



**Consolidated Financial Results for the  
First Quarter of the Fiscal Year Ending  
March 31, 2022**

(From April 1, 2021 to June 30, 2021)

Supplementary Material to Financial Results

July 30, 2021

Digital Arts Inc.  
(Securities Code: 2326)

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**Supplementary Material on Consolidated Financial Results for the  
First Quarter of the Fiscal Year Ending March 31, 2022**

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# **Consolidated Results Highlights**

**(1) Contracts and net sales hit record high for a first quarter.**

- **Contracts amounted to 1,979 million yen (up 35.3% year on year).**
- **Consolidated net sales were 1,919 million yen (rising 35.7% year on year).**

**(2) Operating profit also set a first-quarter record.**

- **Operating profit reached 731 million yen (an increase of 50.8% year on year).**

## Contracts

Contracts amounted to  
**1,979 million yen**  
(up 517 million yen or 35.3% year on year).

- Orders received for the i-FILTER series increased in the public sector market, due to the GIGA School Concept.
- Orders received increased as DAC gained new customers.

## Net sales

Net sales amounted to  
**1,919 million yen**  
(up +505 million yen or 35.7% year on year).

- Sales grew due to the spread of teleworking among enterprises and orders for the i-FILTER series won in connection with the GIGA School Concept.
- Sales grew after DAC gained new customers.

## Operating profit

Operating profit amounted to  
**731 million yen**  
(up +246 million yen or +50.8% year on year).

- In cost of sales, server expenses increased due to growth in cloud service users.
- SG&A expenses were higher mainly due to an increase in the number of employees and online events held for partners.

# Consolidated Results Summary (Quarter)

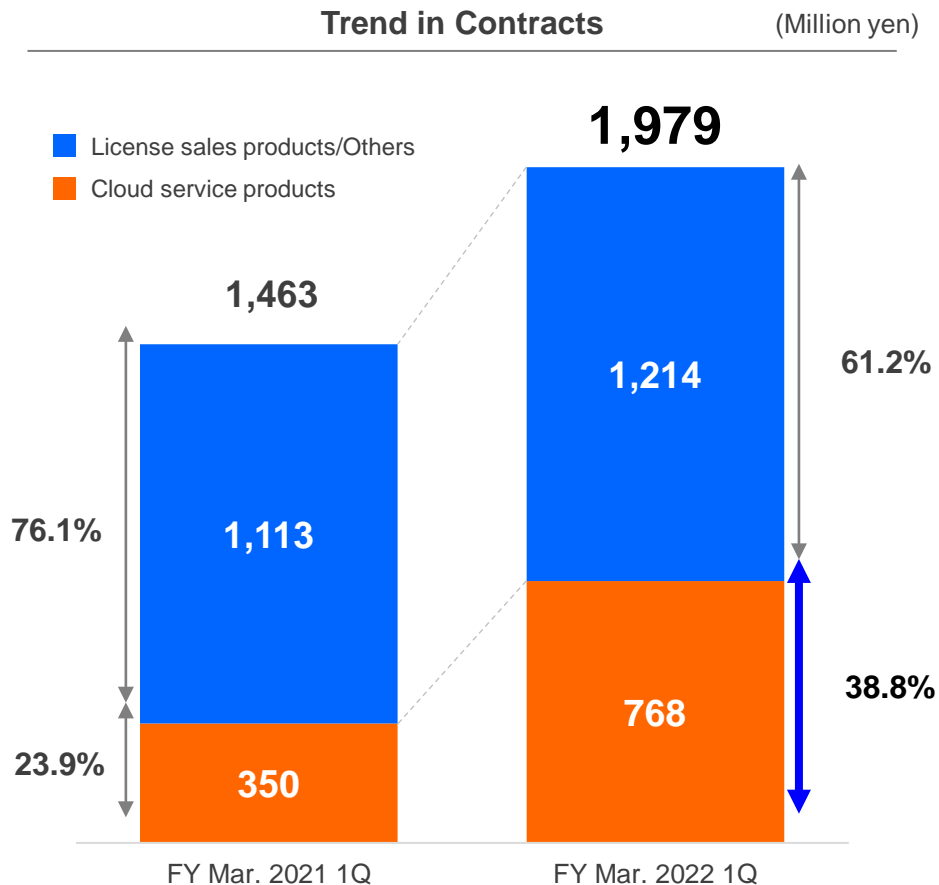


(Million yen)	FY March 2021 1Q	FY March 2022 1Q	Change YoY	FY March 2022 Full-Year Forecast	Progress Vs Full-year Forecast
Contracts	1,463	1,979	+35.3%	—	
Net sales	1,413	1,919	+35.7%	8,700	22.1%
Cost of sales	427	613	+43.5%	2,700	22.7%
Gross profit	986	1,305	+32.4%	6,000	21.8%
Selling, general and administrative expenses	501	574	+14.6%	2,300	25.0%
Operating profit	485	731	+50.8%	3,700	19.8%
Operating margin	34.3%	38.1%	—	42.5%	
Ordinary profit	489	732	+49.8%	3,700	19.8%
Profit attributable to owners of parent	334	506	+51.6%	2,550	19.9%
EBITDA	716	966	+34.8%	—	

\* Financial Forecast is the consolidated financial forecast announced on May 7, 2021.

\* EBITDA = Operating profit + Depreciation + Tax expenses included in operating expenses

Cloud service products increased their share of the total contract amount to 38.8%.

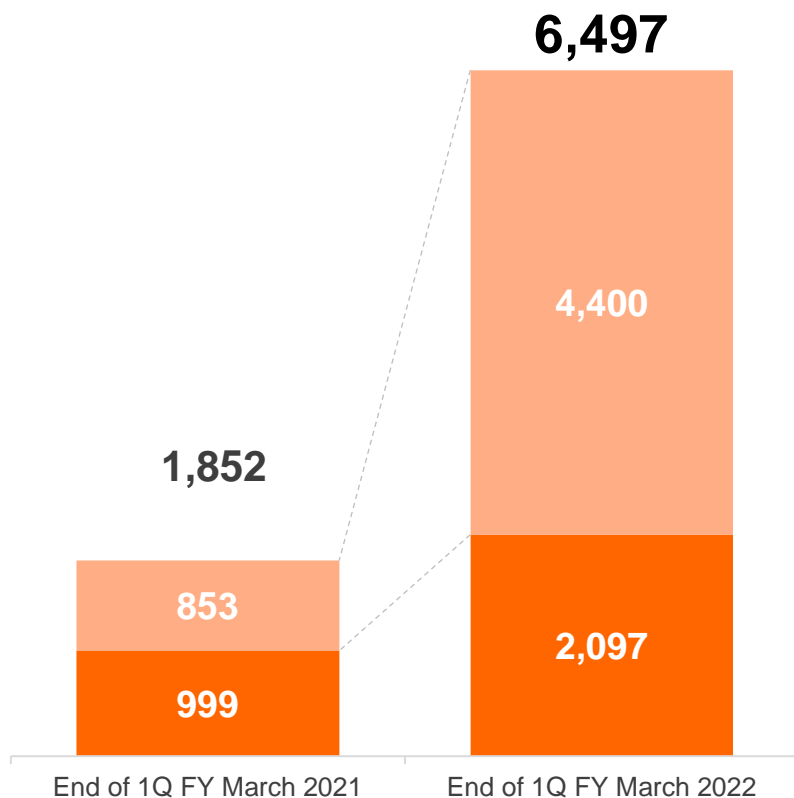


- The cloud shift continued, and the percentage of contracts accounted for by cloud service type products rose from 23.9% in the same period of the previous fiscal to **38.8% in the period under review.**

The order backlog grew to 6,497 million yen, reflecting expansion in the contract share of cloud service products.

Trend in Order Backlog (Million yen)

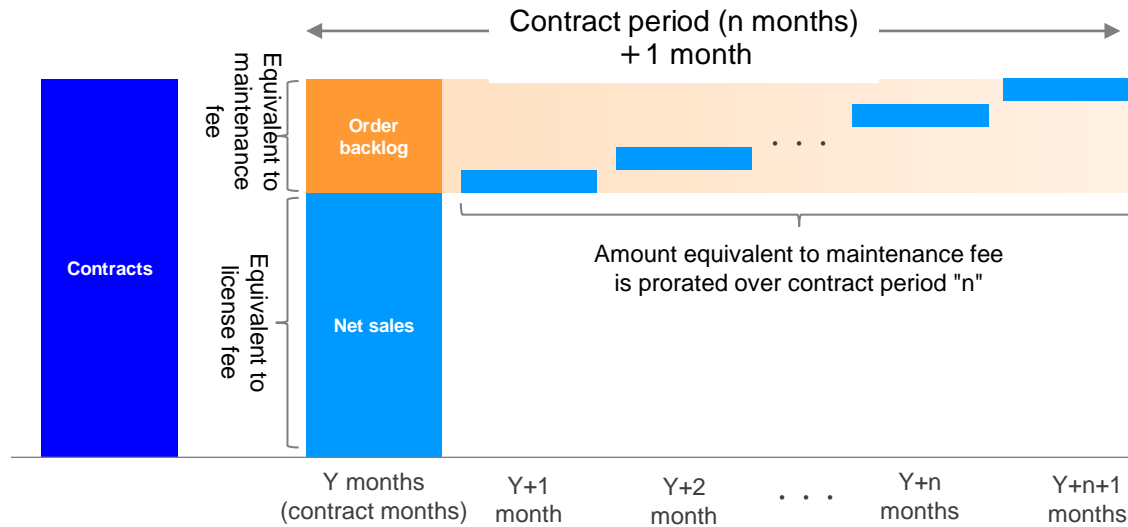
- Sales recorded for the following fiscal year and later
- Sales to be recorded in the next three quarters (2Q-4Q)



- Cloud service products cause **net sales deferred to the next fiscal year or later (order backlog) to go up** because the amount of sales recorded in the short period is small. **(See Supplement on p.9.)**
- Since the contracts for cloud service products are renewable **at fixed prices** (whereas the renewal price for license sales products is **half the contract price** for the first year), **this recurring revenue business model creates a stable profit base.**

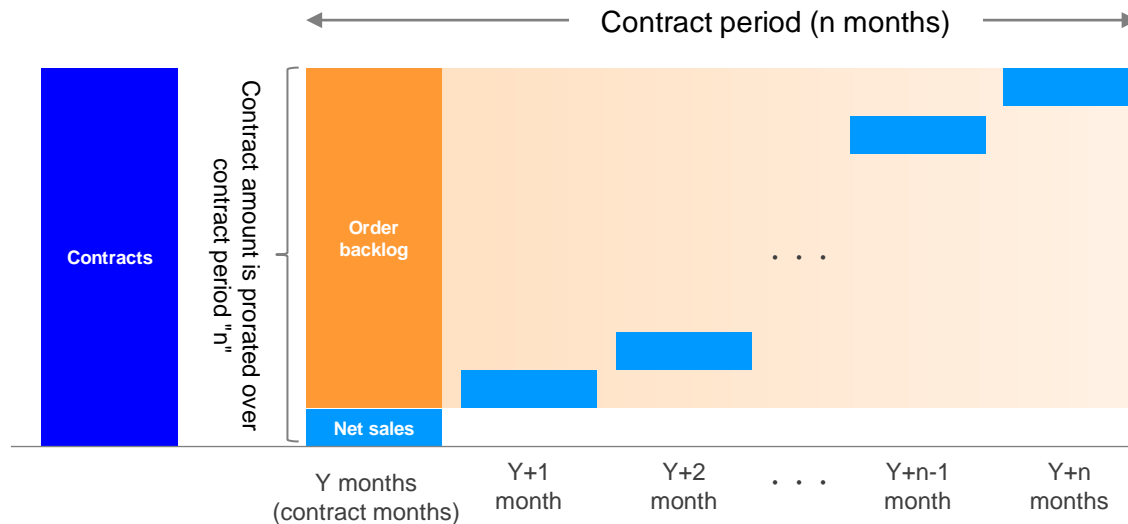


## License sales products



- License fees make up a large proportion of the contract amount. This portion is recorded in a lump sum as sales in the month when the contract is obtained.
- Amount equivalent to maintenance fee is recorded on a pro rata basis over the contract period.

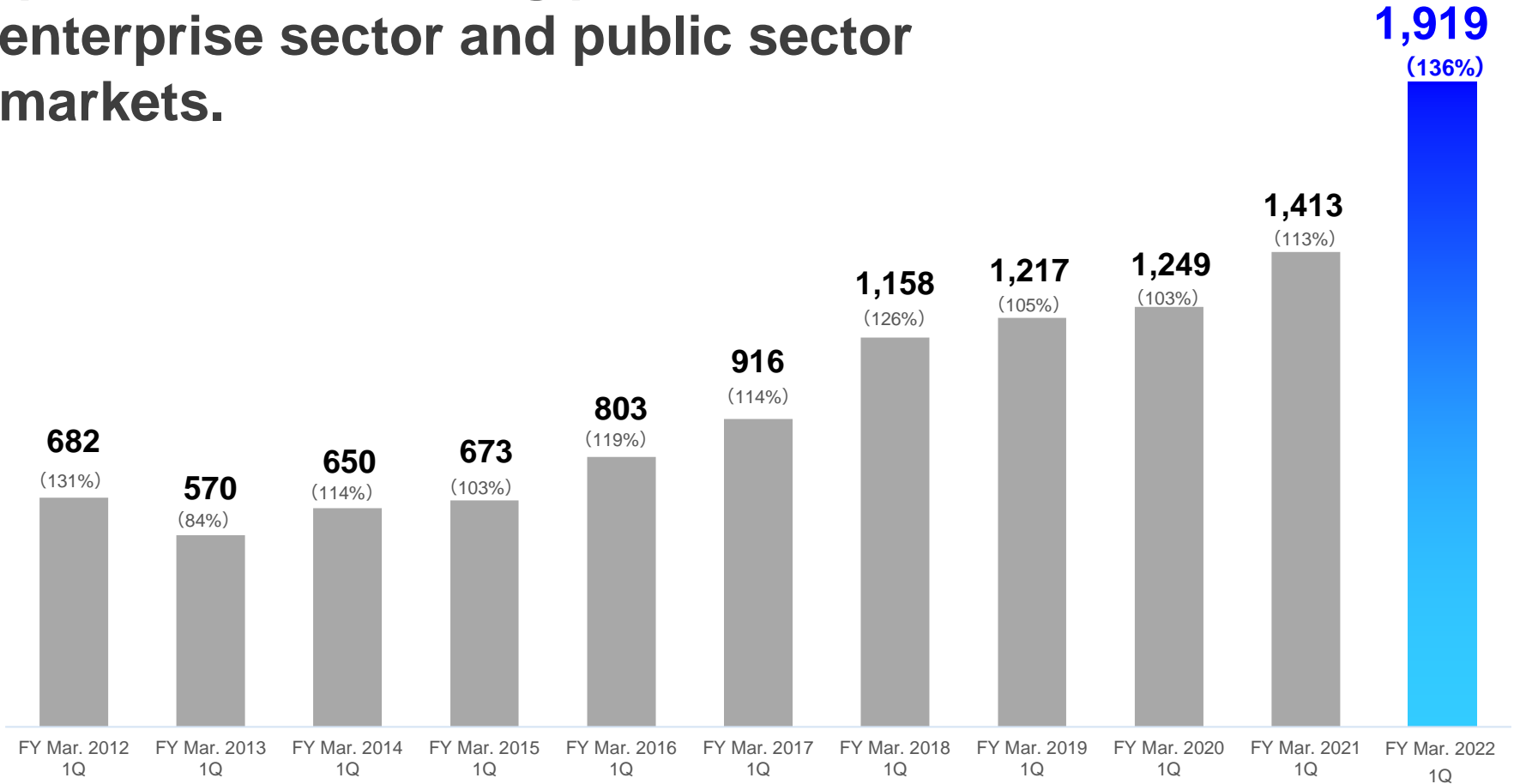
## Cloud service products



- Contract amount is recorded as sales on a pro rata basis over the contract period (split into equal monthly amounts).
- As the contract amount of cloud service products rises, the contract amount that is deferred (order backlog) increases.

Net sales reached a record high for a first quarter after a strong performance in the enterprise sector and public sector markets.

(Million yen)



\* Percentage figures represent comparisons with same period of the preceding year.

# Consolidated Cost of Sales and Selling, General and Administrative Expenses



(Million yen)	FY March 2021 1Q	FY March 2022 1Q	Change YoY	Main Factors for Change
<b>Cost of sales</b>	<b>427</b>	<b>613</b>	+186	
Labor	262	332	+69	DAC increased consultants
Depreciation	203	204	+1	
Other	144	302	+157	Service expenses increased as a result of sales expansion of cloud products. Outsourcing expenses soared after DAC obtained more orders.
Transfer to other accounts	-183	-225	-42	Transfer to software in progress increased as a result of the increase in development projects.
<b>Selling, general and administrative expenses</b>	<b>501</b>	<b>574</b>	+73	
Personnel expenses	272	323	+50	Personnel expenses rose reflecting the employment of new graduates.
Advertising expenses	32	59	+26	Increase due to online events held for partners
Other	195	191	-4	

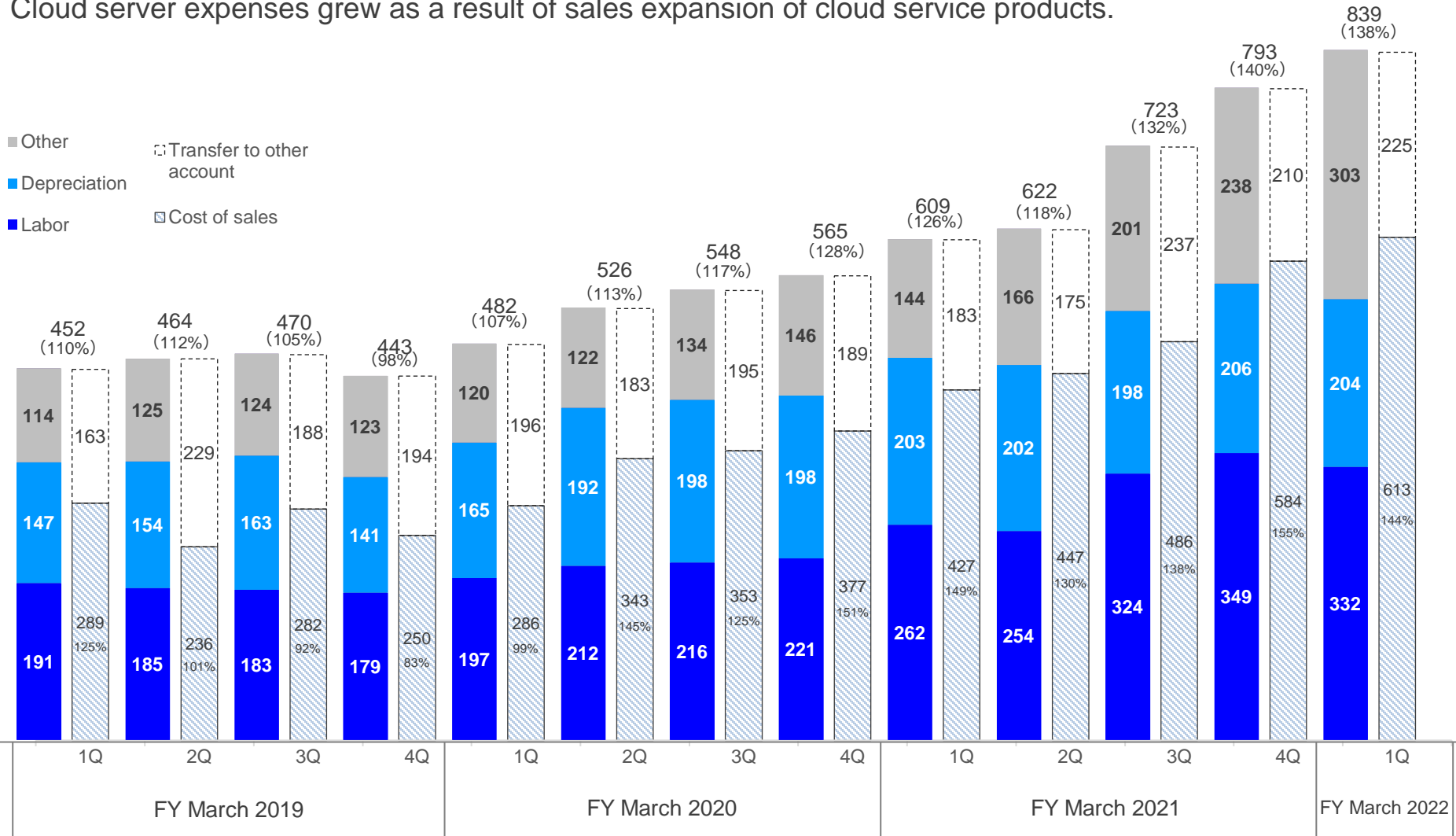
# Quarterly Trend in Consolidated Cost of Sales



(Million yen)

Labor expenses swelled after DAC increased consultants.

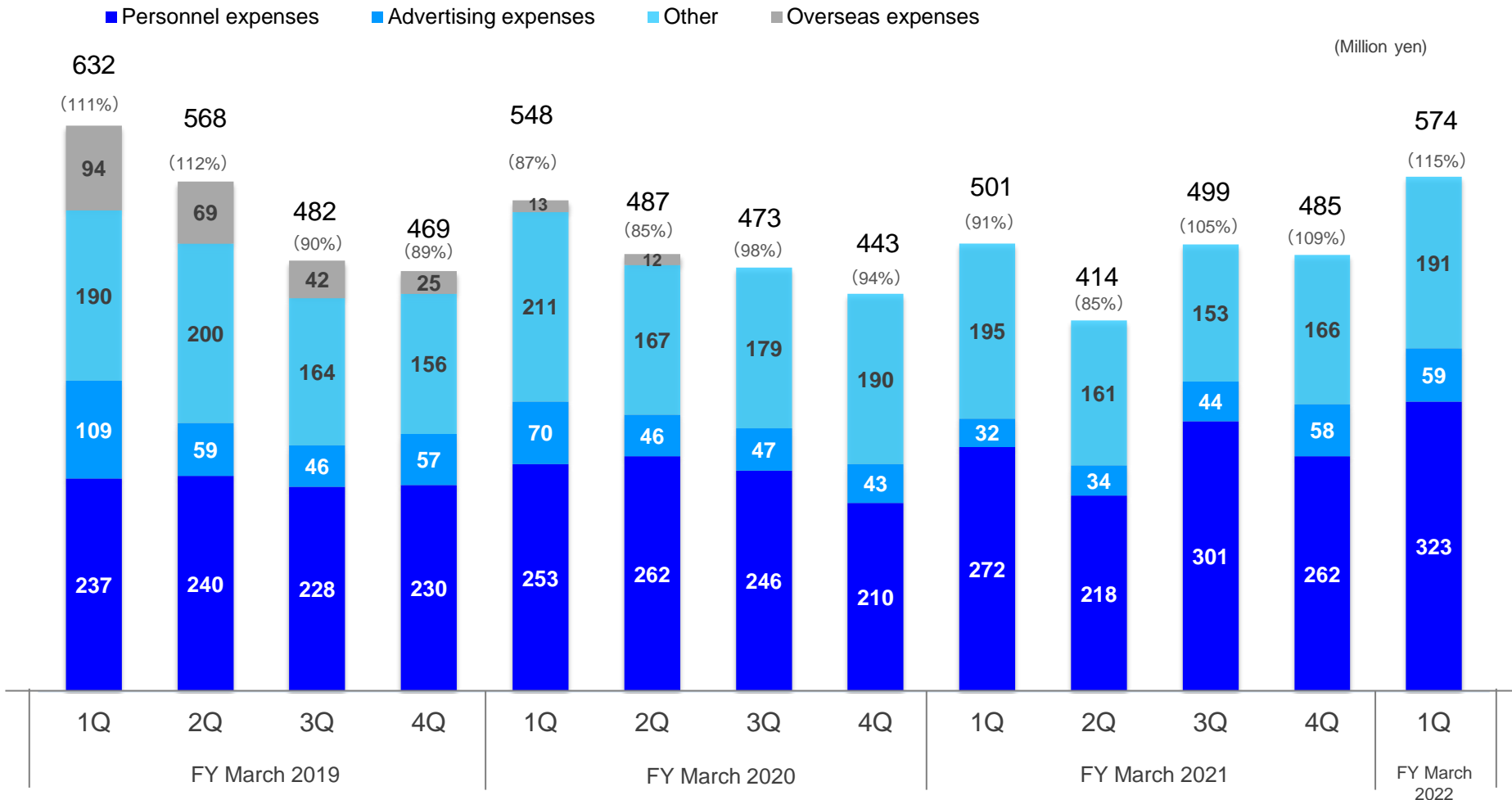
Cloud server expenses grew as a result of sales expansion of cloud service products.



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

# Quarterly Trend in Consolidated Selling, General and Administrative Expenses

Personnel expenses increased as a result of new graduates joining the Company.  
Advertising expenses increased due to online events held for partners.



\* Percentage figures represent comparisons with same period of the preceding year.

# Summary of Consolidated Balance Sheet



Capital efficiency was good, with year-on-year improvement in both ROE and ROA. Although the equity ratio fell due to an increase in advances received, strong financial health was maintained.

(Million yen)	As of end of 1Q FY March 2021	As of end of FY March 2021	As of end of 1Q FY March 2022	Change from end of FY March 2021
<b>Current assets</b>	<b>8,671</b>	<b>12,725</b>	<b>14,344</b>	+12.7%
(Cash and deposits)	7,609	11,382	13,133	+15.4%
<b>Non-current assets</b>	<b>2,097</b>	<b>2,130</b>	<b>2,132</b>	+0.1%
<b>Total assets</b>	<b>10,769</b>	<b>14,856</b>	<b>16,476</b>	+10.9%
<b>Current liabilities</b>	<b>2,067</b>	<b>4,743</b>	<b>6,269</b>	+32.2%
(Advanced received)	1,310	3,370	5,236	+55.3%
<b>Non-current liabilities</b>	<b>49</b>	<b>50</b>	<b>50</b>	+0.0%
<b>Equity capital</b>	<b>8,635</b>	<b>10,041</b>	<b>10,137</b>	+1.0%
<b>Net assets</b>	<b>8,652</b>	<b>10,062</b>	<b>10,157</b>	+0.9%
<b>Equity ratio</b>	<b>80.2%</b>	<b>67.6%</b>	<b>61.5%</b>	—
<b>ROE</b>	<b>3.9%</b>	<b>22.0%</b>	<b>5.0%</b>	—
<b>ROA</b>	<b>3.1%</b>	<b>16.0%</b>	<b>3.2%</b>	—

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# **Non-consolidated Results Highlights**

# Summary of Non-consolidated Results (Quarterly)



(Million yen)	FY March 2021 1Q	FY March 2022 1Q	Change YoY	FY March 2022 Full-Year Forecast	Progress Vs Full-year Forecast
Contracts	1,337	1,715	+28.3%	—	
Net sales	1,287	1,655	+28.5%	7,450	22.2%
Cost of sales	310	385	+24.1%	1,700	22.7%
Gross profit	977	1,269	+29.9%	5,750	22.1%
Selling, general and administrative expenses	455	539	+18.4%	2,150	25.1%
Operating profit	522	730	+39.9%	3,600	20.3%
Operating margin	40.5%	44.1%	—	48.3%	
Ordinary profit	526	733	+39.3%	3,600	20.4%
Profit	368	506	+37.4%	2,450	20.7%

\* Financial Forecast is the non-consolidated financial forecast announced on May 7, 2021.

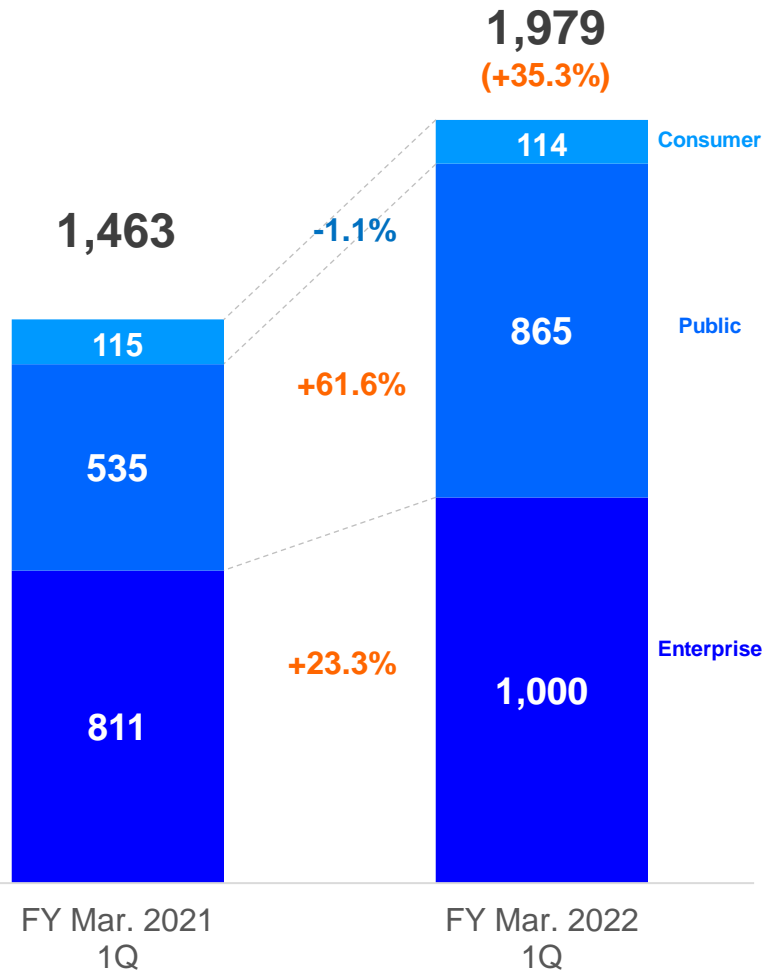


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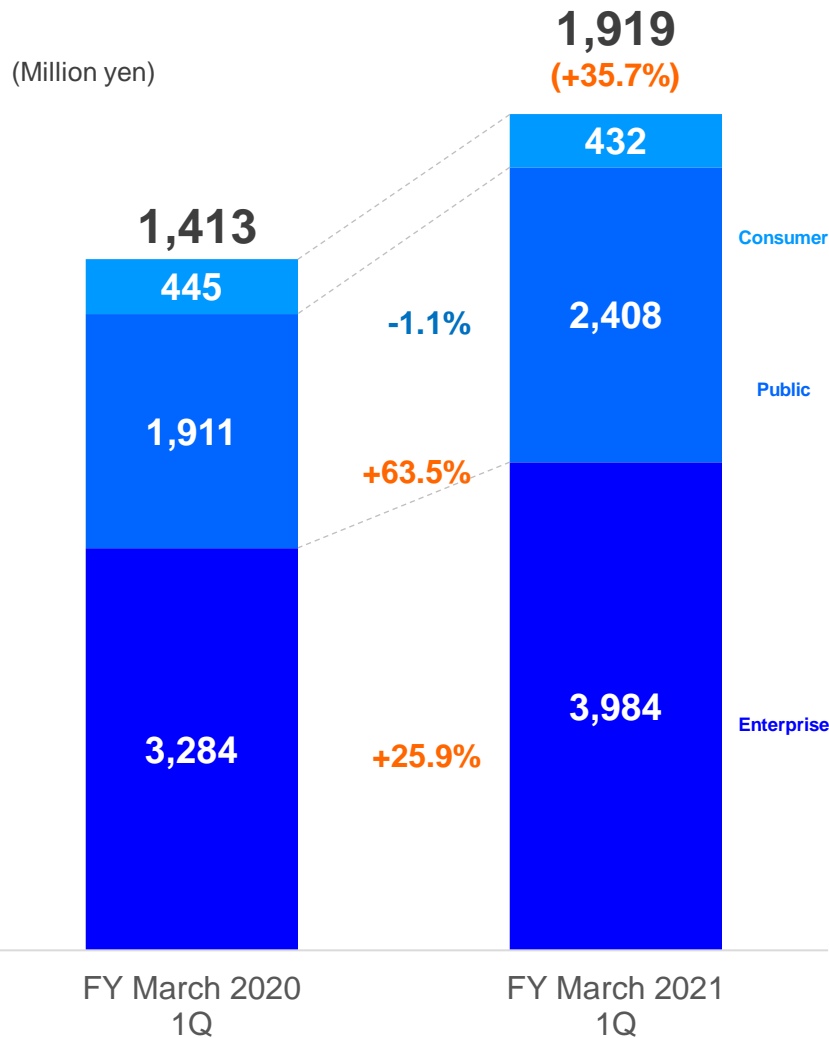
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# **By Market**

(Million yen)



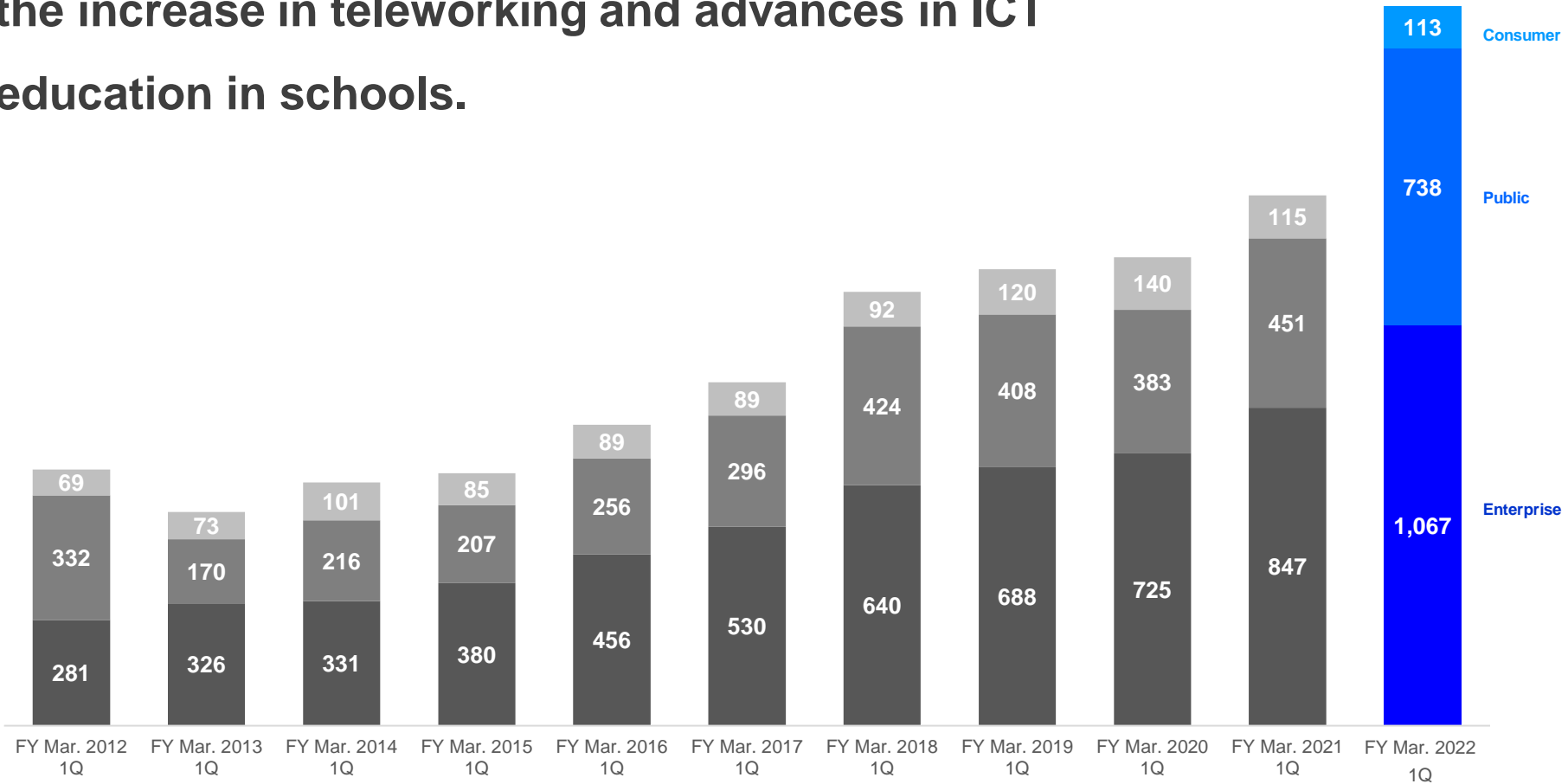
- In the enterprise sector market, the contract amount was up 188 million yen or 23.3% due to orders received for i-FILTER and m-FILTER series and the growth of DAC.
- In the public sector market, net sales leapt 329 million yen (up 61.6%), with orders for the i-FILTER series exceeding expectations as the government furthered the GIGA School Concept.



- In the enterprise sector market, net sales were up 219 million yen or 25.9% due to orders received for i-FILTER series and the growth of DAC.
- In the public sector market, net sales were up 286 million yen or 63.5% due to orders received for the i-FILTER series as the government furthered the GIGA School Concept.

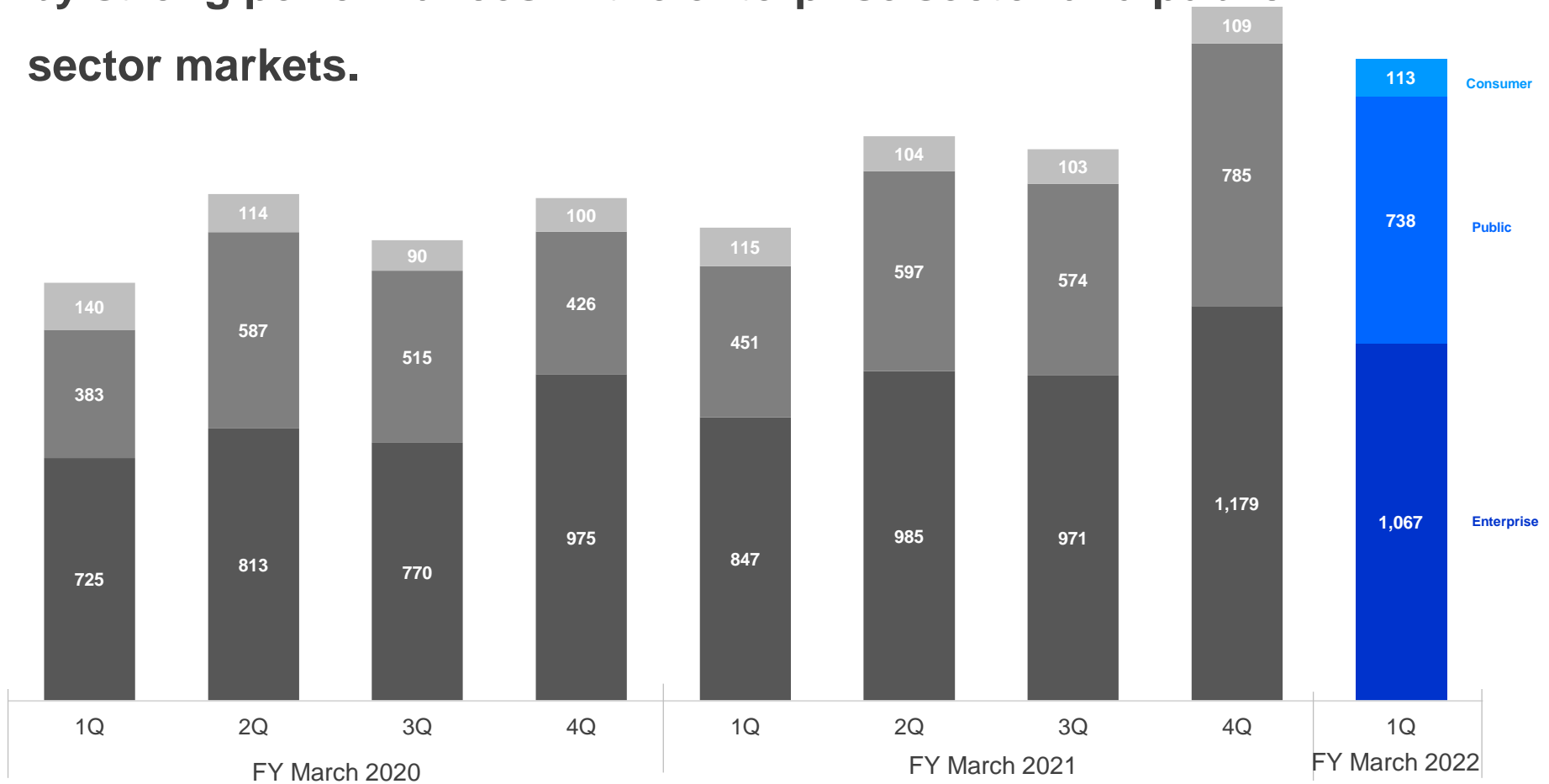
Record first-quarter sales were achieved in both the enterprise sector and public sector markets thanks to the increase in teleworking and advances in ICT education in schools.

(Million yen)



Net sales for the first quarter reached a record high, bolstered by strong performances in the enterprise sector and public sector markets.

(Million yen)



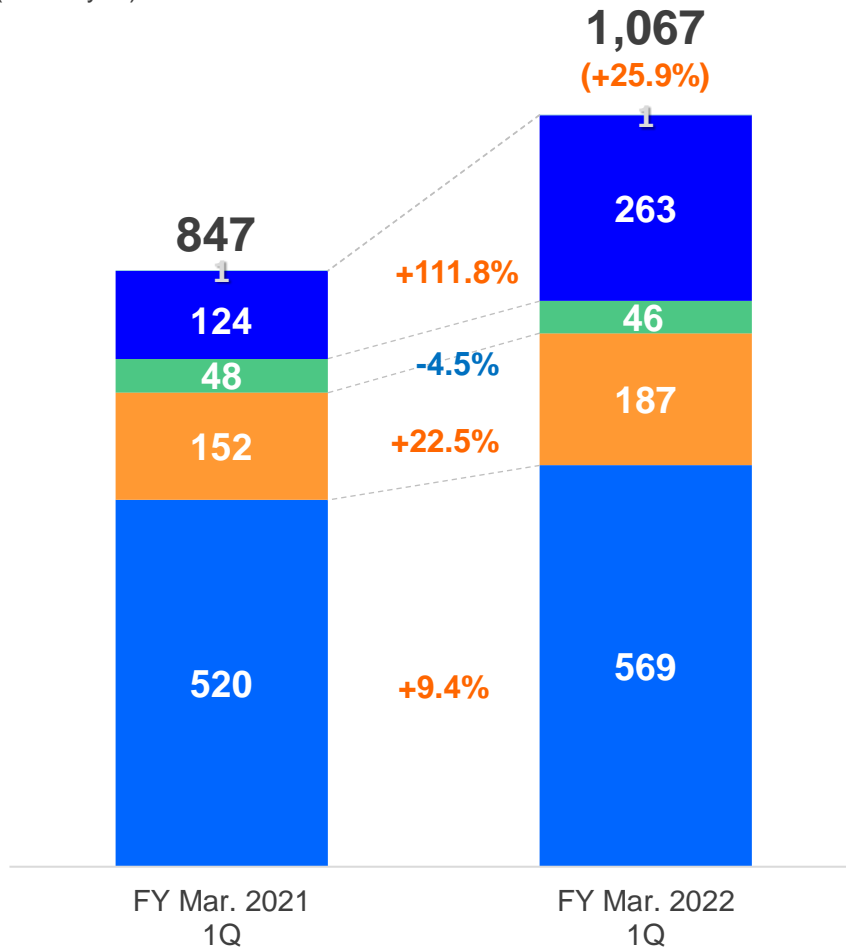
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# **Enterprise Sector**

■ i-FILTER series ■ m-FILTER series ■ FinalCode ■ DAC ■ Other

(Million yen)

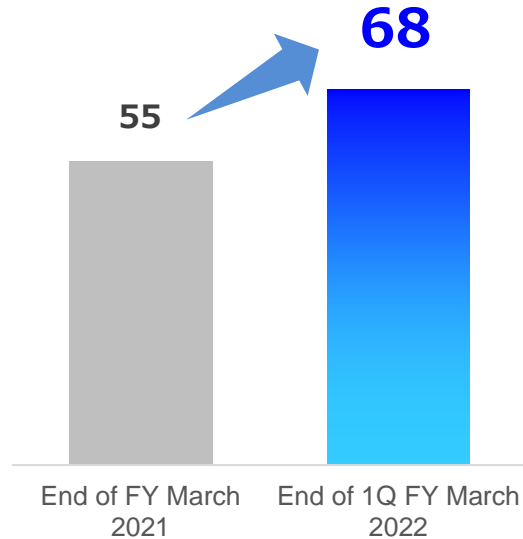


- Sales of i-FILTER@Cloud were strong (rising 48 million yen or 9.4%), reflecting growing cyber security demand among enterprises due to increased teleworking.
- Sales of m-FILTER series were strong (up 34 million yen or 22.5%), owing to rising demand for mail security and PPAP problem-solving.
- DAC made good progress acquiring new clients and achieved substantial sales growth (up 138 million yen or 111.8%), reflecting growing DX needs and demand for security measures among enterprises.

# Net Sales Growth and Expansion of DAC on a Non-consolidated Basis

## Number of consultants

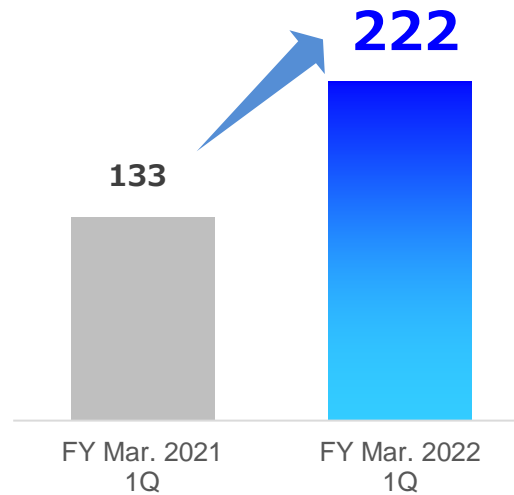
(Persons)



- DAC actively hired talent, focusing on those from leading consulting firms and leading systems integrators.

## Consulting sales\*

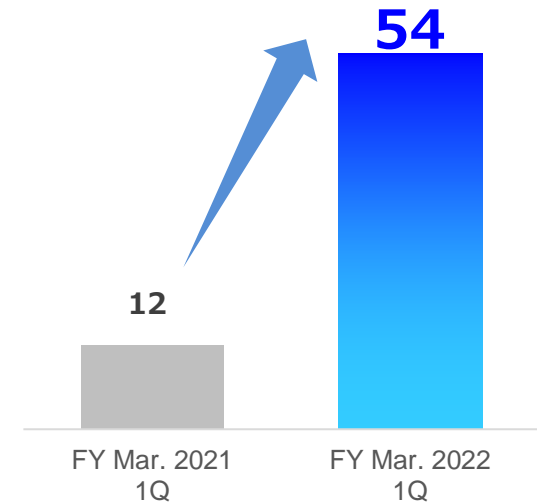
(Million yen)



- Consulting sales grew 166% year on year, reflecting the development of new clients.
- DAC steadily met DX demand and demand for cyber security measures.

## Solution sales\*

(Million yen)



- Sales of solutions incorporating Digital Arts products also soared, increasing 434% year on year.

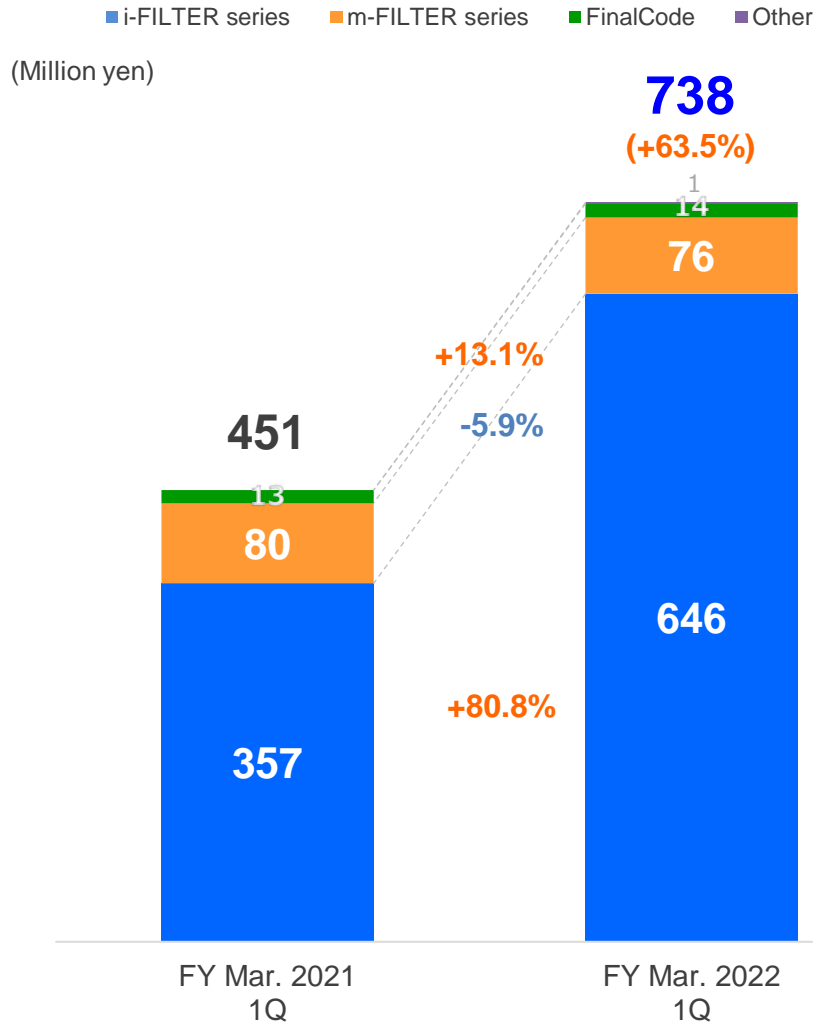
\*: DAC's non-consolidated net sales



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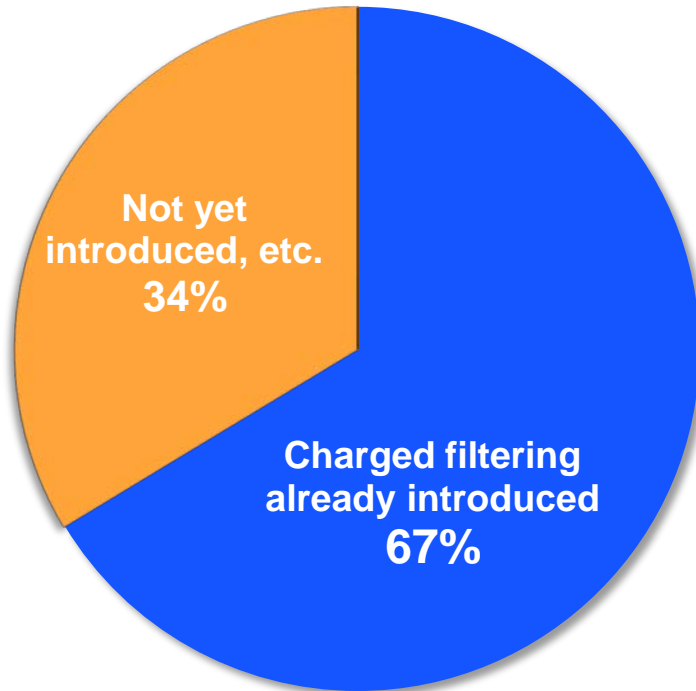
# **Public Sector**



- Sales of i-FILTER series grew 288 million yen (up 80.8%) due to orders for i-FILTER series received in connection with the promotion of ICT education in line with the GIGA School Concept which has been ongoing since the previous fiscal year.

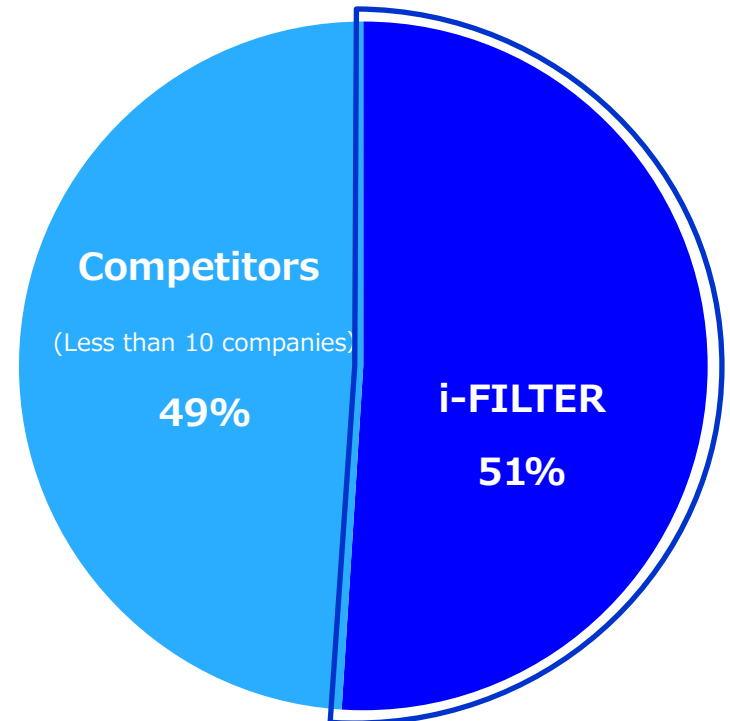
## GIGA School Status<sup>\*1</sup>

Introduction of charged filtering



- The proportion of Boards of Education which have adopted paid-for filtering increased from 59% at the end of the previous fiscal year to **67%**.

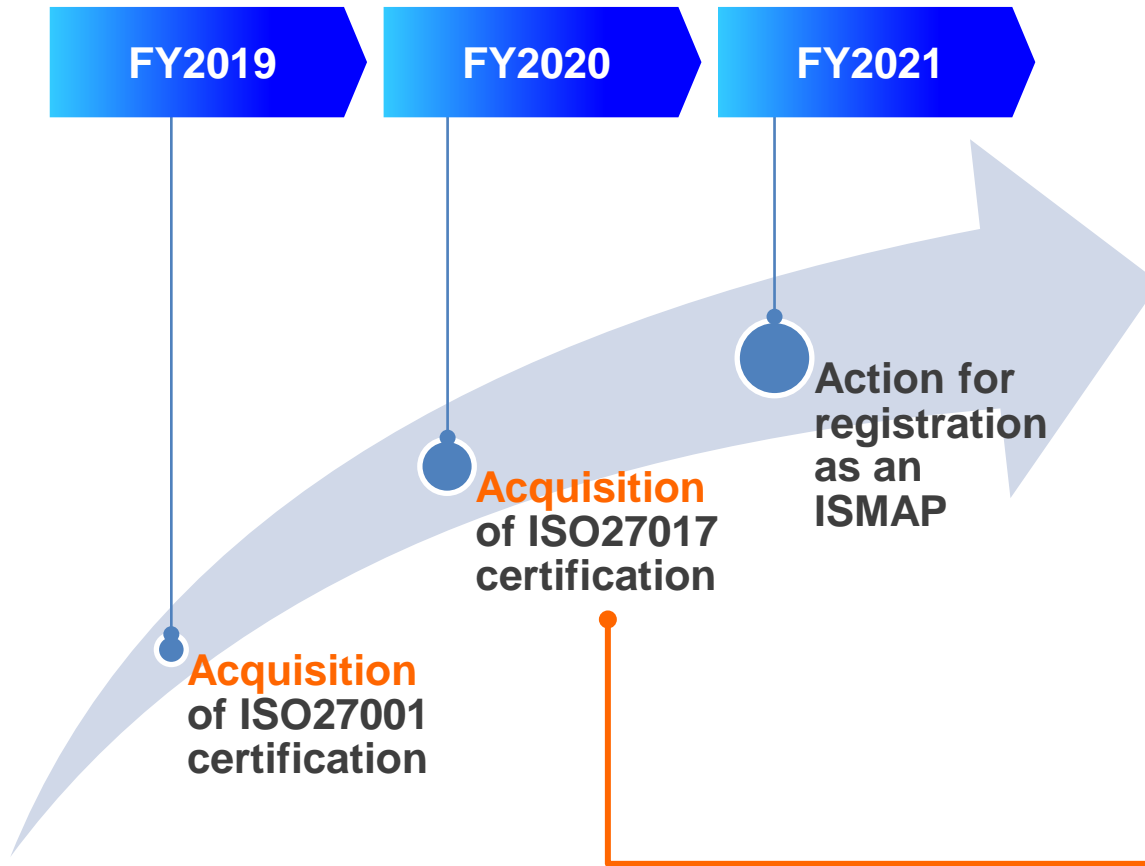
Share of charged filtering introduced



- i-FILTER's share grew from 46% at the end of the previous fiscal year to **51%**.
- Contracts increased from 5.3 billion yen at the end of the previous fiscal year to **5.8 billion yen**.

\*1 : According to our survey of 1,741 boards of education (June 2021)

DigitalArts@Cloud received ISO certification as a cloud service which meets the ISO criteria.



*DigitalArts@Cloud*

ISMAP = Aiming for registration as a system (cloud service) that satisfies the Japanese government's security requirements



Acquisition of ISO27017, which can also be described as the baseline for an ISMAP, was completed.

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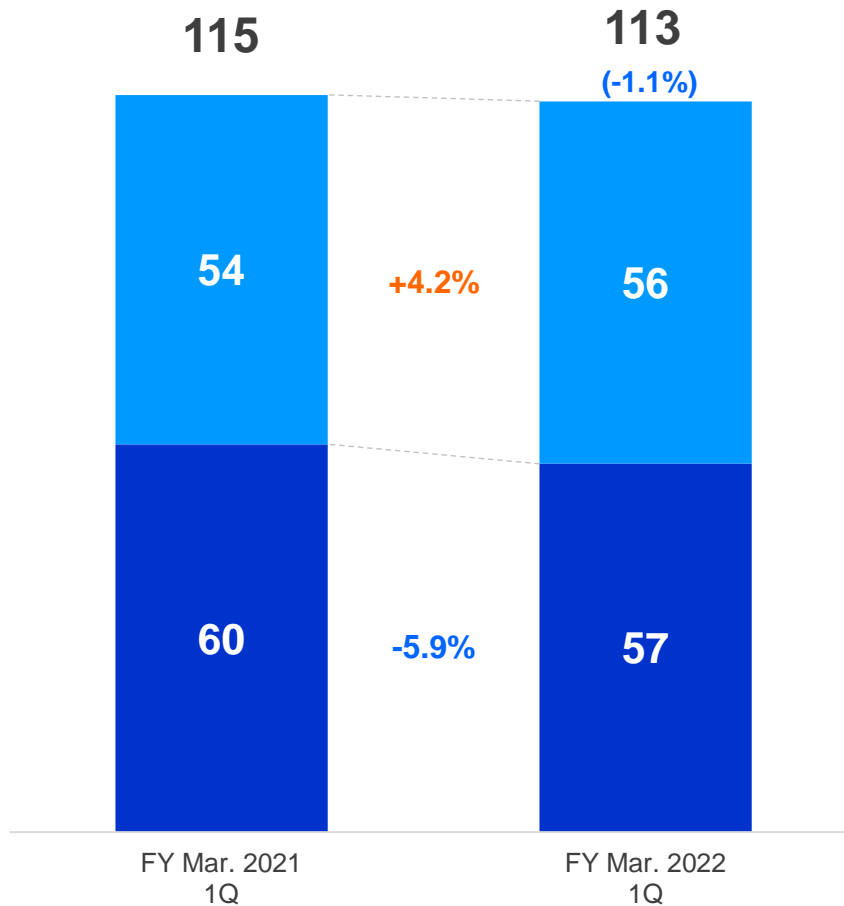
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# **Consumer Sector**

(Million yen)

■ For mobile terminals, other

■ For computers



- In products for computers, sales of multiple-year package products and i-FILTER® for Multi-Device, which can be available on multiple terminals, were solid, and the number of licenses increased.

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# **Full-year Financial Forecast for the Fiscal Year Ending March 31, 2022**

# Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2022 (Consolidated)



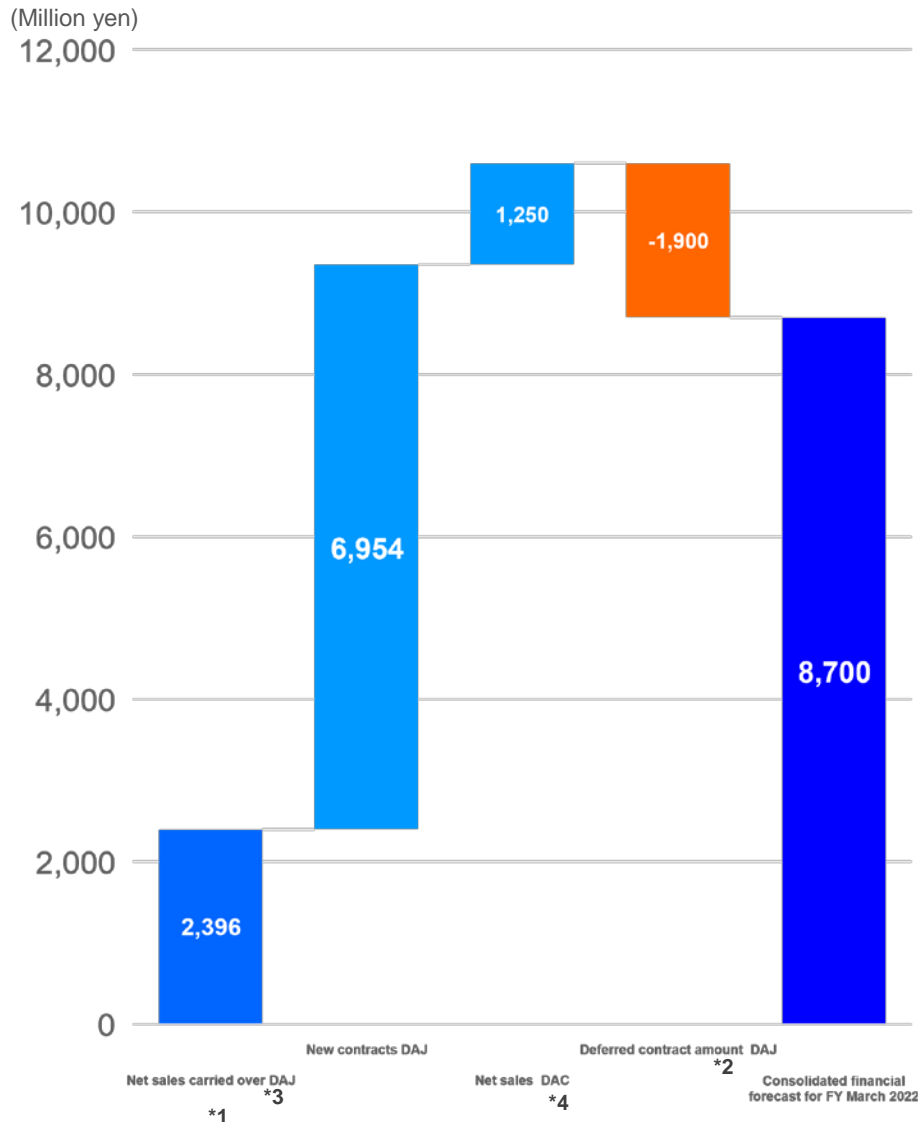
(Million yen)	FY March 2021 Full-Year Results	Forecast for FY March 2022	% Change
<b>Net sales</b>	<b>6,825</b>	<b>8,700</b>	+27.5 %
<b>Cost of sales</b>	<b>1,946</b>	<b>2,700</b>	+38.7 %
<b>Gross profit</b>	<b>4,878</b>	<b>6,000</b>	+23.0%
<b>Selling, general and administrative expenses</b>	<b>1,900</b>	<b>2,300</b>	+21.0%
<b>Operating profit</b>	<b>2,977</b>	<b>3,700</b>	+24.3%
<b>Ordinary profit</b>	<b>2,991</b>	<b>3,700</b>	+23.7%
<b>Profit attributable to owners of parent</b>	<b>2,059</b>	<b>2,550</b>	+23.8%



# Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2022 (Non-consolidated)



(Million yen)	FY March 2021 Full-Year Results	Forecast for FY March 2022	% Change
<b>Net sales</b>	<b>6,074</b>	<b>7,450</b>	+22.6%
<b>Cost of sales</b>	<b>1,273</b>	<b>1,700</b>	+33.5%
<b>Gross profit</b>	<b>4,801</b>	<b>5,750</b>	+19.8%
<b>Selling, general and administrative expenses</b>	<b>1,854</b>	<b>2,150</b>	+15.6%
<b>Operating profit</b>	<b>2,947</b>	<b>3,600</b>	+22.2%
<b>Ordinary profit</b>	<b>2,964</b>	<b>3,600</b>	+21.5%
<b>Profit</b>	<b>2,044</b>	<b>2,450</b>	+19.8%



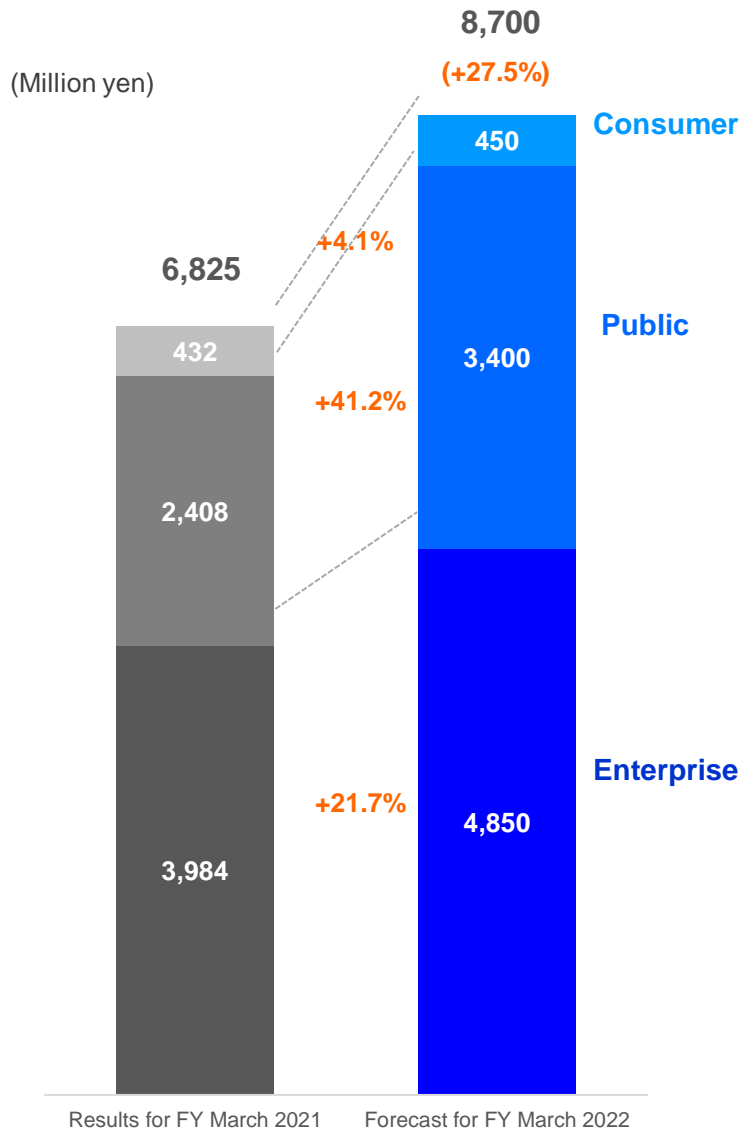
- Net sales carried over will increase due to the impact of the amount of contracts acquired in the public sector market the previous fiscal year in connection with the GIGA School Concept.
- New contracts of DAJ are expected to amount to 6,954 million yen due to expansion of sales to the enterprise sector market and orders received for the public sector market in connection with the GIGA School Concept.
- As in the previous fiscal year, DAC will increase the number of consultants and is expected to continue growing through the acquisition of new clients.

\*1: Sales recorded from the order backlog of contracts acquired in previous fiscal years

\*2: Sales deferred to subsequent fiscal years (order backlog)

\*3: DAJ = Digital Arts Inc.

\*4: DAC = Digital Arts Consulting Inc.



- We will further develop existing clients by promoting the cross-utilization of Digital Arts products as security measures for enterprises and acquire new clients by strengthening products.
- We will expand orders received by proposing Digital Arts products to DAC's clients.
- Part of the amount of contracts acquired the previous fiscal year in the public sector market in connection with the GIGA School Concept will be deferred and recognized as sales in FY March 2022.
- We will expand our market share in the latter half of the GIGA School Concept and win orders by meeting needs for enhancement of the resilience of municipal information systems.

# Consolidated Cost of Sales and Selling, General and Administrative Expenses

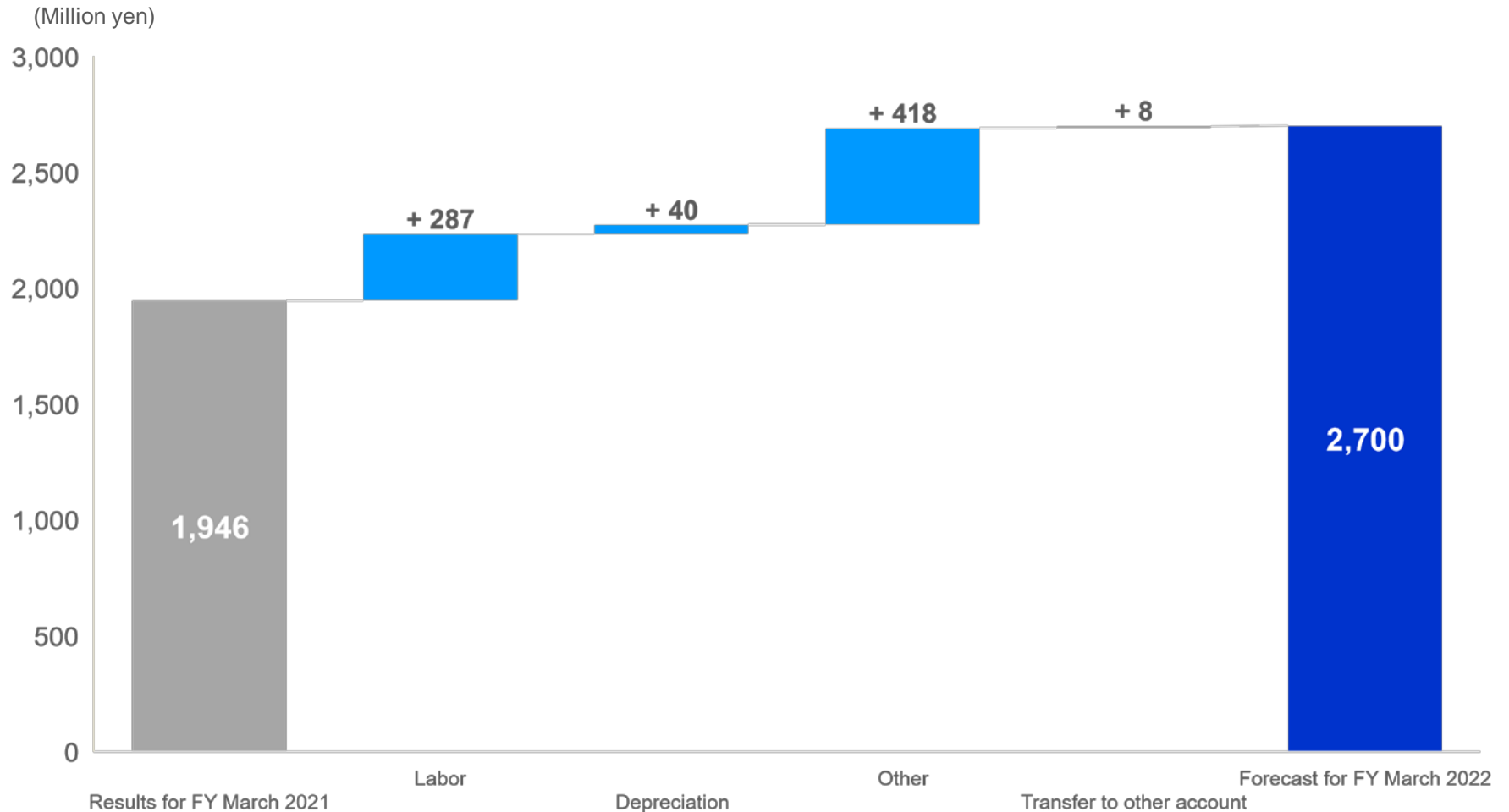


(Million yen)	Results for FY March 2021	Forecast for FY March 2022	Change YoY	Main Factors for Change
<b>Cost of sales</b>	<b>1,946</b>	<b>2,700</b>	<b>+38.7%</b>	
Labor	1,192	1,480	+24.1%	DAC increased consultants
Depreciation	810	850	+4.8%	Depreciation of software for cloud products will start.
Other	751	1,170	+55.7%	Cloud server expenses will rise as a result of sales expansion of cloud products.
Transfer to other accounts	-808	-800	-1.0%	
<b>Selling, general and administrative expenses</b>	<b>1,900</b>	<b>2,300</b>	<b>+21.0%</b>	
Personnel expenses	1,055	1,330	+26.1%	Personnel expenses rose reflecting the employment of new graduates.
Advertising expenses	168	200	+19.0%	Advertising in newspapers and other media will increase.
Other	677	770	+13.6%	Assuming that the effects of COVID-19 will lessen, travel expenses will increase. Server expenses will increase as a result of cloud products trials.

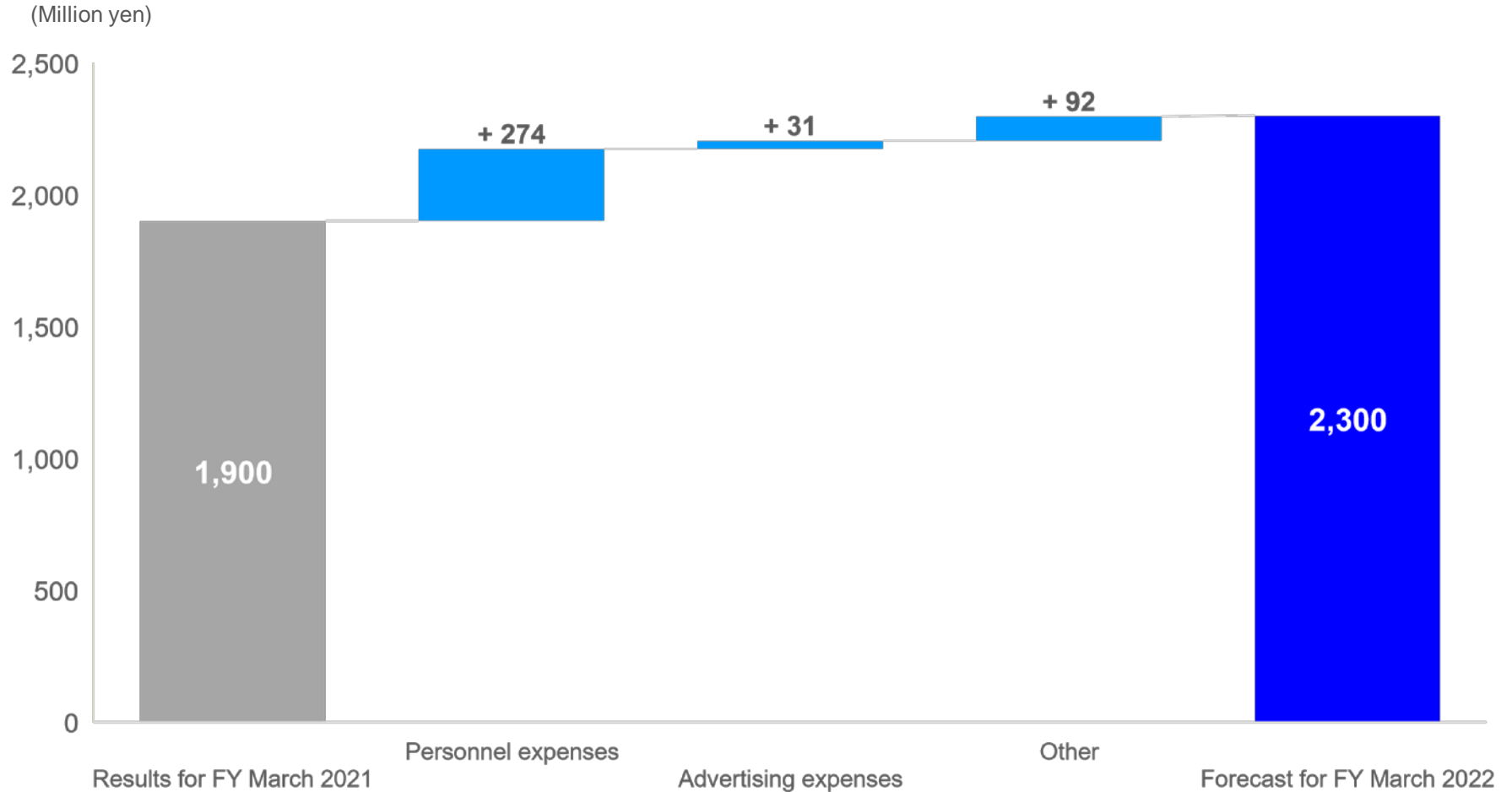
# Status of Consolidated Cost of Sales

Labor costs are expected to rise because DAC will increase the number of consultants.

Higher cloud server expenses under "Other" are forecast as a result of sales expansion of cloud products.



Higher personnel expenses are forecast as a result of an increase in staff.

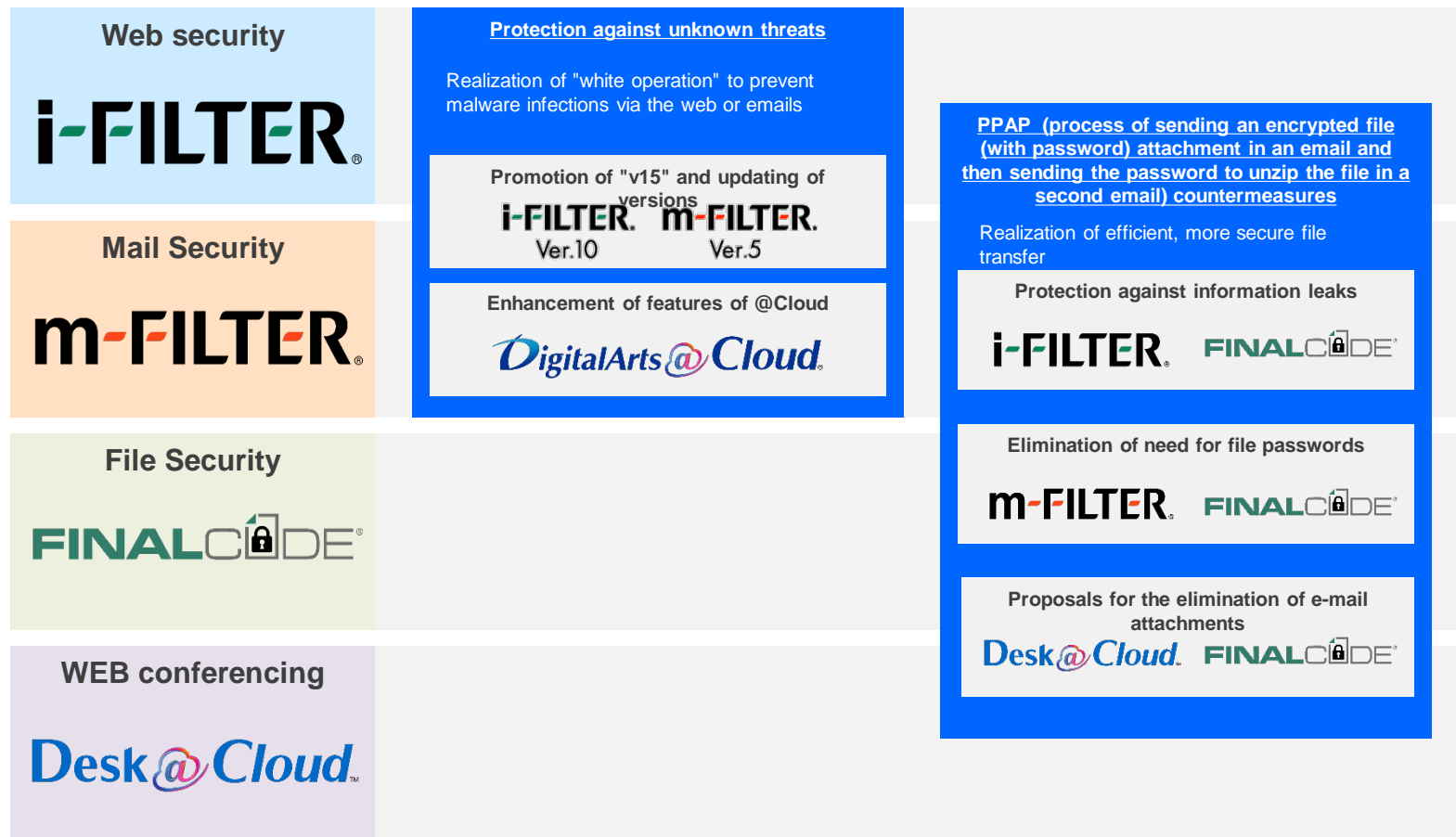


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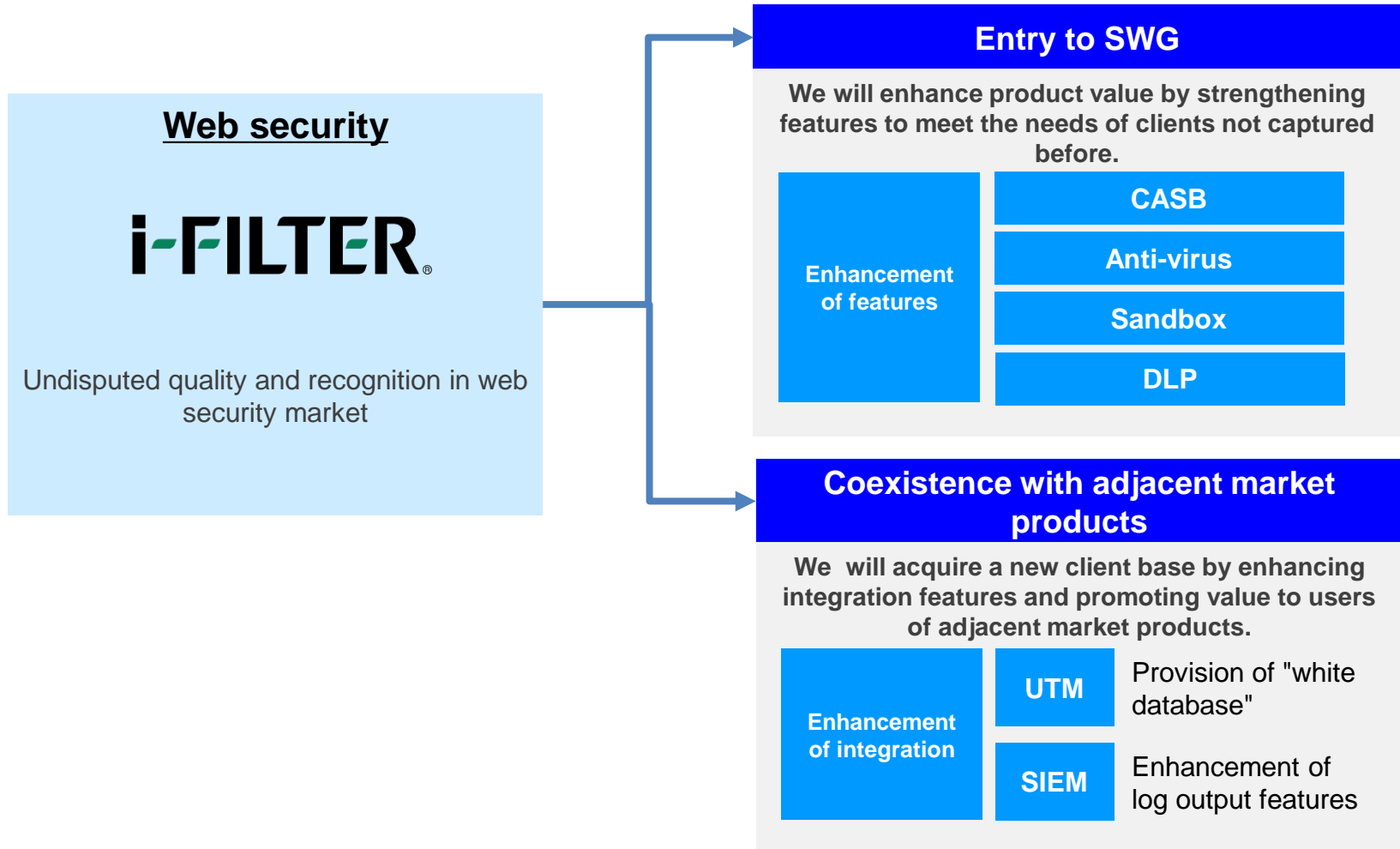
# **FY03/22 Initiatives**

We will promote cross-utilization of Digital Arts products as a security measures to address the issued facing many clients.





# Entry of i-FILTER to Secure Web Gateway (SWG) Market



We will aim to acquire a wider range of clients by strengthening features for PAPP measures and measures to enhance the resilience of municipal information systems, to more reliably meet file sanitization needs.

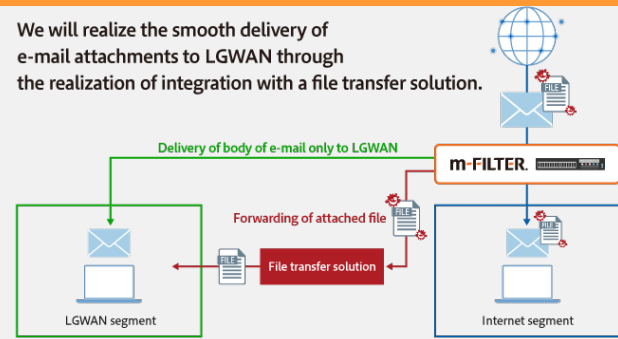
**Mail Security**

**m-FILTER®**

**No. 1 Installed E-mail Security Software\***

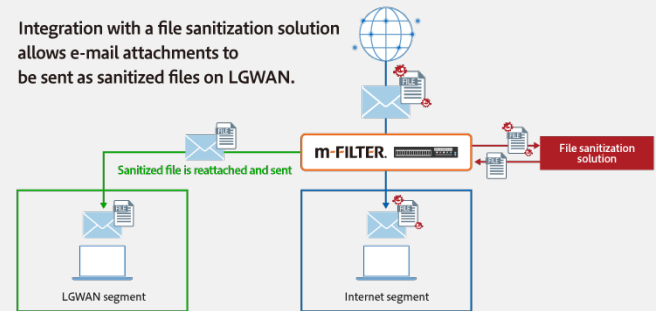
## Integration with file transfer solution

We will realize the smooth delivery of e-mail attachments to LGWAN through the realization of integration with a file transfer solution.



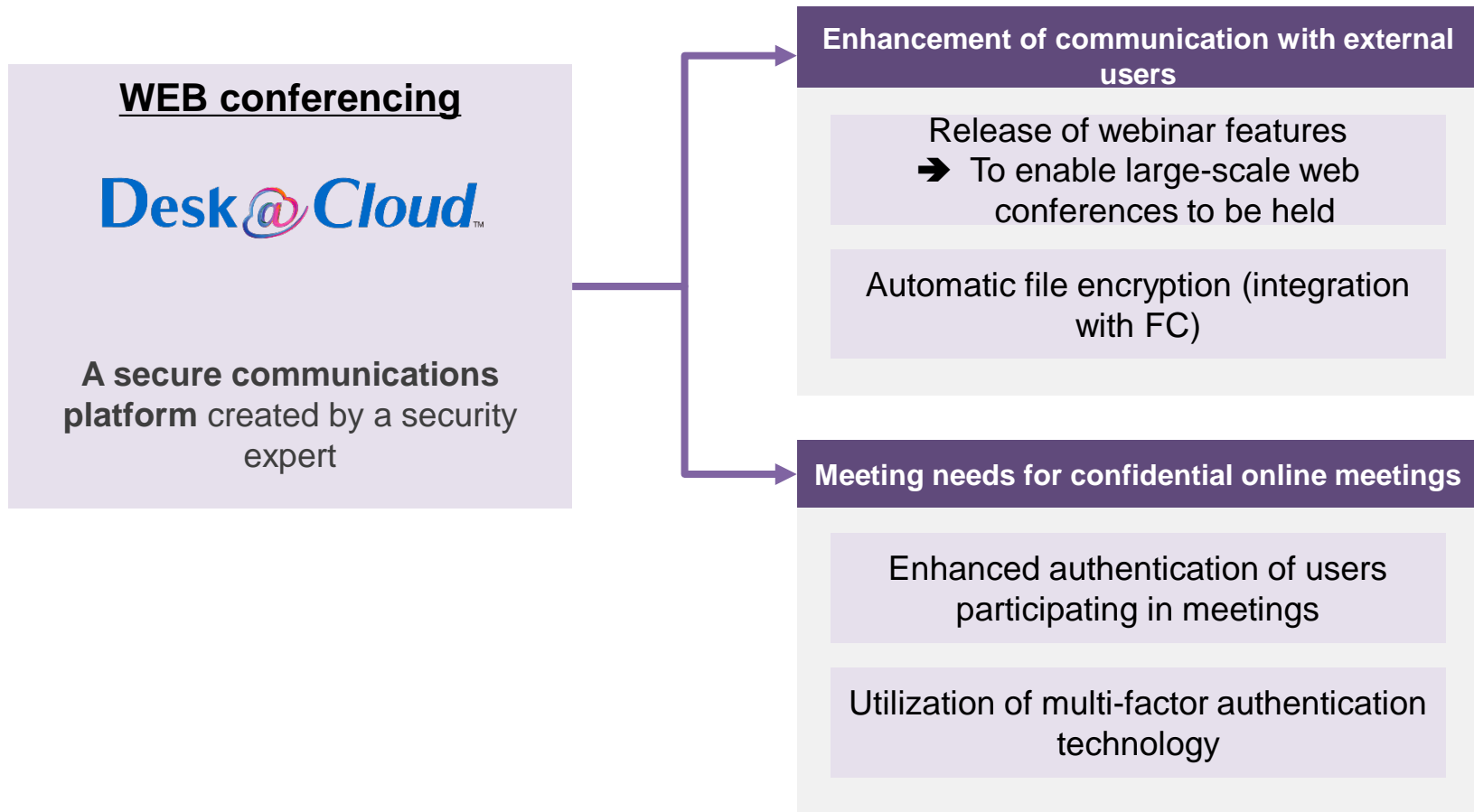
## Integration with file sanitization solution

Integration with a file sanitization solution allows e-mail attachments to be sent as sanitized files on LGWAN.

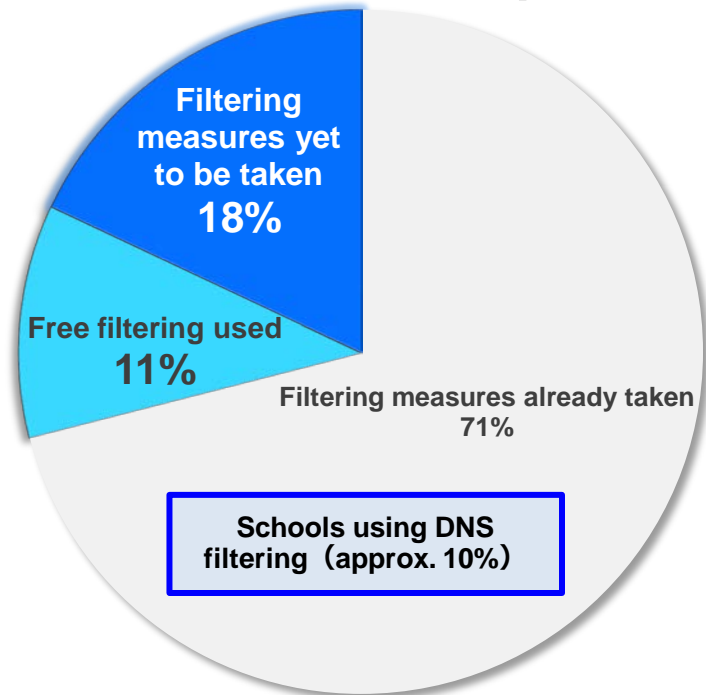


\*Source: MIC Research Institute Ltd. "Information Security Solutions Market: Status and Outlook 2020 - Internal Information Leakage Prevention Solutions (<https://mic-r.co.jp/mr/01910/>)" Email Filtering/Archive Market: Vendor Share (by shipment) (FY2019) (Published December 2020).

We will elevate Desk@Cloud from a tool used internally to a web conferencing system that is equal to a video distribution platform in terms of video performance and far superior in terms of security.



## Target in Latter Half of GIGA School Concept \*1



- **Around 40%** of the total number of school boards is the potential target in the second half.
- As **leader in the GIGA School Program market**\*2, we aim to expand our market share on the basis of the far greater value we provide (product value, convenience and cost).
- We will appear at outside seminars to stress the need for filtering and the superiority of our products.

\*1: Based on interviews with 651 school boards responsible for more than 3,000 pupils and students (According to our research in March 2021)

\*2: According to our research in March 2021

FY2022 will be the main battleground for dealing with security cloud projects and projects to enhance resilience but some projects are expected to be put out to tender during FY2021.

## Public Project Roadmap

Item	Target	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	
Government	Central ministries and agencies					ISMAP Introduction of ISMAP	Action to address each project					
							Budgeting	Bidding/Renewal				
Security cloud	Prefectures	7.1 billion yen	→				Revision of procurement guidelines	2.1 billion yen transition budget				
						Extension		Renewal	→			
						Budgeting		Bidding/Renewal				
Enhancement of resilience	Prefectures Municipalities	16.4 billion yen	→					Budget TBD				
						Extension		Renewal	→			
						Budgeting		Bidding/Renewal				

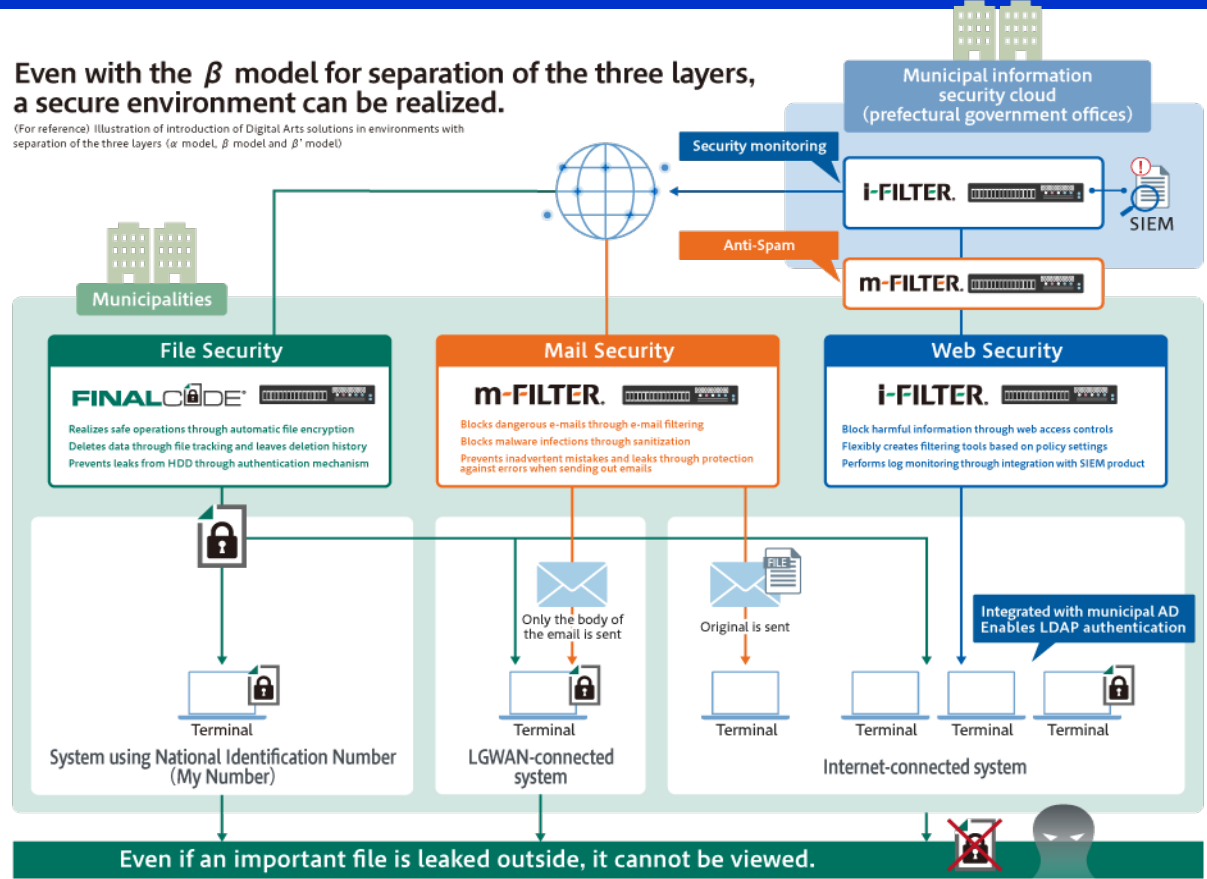
# Measures to enhance resilience of municipal information systems

Based on the December 2020 revisions to the procurement guidelines, we must enhance **efficiency and convenience**, while maintaining information security, to meet the needs of the times including the digitization of government processes and increased teleworking.

## Overview of Solutions for Municipal Information Systems

Even with the  $\beta$  model for separation of the three layers, a secure environment can be realized.

(For reference) Illustration of introduction of Digital Arts solutions in environments with separation of the three layers ( $\alpha$  model,  $\beta$  model and  $\beta'$  model)



### Outline of countermeasures

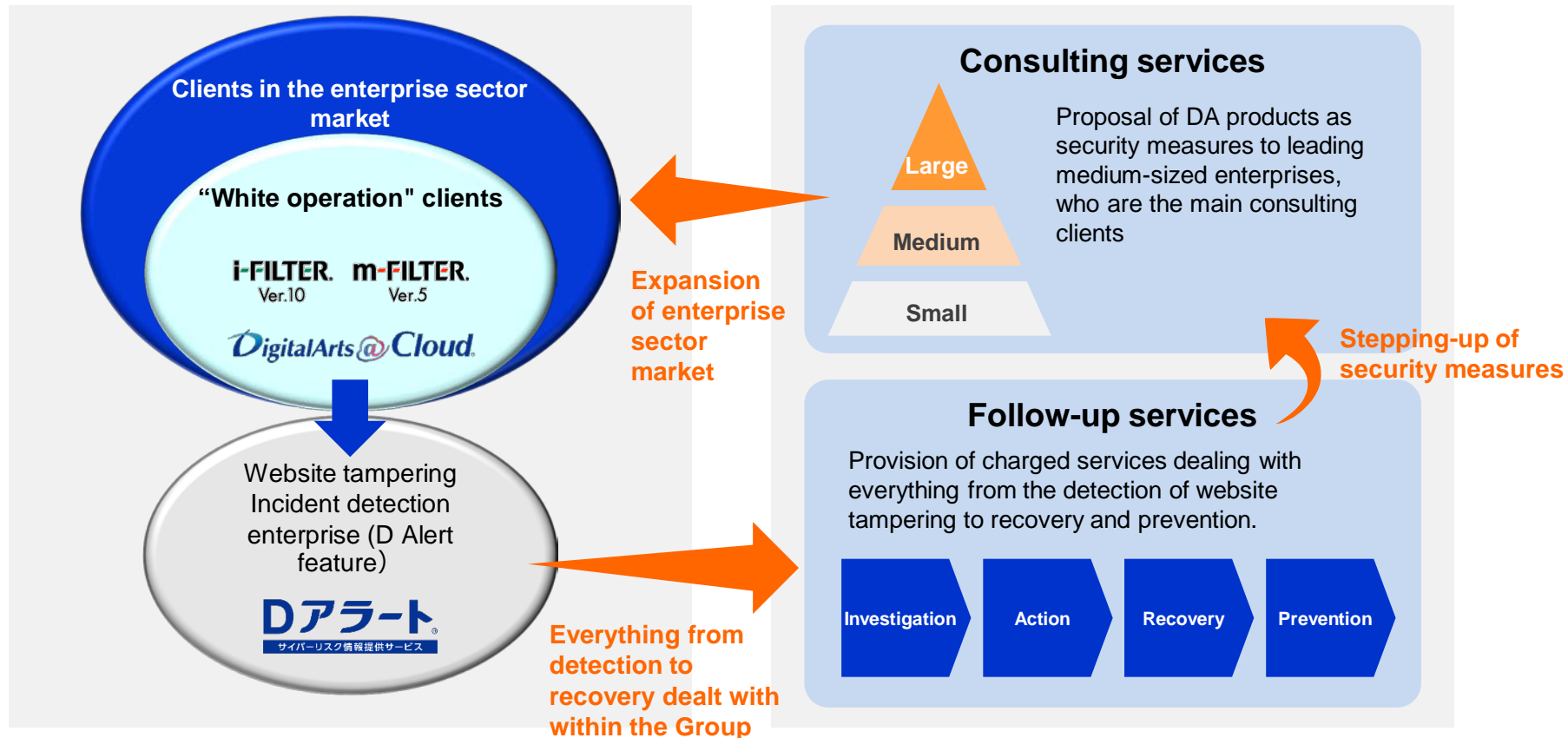
Review of "three layers of protection" ( $\alpha$  model protection and above)

Remote access security (protection against malware, etc.)

Measures for shift away from PPAP (process of sending an encrypted file (with password) attachment in an email and then sending the password to unzip the file in a second email)  
File encryption

All solutions shown in the outline of countermeasures are possible using combinations of Digital Arts products.

We will expand the enterprise sector market by proposing DA products to DAC's consulting clients. By combining the strengths of Digital Arts and DAC, we will offer one-stop shop solutions covering everything from "detection" to "recovery."



**Supplementary Material on Consolidated Financial Results for the  
First Quarter of the Fiscal Year Ending March 31, 2022**

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# **Return to Shareholders for Fiscal Year Ending March 31, 2022**



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, 2022: **35.8%** (of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2022: **65.00 yen** per share

We expect to increase the annual dividend by **10.00 yen** per share.

	Dividend (in yen) per share			Consolidated payout ratio
	2Q-end	Year-end	Annual	
FY March 2021	25.00	30.00	55.00	37.4%
FY March 2022 (forecast)	<b>30.00</b>	<b>35.00</b>	<b>65.00</b>	<b>35.8%</b>

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.

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