



## Quarterly Consolidated Financial Results for First Half of Fiscal Year Ending March 31, 2020 (Japanese Accounting Standards)

October 30, 2019

Name of listed company: Digital Arts Inc. Listed on: Tokyo Stock Exchange 1st Section

Securities code: 2326 URL <https://www.daj.jp>

Representative: (Title) Representative Director, President and CEO (Name) Toshio Dogu

Contact: (Title) Administration Department (Name) Isao Konishi (TEL) 03-5220-6045

Scheduled date for submission of quarterly report: November 8, 2019 Scheduled date to start dividends distribution: December 3, 2019

Preparation of supplementary explanatory documents for quarterly results : Yes

Holding of quarterly results briefing : Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

### 1. Consolidated financial results for the first half of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative totals) (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First half of year ending March 31, 2020	2,764	0.0	1,096	5.9	1,092	5.0	745	(24.9)
First half of year ended March 31, 2019	2,764	12.0	1,036	12.4	1,040	11.5	992	60.4

(Note) Comprehensive income: First half of year ending March 31, 2020 742 million yen (-25.3%) First half of year ended March 31, 2019 993 million yen (60.0%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
First half of year ending March 31, 2020	53.40	51.80
First half of year ended March 31, 2019	71.39	71.23

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net Assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2019	10,534	8,464	80.0	599.71
As of March 31, 2019	9,859	7,802	78.7	558.33

(Reference:) Equity capital: As of September 30, 2019 8,428 million yen As of March 31, 2019 7,761 million yen

### 2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	—	18.00	—	30.00	48.00
Year ending March 31, 2020	—	25.00	—	—	—
Year ending March 31, 2020 (forecast)	—	—	—	25.00	50.00

(Note) Revisions to most recently announced dividend forecast : No

3. Forecast of consolidated financial results for the year ending March 31, 2020  
(from April 1, 2019 to March 31, 2020)

(Percentage figures represent changes from previous year for full year figures.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	6,800	16.4	3,300	25.5	3,300	25.4	2,277	16.1	163.83

(Note) Revisions to most recently announced results forecasts : No

\* Notes

(1) Changes in important subsidiaries during the first half of fiscal year ending March 31, 2020 : None

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

New — (Company name), Excluding — (Company name)

(2) Application of special accounting methods to the preparation of consolidated quarterly financial statements. : Yes

(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (4) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)” on page 10 of the attached materials.

(3) Changes in accounting policies, changes of accounting estimates and restatement

1) Changes in accounting policies due to revisions of accounting standards, etc. : None

2) Changes in accounting policies due to reasons other than those stated in 1) : None

3) Changes in accounting estimates : None

4) Restatement : None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury shares)

As of September 30, 2019	14,133,000	As of March 31, 2019	14,133,000
As of September 30, 2019	78,920	As of March 31, 2019	232,320
First half of year ending March 31, 2020	13,957,694	First half of year ended March 31, 2019	13,897,287

2) Number of treasury shares

3) Average number of shares issued and outstanding in each period (cumulative total)

\* Quarterly financial statements are not subject to quarterly audits by certified public accountants or audit corporations.

\* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

Business forecasts and other forward-looking statements in this material contain predictions based on future assumptions, outlooks and plans as of the date of publication of this material. The Company does not warrant the accomplishment of the forecasts. Actual results may differ significantly from the forecasts due to risks and uncertain factors associated with the world economy, the state of competition, and fluctuations in foreign exchange rates and interest rates.

For matters concerning results forecasts, please refer to “1. Qualitative Information on Financial Results for the First Half of Fiscal Year Ending March 31, 2020 (3) Explanation about information on future forecasts such as consolidated results forecasts” on page 5 of the attached materials.

(How to obtain supplementary materials for quarterly results)

The materials are posted on the Company’s website.

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## 1. Qualitative Information on Financial Results for the First Half of Fiscal Year Ending March 31, 2020

### (1) Explanation about business results

During the first half of the consolidated fiscal year under review (April 1 through September 30, 2019), the Japanese economy continued to show a moderate recovery, chiefly because the employment conditions and income environment continued to improve, and corporate earnings remained steady against the backdrop of the government-led economic measures. On the other hand, the outlook of the global economy remained uncertain, mainly due to concerns over an economic slowdown attributable to intensifying US - China trade tensions that are likely to persist longer than expected, as well as mounting geopolitical risks.

In the security industry, in which the Digital Arts Group (the “Group”) operates, there is a growing number of challenges faced by companies and other organizations such as a shortage of security-related personnel, in addition to the diversification and sophistication in threats of targeted cyberattacks with a focus on specific companies, organizations and national institutions, not only in Japan but also on a global scale. There is also a sharp increase in the number of users who rely on cloud services for the outsourcing of security operations that they find difficult to deal with and reductions in the burden of security operations. In addition, with the gradual enforcement of the workstyle reform law from April 1, 2019, companies and other organizations are required to rectify long working hours and establish an environment in which operations can be performed more flexibly. Against this backdrop, the way workstyle reforms should be implemented while simultaneously maintaining security has surfaced as a new challenge because security needs to be improved urgently in out-of-office environments such as work from home and satellite offices.

Given these circumstances, with a view to offering solutions for a secure internet environment, regardless of the size of the businesses operated by the respective customers, the Group continued to improve i-FILTER Ver. 10 and m-FILTER Ver. 5 by enhancing performance and adding functions, and endeavored to increase sales of the products while also aiming to establish a higher level of security in conjunction with businesses for the enterprise sector and public sector markets. In addition, it began to supply FinalCode Ver. 6 in June 2019. Ver. 6 incorporates an automatic file encryption function, for which there is strong demand from existing users and potential customers. Regardless of security literacy, Ver. 6 actualizes an environment in which files are automatically encrypted instantly. In addition, by introducing a free browsing function for internal users and volume discounts according to the number of licenses purchased, it offers more users an opportunity to utilize FinalCode more securely in more operation-friendly environments. Moreover, by including FinalCode@Cloud and Chat@Cloud in the lineup of DigitalArts@Cloud, it creates the world of a virus-free room as well, where users are not conscious of security in the cloud environment.

In the consumer sector market, efforts need to be stepped up to popularize filtering functions among young people as the amount of internet-linked damage is increasing due to the use of smartphones against the backdrop of the rising number of young people who use smartphones. Given these circumstances, the Group continued to engage in educational activities and work with mobile network carriers, among other parties, and contributed to popularizing the i-FILTER for smartphones.

As a result, consolidated net sales for the first half of the consolidated fiscal year under review stood at 2,764,132 thousand yen, (100.0% year-on-year). On the profit side, there were improvements in profitability thanks to the impact 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, operating profit rose 5.9% year on year, to 1,096,974 thousand yen, ordinary profit climbed 5.0% year on year, to 1,092,042 thousand yen. Profit attributable to owners of parent came to 745,308 thousand yen (75.1% year-on-year) due to the decline as a reaction to control effect of tax expenses associated with the liquidation of the U.S. subsidiary in the previous consolidated fiscal year.

The following describes business performance in separate markets.

#### Enterprise Sector Market

In this market, in particular, 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 addition, sales of FinalCode Ver. 6, which was released in the first quarter of the consolidated fiscal year under review, steadily increased as well. Meanwhile, progress was made in winning new orders to some extent for i-FILTER Ver. 10 and m-FILTER Ver. 5, which

support countermeasures against sophisticated targeted cyberattacks.

Net sales in this market reached 1,538,887 thousand yen, up 8.4% year on year.

#### Public Sector Market

In this market, progress was also made in winning projects, mainly for those that had remained outstanding in the previous consolidated fiscal year, resulting in steady sales of i-FILTER and m-FILTER, the mainstay products. Nevertheless, overall sales for the public sector market were lower than the level in the same period of the previous fiscal year due to the absence of orders for projects with a high monetary value that contributed to sales in the previous fiscal year. Meanwhile, 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. In the third quarter and onward, the Group will move forward with efforts to expand sales of mainstay products, including i-FILTER Ver. 10 and m-FILTER Ver. 5, not to mention i-FILTER Browser and Cloud, sales of which are expected to continue to increase.

As a consequence, net sales in this market stood at 970,463 thousand yen, down 12.5% year on year.

#### Consumer Sector Market

In this market, 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 sales of multi-year package products and i-FILTER for Multiple Devices that can be used on more than one terminal device.

Net sales in this market amounted to 254,781 thousand yen, up 8.0% year on year.

## (2) Explanation about financial position

### (Assets)

Total assets at the end of the second quarter of the consolidated fiscal year under review increased 674,709 thousand yen from the end of the previous consolidated fiscal year, to 10,534,056 thousand yen, mainly due to an increase in cash and deposits.

### (Liabilities)

Total liabilities at the end of the second quarter of the consolidated fiscal year under review rose 13,075 thousand yen from the end of the previous consolidated fiscal year, to 2,069,528 million yen. This was due chiefly to a rise in advances received.

### (Net assets)

Net assets at the end of the second quarter of the consolidated fiscal year under review increased 661,633 thousand yen from the end of the previous consolidated fiscal year, to 8,464,528 thousand yen. This was mainly due to an increase in retained earnings associated with the posting of profit attributable to owners of parent.

## (3) Explanation about information on future forecasts such as consolidated results forecasts

In the six-month period under review, differences have appeared between the results forecasts which were announced on May 9, 2019 in Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (Japanese GAAP) and actual results. For details of the difference, please refer to “Notice of Difference between Consolidated Financial Forecast and Actual Results for the First Half of the Fiscal Year ending March 31, 2020” announced today.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal 2019 (As of March 31, 2019)	First half of fiscal 2020 (As of September 30, 2019)
<b>Assets</b>		
Current assets		
Cash and deposits	6,169,172	7,363,180
Notes and accounts receivable - trade	1,172,515	963,773
Securities	299,968	—
Finished goods	290	171
Other	87,863	80,887
Total current assets	7,729,809	8,408,012
Non-current assets		
Property, plant and equipment	261,087	249,679
Intangible assets		
Software	1,044,163	1,357,505
Other	367,390	65,382
Total intangible assets	1,411,553	1,422,888
Investments and other assets	456,896	453,475
Total non-current assets	2,129,537	2,126,043
Total assets	9,859,347	10,534,056
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	22,744	18,311
Income taxes payable	330,672	371,121
Provision for bonuses	128,192	132,053
Advances received	1,225,258	1,289,175
Other	303,494	212,560
Total current liabilities	2,010,363	2,023,222
Non-current liabilities		
Asset retirement obligations	45,444	45,660
Other	645	645
Total non-current liabilities	46,089	46,305
Total liabilities	2,056,452	2,069,528
<b>Net assets</b>		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	827,730	966,497
Retained earnings	6,518,256	6,846,544
Treasury shares	(306,939)	(104,268)
Total shareholders' equity	7,752,637	8,422,363
Accumulated other comprehensive income		
Foreign currency translation adjustment	8,499	6,018
Total accumulated other comprehensive income	8,499	6,018
Share acquisition rights	23,587	18,389
Non-controlling interests	18,169	17,756
Total net assets	7,802,894	8,464,528
Total liabilities and net assets	9,859,347	10,534,056

## (2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

## Quarterly consolidated statement of income

Consolidated first half

(Thousand yen)

	First half of fiscal 2019 (from April 1, 2018 to September 30, 2018)	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)
Net sales	2,764,121	2,764,132
Cost of sales	526,639	630,407
Gross profit	2,237,481	2,133,724
Selling, general and administrative expenses	1,201,223	1,036,750
Operating profit	1,036,257	1,096,974
Non-operating income		
Interest income	538	448
Commission income	108	15
Gain on forfeiture of unclaimed dividends	622	350
Foreign exchange gains	1,973	—
Miscellaneous income	702	474
Total non-operating income	3,945	1,288
Non-operating expenses		
Foreign exchange losses	—	6,220
Miscellaneous loss	108	—
Total non-operating expenses	108	6,220
Ordinary profit	1,040,094	1,092,042
Extraordinary income		
Gain on reversal of share acquisition rights	1,679	404
Total extraordinary income	1,679	404
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Loss on valuation of golf club membership	2,200	—
Total extraordinary losses	2,200	0
Profit before income taxes	1,039,573	1,092,446
Income taxes	45,960	347,551
Profit	993,613	744,895
Profit (loss) attributable to non-controlling interests	1,494	(413)
Profit attributable to owners of parent	992,118	745,308

Consolidated statements of comprehensive income

Consolidated first half

(Thousand yen)

	First half of fiscal 2019 (from April 1, 2018 to September 30, 2018)	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)
Profit	993,613	744,895
Other comprehensive income		
Foreign currency translation adjustment	(228)	(2,480)
Total other comprehensive income	(228)	(2,480)
Comprehensive income	993,385	742,414
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	991,890	742,828
Comprehensive income attributable to non-controlling interests	1,494	(413)



## (3) Consolidated statement of cash flows

(Thousand yen)

	First half of fiscal 2019 (from April 1, 2018 to September 30, 2018)	First half of fiscal 2020 (from April 1, 2019 to September 30, 2019)
<b>Cash flows from operating activities</b>		
Profit before income taxes	1,039,573	1,092,446
Depreciation	327,802	382,093
Increase (decrease) in provision for bonuses	20,663	3,861
Interest income	(538)	(448)
Loss on retirement of non-current assets	0	0
Foreign exchange losses (gains)	(466)	6,321
Gain on reversal of share acquisition rights	(1,679)	(404)
Loss on valuation of golf club membership	2,200	—
Decrease (increase) in trade receivables	207,182	271,666
Decrease (increase) in inventories	(464)	118
Increase (decrease) in trade payables	(6,407)	(4,235)
Increase (decrease) in accounts payable - other	5,411	(23,525)
Decrease (increase) in other current assets	27,073	7,928
Increase (decrease) in other current liabilities	41,998	(67,865)
Other	(5,648)	4,790
<b>Subtotal</b>	<b>1,656,700</b>	<b>1,672,746</b>
Interest and dividends received	698	628
Income taxes paid	(280,143)	(309,063)
<b>Net cash provided by (used in) operating activities</b>	<b>1,377,254</b>	<b>1,364,312</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(32,559)	(18,502)
Purchase of intangible assets	(373,425)	(363,540)
Proceeds from redemption of securities	—	300,000
Other	950	—
<b>Net cash provided by (used in) investing activities</b>	<b>(405,034)</b>	<b>(82,042)</b>
<b>Cash flows from financing activities</b>		
Proceeds from disposal of treasury shares	13,805	336,643
Purchase of treasury shares	(10)	—
Dividends paid	(194,376)	(416,245)
<b>Net cash provided by (used in) financing activities</b>	<b>(180,581)</b>	<b>(79,602)</b>
Effect of exchange rate change on cash and cash equivalents	5,952	(8,659)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>797,591</b>	<b>1,194,008</b>
Cash and cash equivalents at beginning of period	3,826,443	5,569,172
<b>Cash and cash equivalents at end of period</b>	<b>4,624,034</b>	<b>6,763,180</b>

(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a growing concern)

There are no applicable matters.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters.

(Application of special accounting methods to the preparation of quarterly consolidated financial statements)

Calculation of tax expenses

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the first half of the consolidated fiscal year under review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.