

Digital Arts Inc.
(Securities Code: 2326)



Consolidated Financial Results for the First Quarter of
the Fiscal Year Ending March 31, 2020
(From April 1, 2019 to June 30, 2019)

Supplementary Material
Wednesday, July 31, 2019

**Supplementary Material on Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending March 31, 2020**

Key Points

(1) Started to supply FinalCode Ver. 6 in June 2019

- The software incorporates an automatic file encryption function, for which there is strong demand from existing users and potential customers, and creates a world in which there is no raw data.
- We introduced a free browsing function for internal users and volume discounts according to the number of licenses purchased.

(2) Enhanced the lineup of DigitalArts@Cloud

- The product creates the world of a virus-free room in the cloud environment as well, where users are not conscious of security, after the addition of FinalCode@Cloud and Chat@Cloud to its lineup.

(3) Sales of i-FILTER Browser & Cloud increased against the backdrop of workstyle reforms and changes in the field of education.

- In the enterprise sector market, sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of the location or situation, expanded, reflecting a rise in the number of people who take out company-provided tablets, notebooks or other devices and work on their assignments on the go against the backdrop of diversifying workstyles.
- In the public sector market, due to the progress of ICT, changes are taking place in the field of education, and efforts are underway to establish an environment in which one or a small number of students can use one tablet. Reflecting this, sales expanded for i-FILTER Browser and Cloud, which features the capability to implement sophisticated security measures for tablets as well as the addition of a service of providing information that creates the optimal environment for learning.

**Supplementary Material on Consolidated Financial Results
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Consolidated Results Highlights

Consolidated
net sales

Net Sales: **1,249** million yen (+31 million yen / +2.6% YoY)

Progress was made in winning projects, mainly for renewals of contracts that had remained outstanding in the previous consolidated fiscal year, securing an increase in net sales year on year.

Operating
profit

Operating profit: **413** million yen (+118 million yen / + 40.0% YoY)

Profitability increased due to the effects of the selection and concentration of management resources based on the review of overseas strategies implemented in the previous consolidated fiscal year.

Ordinary
profit

Ordinary profit: **411** million yen (+117 million yen / + 39.8% YoY)

As a result of growth in operating profit, ordinary profit also increased.

Profit attributable to
owners of parent

Profit: **280** million yen (+105 million yen / + 60.2% YoY)

Profit increased significantly due to a decrease in tax expenses as a result of the liquidation of an overseas subsidiary.

Consolidated Results

(In millions of yen)

	FY March 2019 1Q	FY March 2020 1Q	Change YoY
Net sales	1,217	1,249	+2.6%
Gross profit	927	962	+3.8%
Selling, general and administrative expenses	632	548	-13.2%
Operating profit	295	413	+40.0%
Ordinary profit	294	411	+39.8%
Profit attributable to owners of parent	175	280	+60.2%
ROE	2.8%	3.6%	—

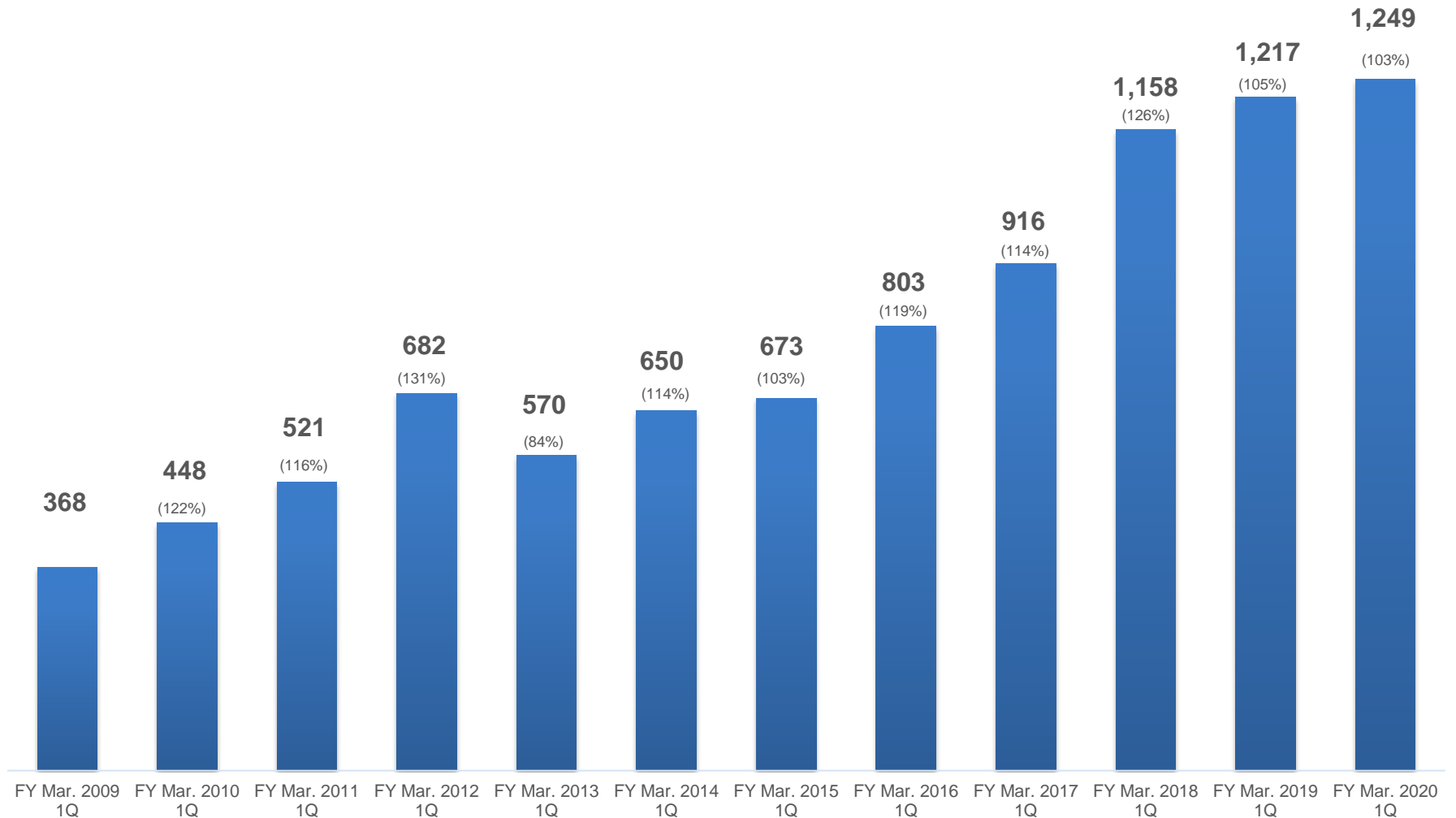
Non-Consolidated Results

(In millions of yen)

	FY March 2019 1Q	FY March 2020 1Q	Change YoY
Net sales	1,204	1,211	+0.6%
Gross profit	926	950	+2.6%
Selling, general and administrative expenses	543	517	-4.8%
Operating profit	382	433	+13.3%
Ordinary profit	382	432	+13.0%
Profit	263	297	+12.9%
ROE	4.1%	3.9%	—

(In millions of yen)

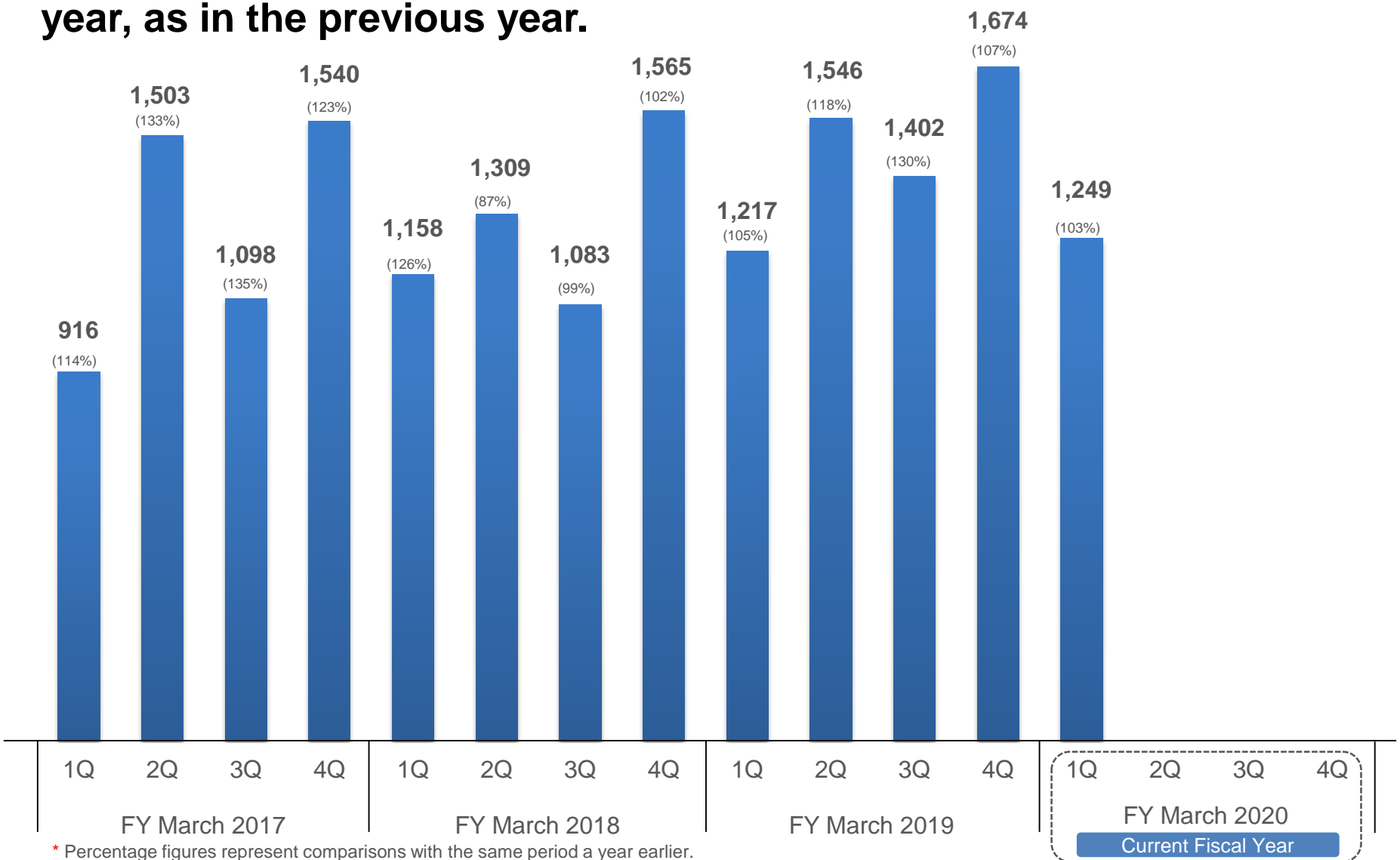
Continuously secured an increase in net sales.



* Percentage figures represent comparisons with the preceding quarter.

Ended the first quarter with an increase in net sales year on year, as in the previous year.

(In millions of yen)



* Percentage figures represent comparisons with the same period a year earlier.

- Selling, general and administrative expenses decreased due to the effect of the more focused application of management resources as a result of group reorganization based on the review of overseas strategies undertaken in the previous consolidated fiscal year. Consequently, profitability improved considerably.

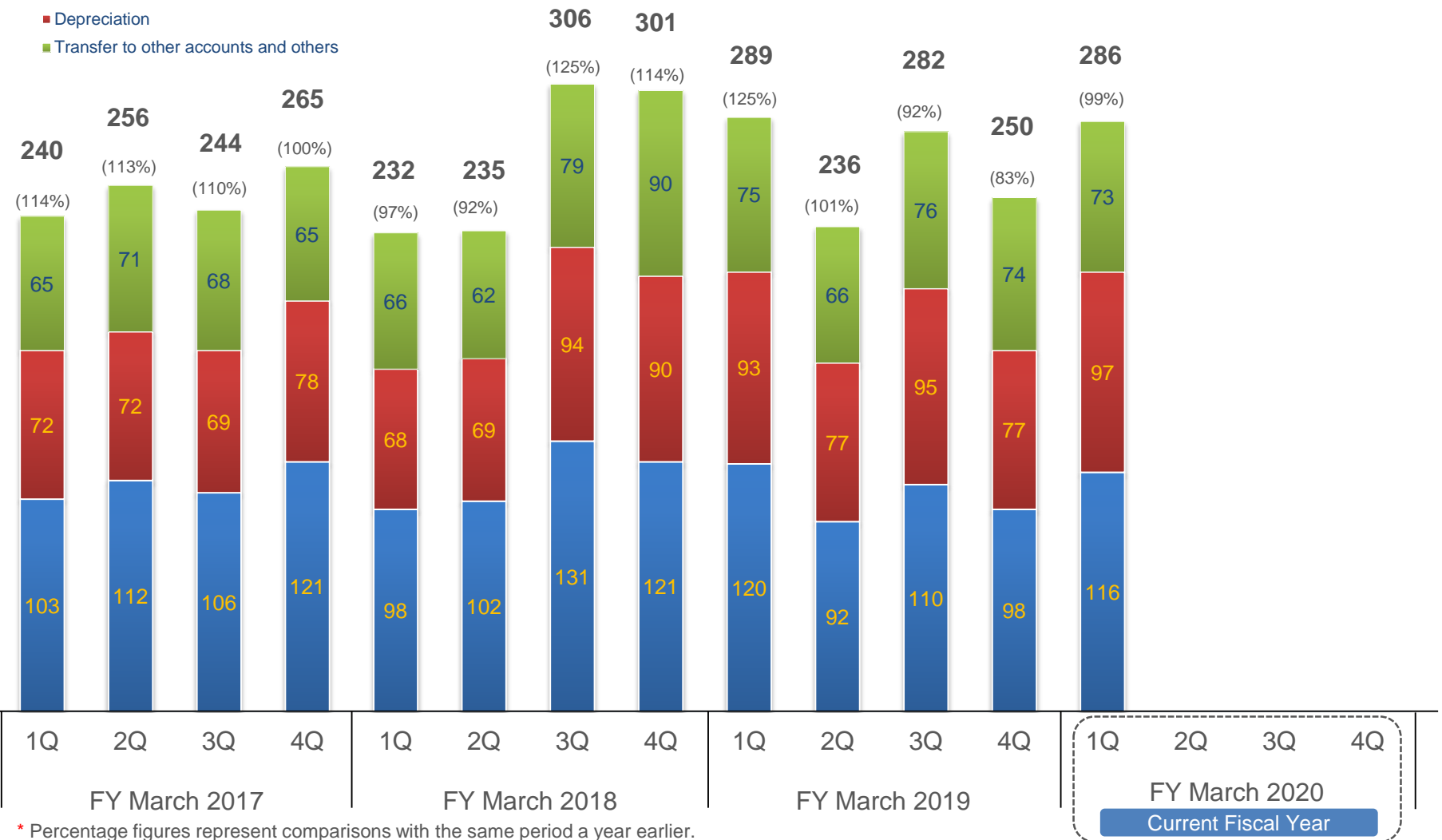
(In millions of yen)

	FY March 2019 1Q	FY March 2020 1Q	Change YoY	Main Factors for Change
Cost of sales	289	286	-3	
Labor	120	116	-4	
Depreciation	93	97	+4	
Transfer to other accounts Other manufacturing costs	75	73	-2	
Selling, general and administrative expenses	632	548	-83	
Personnel expenses	273	263	-10	
Advertising expenses	121	70	-51	Advertising expenses were used ahead of schedule strategically in the previous year.
Other	236	215	-21	Other expenses declined as a result of the liquidation of a US-based subsidiary.

(In millions of yen)

Increase in depreciation after the release of a new product

- Labor
- Depreciation
- Transfer to other accounts and others

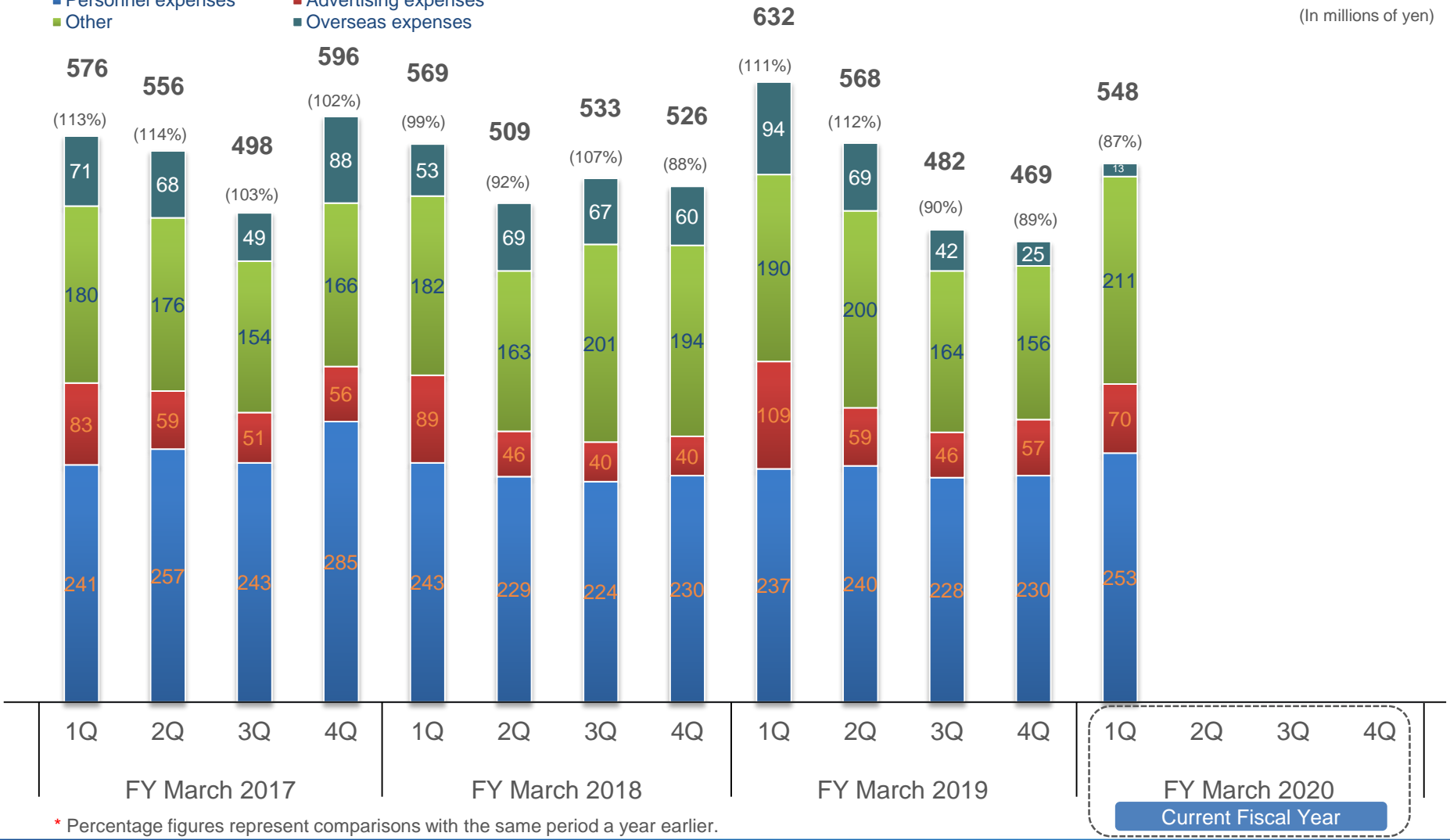


* Percentage figures represent comparisons with the same period a year earlier.

Significant reduction in overseas expenses following revision of Group's overseas strategy

- Personnel expenses
- Advertising expenses
- Other
- Overseas expenses

(In millions of yen)



* Percentage figures represent comparisons with the same period a year earlier.

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By Market

- Consolidated net sales increased +2.6%.
- In the enterprise sector market, net sales achieved an increase of +5.4%, reflecting strong sales of i-FILTER Browser & Cloud.
- In the public sector market, net sales were discouraging as a result of a decline of -6.3% due to the absence of large projects recorded in the previous year.
- In the consumer sector market, net sales recorded a rise of +16.4%, reflecting the progress in the ongoing introduction of filtering for young people.

Consolidated net sales

Net Sales: **1,249** million yen (+31 million yen / +2.6 % YoY)

Enterprise Sector

Net Sales: **725** million yen (+37 million yen / +5.4 % YoY)

Public Sector

Net Sales: **383** million yen (-25 million yen / -6.3 % YoY)

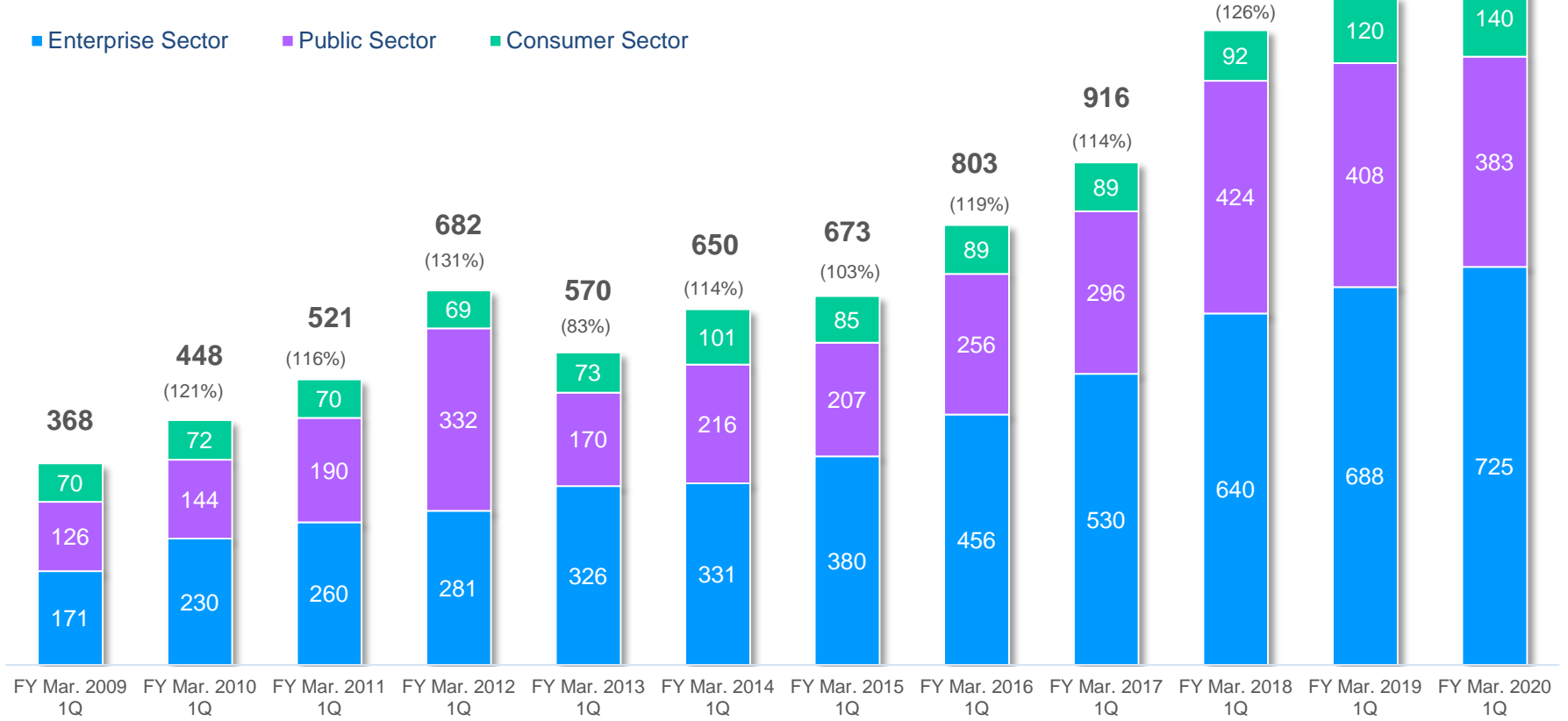
Consumer Sector

Net Sales: **140** million yen (+19 million yen / +16.4 % YoY)

Sales to the enterprise sector and consumer sector markets remained solid.

There are expectations of a recovery in sales to the public sector market in the second quarter, in which orders increase notably.

(In millions of yen)

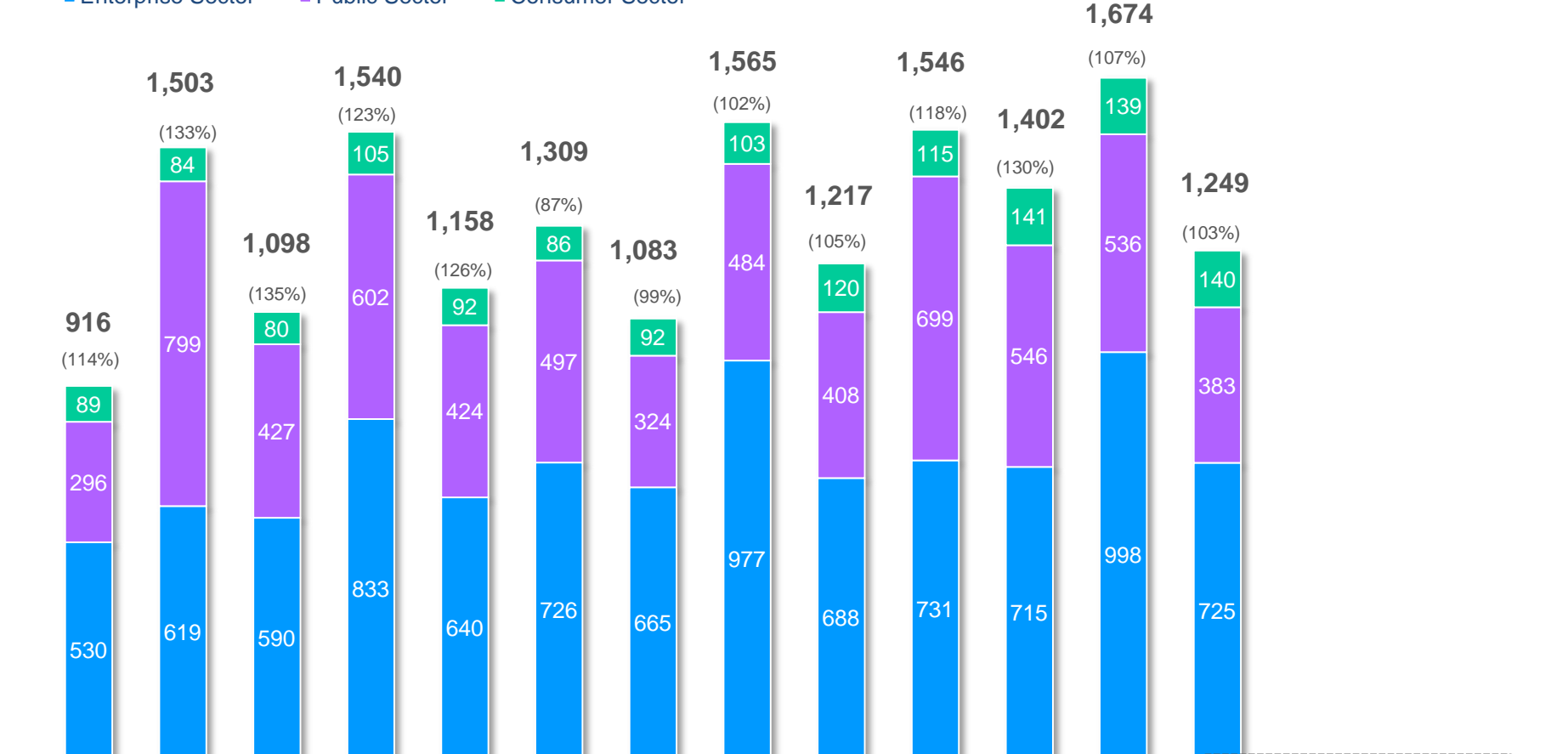


* Percentage figures represent comparisons with the preceding quarter.

Secured an increase in sales on the back of strong performances recorded in businesses for the enterprise sector and consumer sector markets.

(In millions of yen)

■ Enterprise Sector ■ Public Sector ■ Consumer Sector



* Percentage figures represent comparisons with the same period a year earlier.

**Supplementary Material on Consolidated Financial Results
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Enterprise Sector

- Sales of our mainstay i-FILTER and FinalCode products remained steady as progress was made in winning projects, mainly for renewals of contracts that had remained outstanding in the previous consolidated fiscal year.
- Sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of location or situation, expanded, reflecting a rise in the number of people who take out company-provided tablets, notebooks or other devices and work on their assignments on the go against the backdrop of diversifying workstyles.

i-FILTER
Series **109.8% of the year-ago figure.**



m-FILTER
Series **89.5% of the year-ago figure.**



FINALCODE **128.3% of the year-ago figure.**



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for the First Quarter of the Fiscal Year Ending March 31, 2020**

Public Sector

- Overall sales for the public sector market were lower than the level in the same period of the previous year due to the decrease of orders for projects with large monetary value that contributed to sales in the previous year.
- Because of the progress of ICT, changes are taking place in the field of education, and efforts are underway to establish an environment in which one or a small number of students can use one tablet. Reflecting this, sales expanded for i-FILTER Browser and Cloud, which features the capability to implement sophisticated security measures for tablets as well as the addition of a service of providing information that creates the optimal environment for learning.

i-FILTER
Series **94.8%** of the year-ago figure.



m-FILTER
Series **81.6%** of the year-ago figure.



FINALCODE **133.1%** of the year-ago figure.



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Consumer Sector

- Sales grew, mainly reflecting the progress in the introduction of filtering, as the number of young people who use smartphones continued to increase, and strong direct sales of multi-year package products and i-FILTER for Multiple Devices that can be used on more than one terminal device.

For computers

99.3% of the year-ago figure.

For game consoles
and TVs

98.3% of the year-ago figure.

For mobile terminals

141.3% of the year-ago figure.

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Supplementary Material on Consolidated Financial Results
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Full-Year Financial Forecast for the Fiscal Year Ending March 2020

Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,841 million	¥6,800 million	16.4 %
Gross profit	¥4,781 million	¥5,450 million	14.0 %
Selling, general and administrative expenses	¥2,152 million	¥2,150 million	-0.1 %
Operating profit	¥2,629 million	¥3,300 million	25.5 %
Ordinary profit	¥2,630 million	¥3,300 million	25.4 %
Profit attributable to owners of parent	¥1,961 million	¥2,277 million	16.1 %
Dividend per share	¥48.00	¥50.00	—

Non-Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,752 million	¥6,600 million	14.7 %
Gross profit	¥4,724 million	¥5,400 million	14.3 %
Selling, general and administrative expenses	¥1,949 million	¥2,100 million	7.7 %
Operating profit	¥2,774 million	¥3,300 million	18.9 %
Ordinary profit	¥2,777 million	¥3,300 million	18.8 %
Profit	¥1,784 million	¥2,290 million	28.3 %

■ Dividends

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, 2020: 30.5 %
(of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2020:

50.00 yen per share

	Dividend (in yen) per share			Consolidated payout ratio
	Interim	Year-end	Total	
FY March 2019	18.00	30.00	48.00	34.0%
FY March 2020 (forecast)	25.00	25.00	50.00	30.5%

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.

- デジタルアーツ, DIGITAL ARTS, i-FILTER, info board, ARS, Active Rating System, ACTIVE RATING, ZBRAIN, D-SPA, SP-Cache, NET FILTER, White Web, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER File Scan, Mail Detox, FinalCode, i-FILTER, DigitalArts@Cloud, Chat@Cloud, D-Alert, D-Content, and logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.
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