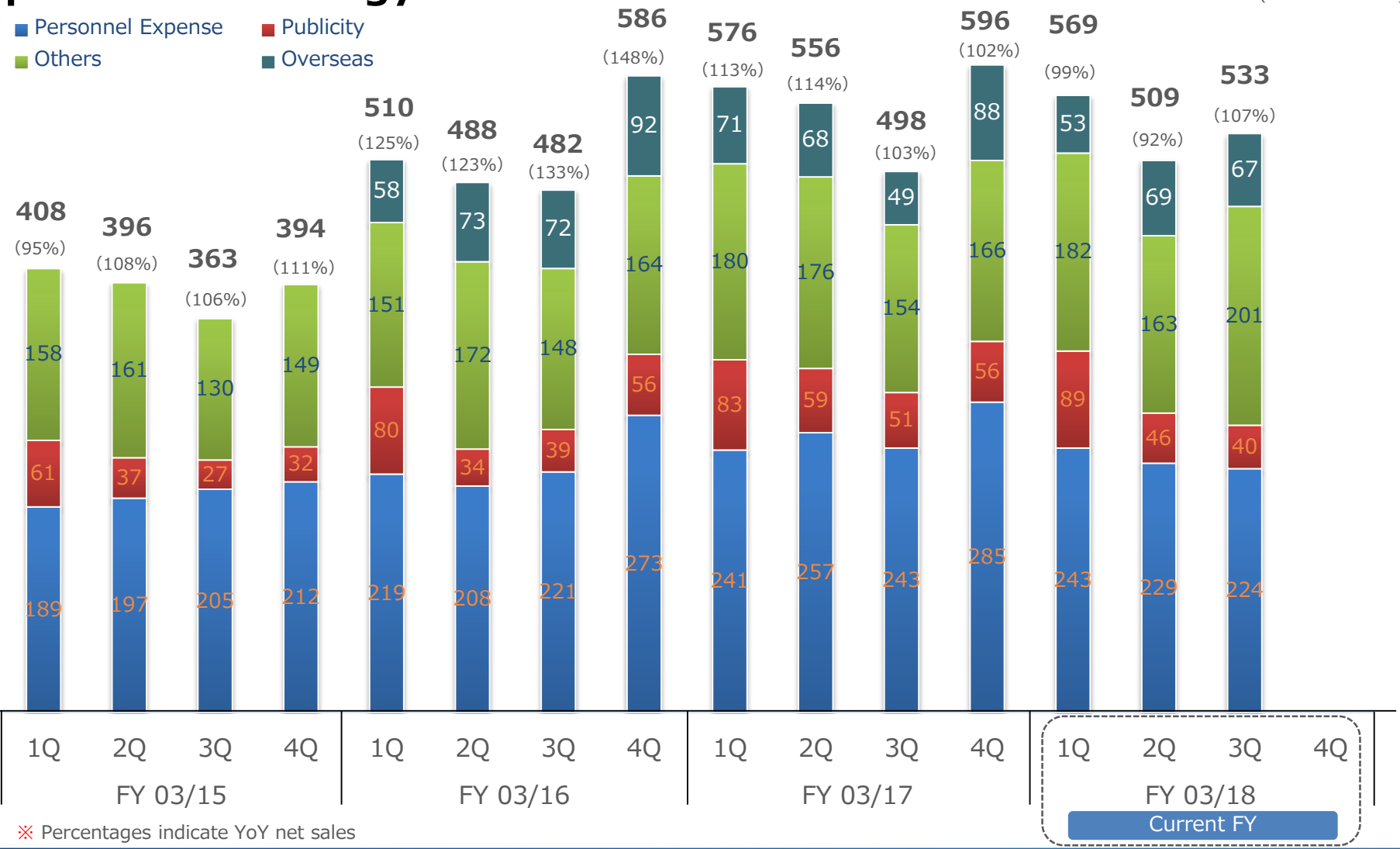


※ Percentages indicate YoY net sales

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 +0.9% growth
- Attained +16.7% growth in the enterprise sector, offsetting the decrease in the number of public sector projects and special demand from local governments
- Continued to attain solid sales in the consumer market, despite the large decrease in the PC shipments in Japan market

Consolidated
Net Sales

JPY 3,551 million

(YoY JPY +32 million / +0.9%)

Enterprise

JPY 2,031 million

(YoY JPY +291 million / +16.7%)

Public

JPY 1,247 million

(YoY JPY -275 million / -18.1%)

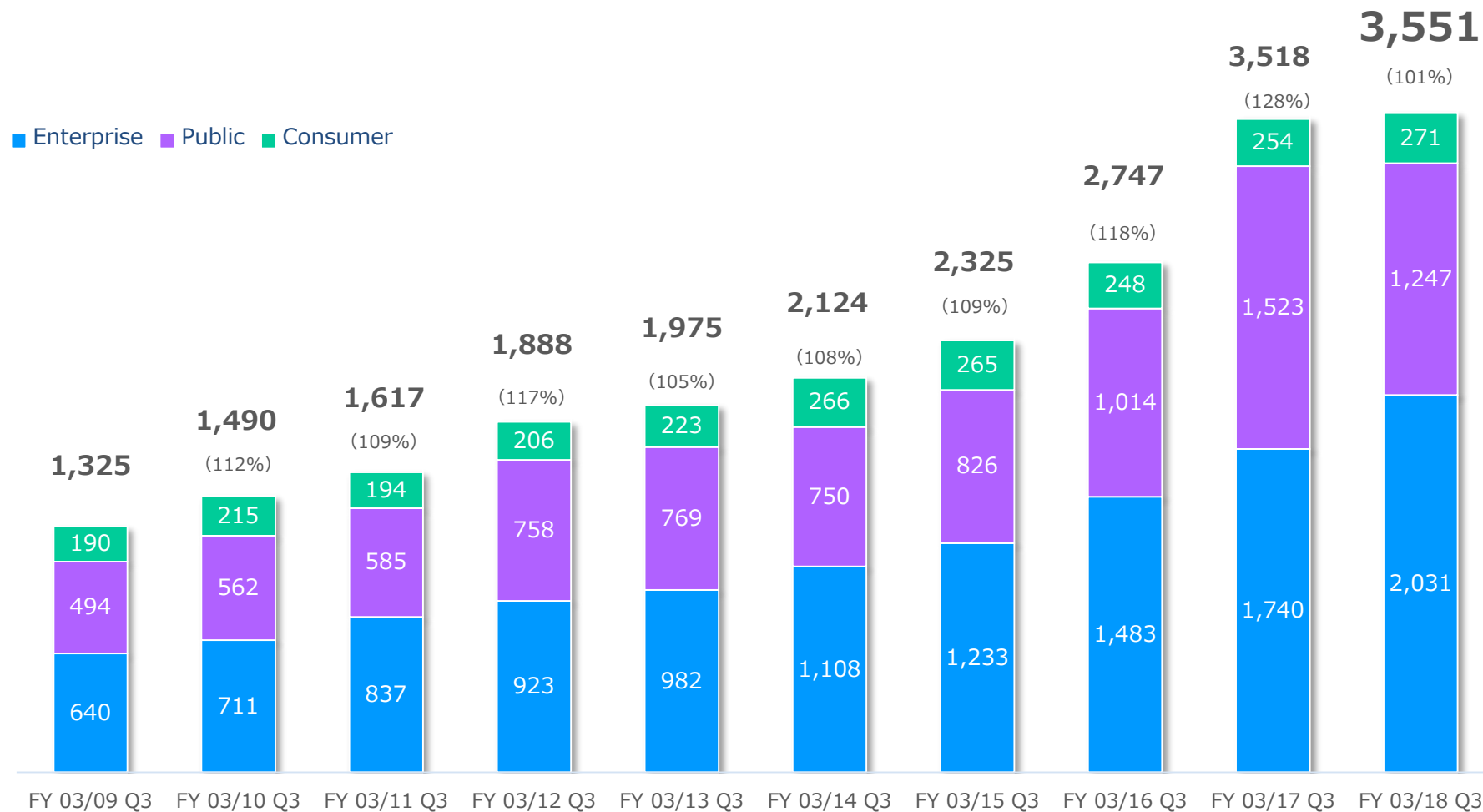
Consumer

JPY 271 million

(YoY JPY +17 million / +6.9%)

Enterprise sales drove overall earnings

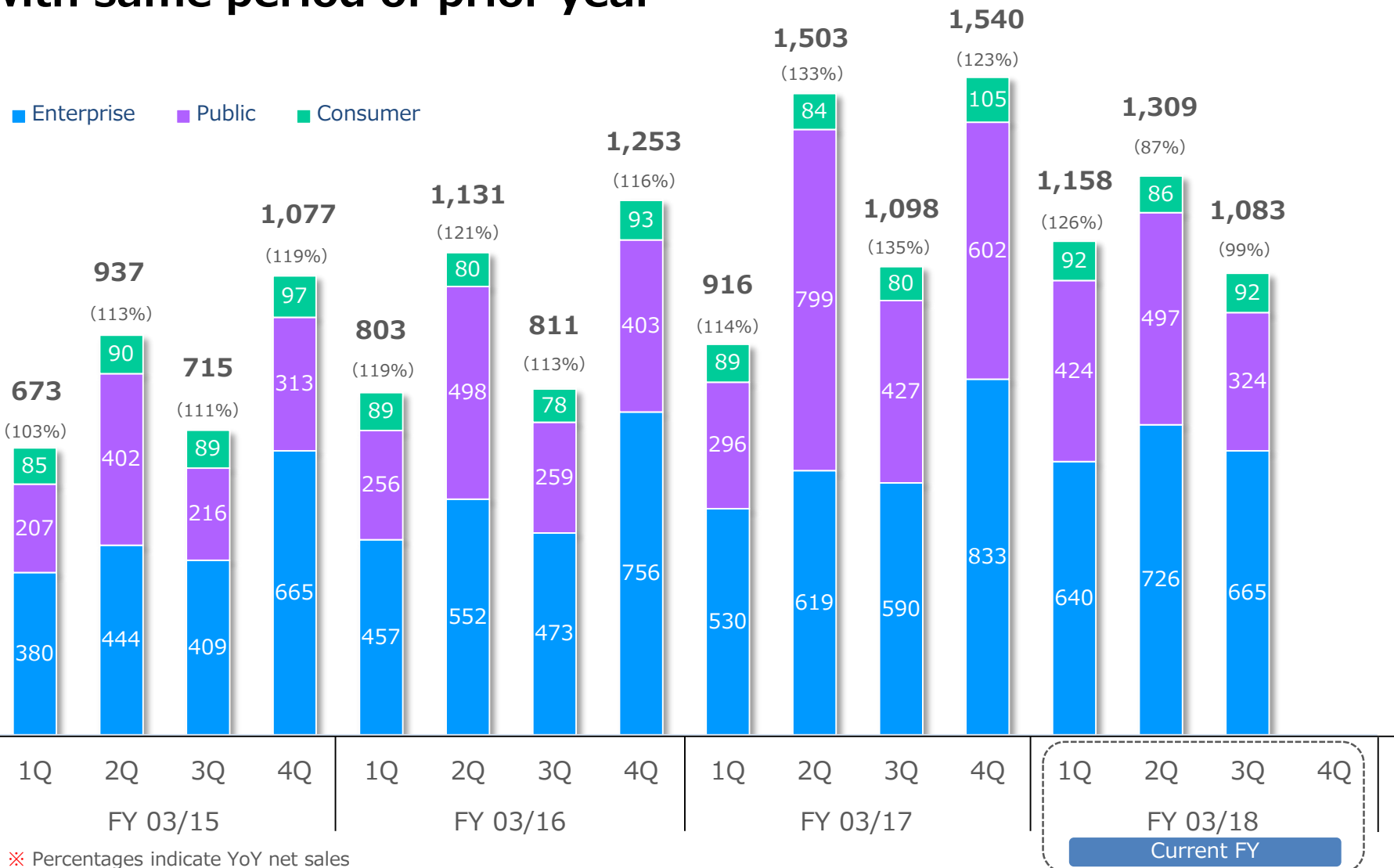
(Unit: JPY million)



※ Percentages indicate YoY net sales

Growth in enterprise sector led to sales being on par with same period of prior year

(Unit: million JPY)



※ Percentages indicate YoY net sales

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ENTERPRISE SECTOR

- Robust sales in mainstay i-FILTER, m-FILTER series
- Secured small-start and test deployment projects for FinalCode
- Solid progress in mainly current customers upgrading to i-FILTER Ver.10 and m-FILTER Ver. 5

i-FILTER
Series YoY **110.1** %



m-FILTER
Series YoY **116.0** %



FINALCODE YoY **107.5** %



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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 **80.1 %**



m-FILTER
Series YoY **76.4 %**



FINALCODE
YoY **236.0 %**



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CONSUMER SECTOR

- Continued to expand partnerships and sales through mobile and MVNO for i-FILTER (Consumer) for smartphones
- Amid the decline in PC shipments in Japan, and the continued challenging business environment, sales of multi-year packages and sales to internet cafes were solid, and sales of i-FILTER® for multi-devices were steady, contributing to solid sales

PC

YoY **110.2** %

Game console/TV

YoY **79.7** %

Mobile Device

YoY **130.7** %

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FY 03/18 FORECAST

Consolidated Forecast

- Japan: Anticipate continuous and stable growth with the launch of a new product in new market
- Subsidiaries: Conservative outlook for the forecast

(Unit: million JPY, except where stated otherwise)

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

Non-Consolidated Forecast

- Japan: Anticipate continuous and stable growth with the launch of a new product in new market

(Unit: million JPY, except where stated otherwise)

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

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

	Dividend per share (in JPY)			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%

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

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