



Quarterly Consolidated Financial Results for the First Three Quarters of
Fiscal Year Ending March 31, 2022 (Japanese Accounting Standards)

January 31, 2022

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) General Manager of the
Administration Department (Name) Isao Konishi TEL: 03-5220-6045

Scheduled date for submission of quarterly report: February 4, 2022 Scheduled date to start dividends distribution: _

Preparation of supplementary explanatory documents for quarterly results: : Yes

Holding of quarterly results briefing: : No

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

1. Consolidated financial results for the first three quarters of the fiscal year ending March 31, 2022 (April 1, 2021 –December 31, 2021)

(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 three quarters of year ending March 31, 2022	6,686	40.7	3,024	53.3	3,027	52.7	2,081	52.7
First three quarters of year ended March 31, 2021	4,750	14.7	1,973	19.7	1,982	20.2	1,363	20.8

(Note) Comprehensive income: First three quarters of year ending March 31, 2022 2,086million yen (53.0%) First three quarters of year ended March 31, 2021 1,363million yen (21.1%)

	Profit per share (basic)	Profit per share (diluted)
First three quarters of year ending March 31, 2022	Yen 148.34	Yen 144.89
First three quarters of year ended March 31, 2021	97.22	94.97

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2021	Million yen 18,233	Million yen 11,325	% 62.0	Yen 804.99
As of March 31, 2021	14,856	10,062	67.6	715.79

(Reference) Equity capital: As of December 31, 2021 11,297 million yen As of March 31, 2021 10,041 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
Year ended March 31, 2021	Yen —	Yen 25.00	Yen —	Yen 30.00	Yen 55.00
Year ending March 31, 2022	—	30.00	—		
Year ending March 31, 2022 (forecast)				40.00	70.00

(Note) Revisions to most recently announced dividend forecast : Yes

A revision has been made to the year-end dividend forecast announced on May 7, 2021.

For details, please refer to the *Notice Concerning Revision of Dividend Forecast (Dividend Increase)* announced today.

3. Forecast of consolidated financial results for the year ending March 31, 2022 (April 1, 2021 – March 31, 2022)

(Percentage figures represent changes from same period of previous year.)

	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	9,000	31.9	4,000	34.3	4,000	33.7	2,770	34.5	197.40

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

* Notes

(1) Changes in important subsidiaries during the first three quarters of fiscal year ending March 31, 2021 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 quarterly consolidated 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 8 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.: : Yes
- 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 December 31, 2021	14,133,000	As of March 31, 2021	14,133,000
2) Number of treasury shares	As of December 31, 2021	98,331	As of March 31, 2021	104,462
3) Average number of shares issued and outstanding in each period (cumulative total)	First three quarters of year ending March 31, 2022	14,032,979	First three quarters of year ended March 31, 2021	14,020,719

* 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 Three Quarters of Fiscal Year Ending March 31, 2022 (3) Explanation about information on future forecasts such as consolidated results forecasts" on page 4 of the attached materials.

(How to obtain supplementary materials for quarterly results)

The material is available at Digital Arts Inc. corporate website.

○Table of Contents for the Attached Document

1. Qualitative Information on Financial Results for the First Three Quatres of Fiscal Year Ending March 31, 2021	2
(1) Explanation about business results	2
(2) Explanation about financial position	4
(3) Explanation about information on future forecasts such as consolidated results forecast	4
2. Quarterly Consolidated Financial Statements and Primary Notes	5
(1) Quarterly consolidated balance sheet	5
(2) Quarterly consolidated statement of income and comprehensive income	6
Quarterly consolidated statement of income	
Consolidated first three quarters	6
Quarterly consolidated statement of comprehensive income	
Consolidated first three quarters	7
(3) Notes to quarterly consolidated financial statements	9
(Notes on the premise of a going concern)	9
(Notes on significant changes in the amount of shareholders' equity)	9
(Application of special accounting methods to the preparation of quarterly consolidated financial statements)	
(Change in accounting policy)	9

1. Qualitative Information on Financial Results for the First Three Quarters of Fiscal Year Ending March 31, 2022

(1) Explanation about business results

During the first three quarters of the consolidated fiscal year under review (April 1 through December 31, 2021), the Japanese economy showed a sign of recovery with the help of governmental economic stimulation packages and nationwide vaccine rollouts despite prolongation of the COVID-19 impacts. However, the economic outlook in Japan and overseas remain uncertain due in part to the global rise in infections with variants.

In the security industry, in which the Digital Arts Group (the “Group”) operates, the scope of the Internet continued to expand as social lifestyles were going digital with the use of cloud services and teleworking. The importance of security solutions grew in response to the risk of information leaks and increasingly sophisticated and diverse cyber attacks, including targeted attacks against specific enterprises, government agencies and other organizations. At the same time, demand for security products made in Japan rose under the chaotic world situation. Further, in the enterprise sector market, working from home became unavoidable, and demand for software products to prepare for working in the home and performing business processes securely and efficiently increased under the prolonged effects of the pandemic. Meanwhile, progress was also made in the public sector market, with the strengthening of security measures by local governments, in addition to the GIGA School Concept, which envisions the development of an environment with one learning terminal for each school-aged child.

Under these conditions, in the enterprise sector market, the Group took advantage of the fact that more and more people are working from home and web services and e-mail environments are shifting to the cloud and expanded sales of its i-FILTER@Cloud and m-FILTER@Cloud services, creating a world in which the Internet and emails can be used without hesitation in the cloud environment. In the public sector market, the Company provided a special version of i-FILTER that caters to needs arising from the GIGA School Concept. At the same time, it continued to run campaigns, including the provision of free services that conform to the Guidelines on Education Information Security Policy, in its ongoing efforts to expand sales from schools. In addition, the Company focused on proposing solutions to support local government efforts to strengthen security measures, which will be ramped up from the next fiscal year.

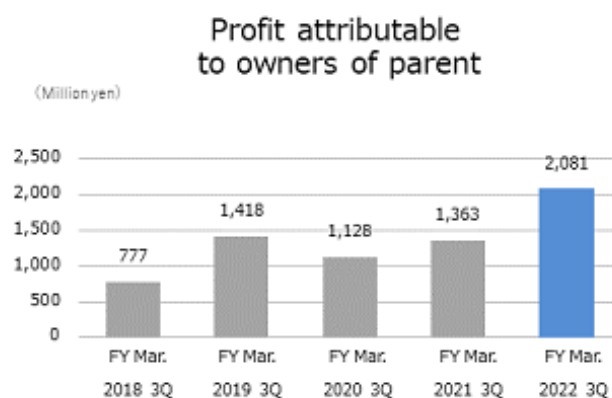
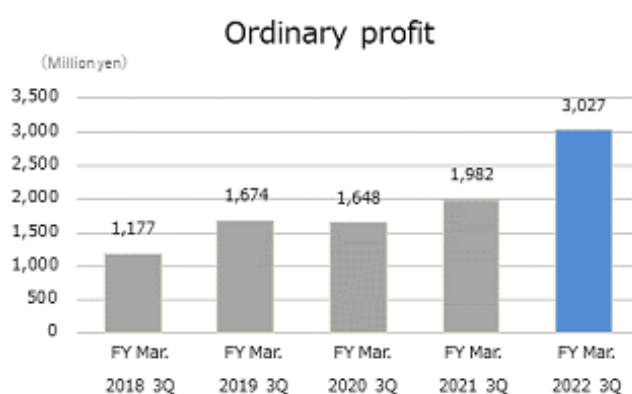
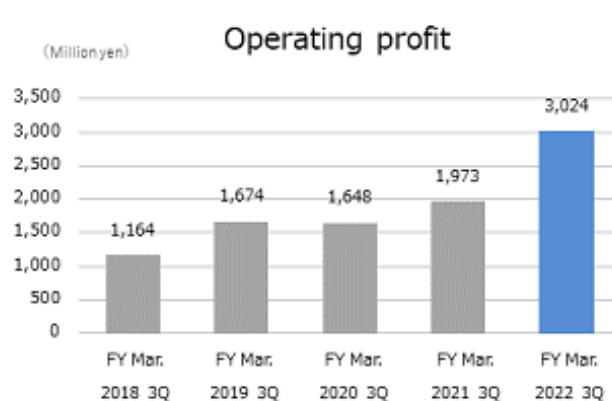
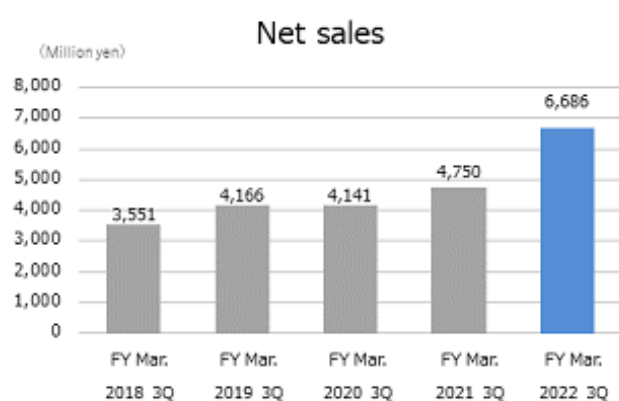
Demand in the enterprise and public sector markets has soared for cloud service products due to the effects of the COVID-19 pandemic. A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period. For that reason, the Company continued to receive strong orders for cloud service products as in the previous fiscal year. Net sales deferred to the next and subsequent fiscal years increased from the end of the same period in the previous fiscal year.

As a result, net sales for the first three quarters of the consolidated fiscal year under review amounted to 6,686 million yen (up 40.7% year on year), operating profit reached 3,024 million yen (up 53.3% year on year), ordinary profit came to 3,027 million yen (up 52.7% year on year), and profit attributable to owners of parent was 2,081 million yen (up 52.7% year on year).

Overview of Consolidated Business Results

(Million yen)

	First three quarters of year ended March 31, 2021	First three quarters of year ending March 31, 2022	Change	% Change
Net sales	4,750	6,686	+ 1,935	+ 40.7
Operating profit	1,973	3,024	+ 1,051	+ 53.3
Ordinary profit	1,982	3,027	+ 1,045	+ 52.7
Profit attributable to owners of parent	1,363	2,081	+ 718	+ 52.7



The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, orders increased for i-FILTER and m-FILTER cloud service products, which are used to reduce costs and operations management burdens in response to the spread of COVID-19. In addition, net sales for Digital Arts Consulting Inc., a subsidiary offering security consulting services, increased with a progress achieved in new customer acquisition in line with greater corporate demand for cybersecurity and digital transformation (DX).

Net sales in this market reached 3,332 million yen, up 18.8% year on year.

Public Sector Market

In the public sector market, the Group has traditionally enjoyed excellent recognition and a large market share as a provider of Japan-made security solutions. In addition, under the GIGA School Concept, the Group's i-FILTER cloud service products were adopted by many schools during the previous fiscal year in recognition of its reliability and functionality in supporting a safe learning environment at home. That led to a sales hike. Sales of the i-FILTER series grew as brisk orders were won from public agencies and local governments.

As a consequence, net sales in this market stood at 3,026 million yen, up 86.4% year on year.



Consumer Sector Market

In the consumer sector market, the Group focused on collaborating with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems using a single serial ID. As a result, it attained an increase of users.

Net sales in this market amounted to 327 million yen, up 1.4% year on year.

(2) Explanation about financial position

(Assets)

Total assets at the end of the third quarter of the first half of the consolidated fiscal year under review increased 3,377 million yen from the end of the previous fiscal year to 18,233 million yen. This was due mainly to an increase of 2,873 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the third quarter of the consolidated fiscal year under review rose 2,114 million yen from the end of the previous fiscal year to 6,907 million yen. This was due mainly to an increase of 2,273 million yen in advances received, attributable to an increase in the amount of contracts for which orders were received.

(Net assets)

Net assets at the end of the third quarter of the consolidated fiscal year under review grew 1,263 million yen from the end of the previous fiscal year to 11,325 million yen. This was mainly due to an increase in retained earnings due to the recording of profit attributable to owners of parent, which outweighed a decrease in dividends paid.

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

Operating results for the first three quarters of the consolidated fiscal year under review remained steady overall, and there was therefore no change in the forecast of consolidated financial results for the year ending March 31, 2022 announced on October 29, 2021.

The Company has determined the results forecasts based on information available on the day of publication of these financial results for the fiscal year ended March 31, 2022. Actual results may differ from the forecasts due to a variety of factors. If there are any significant changes, the Company will disclose them appropriately.

The Company has decided to raise the annual dividend forecast for the fiscal year ending March 31, 2022 by ¥5 per share from the forecast announced on May 7, 2021, to ¥40 per share. As a result, the annual dividend forecast for the year ending March 31, 2022 has been revised up to ¥70 per share.

For details, please refer to the *Notice Concerning Revision of Dividend Forecast (Dividend Increase)* announced today.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	First three quarters of fiscal 2021 (from April 1, 2020 to December 31, 2020)	First three quarters of fiscal 2022 (from April 1, 2021 to December 31, 2021)
Assets		
Current assets		
Cash and deposits	11,382	14,255
Notes and accounts receivable - trade	1,268	1,601
Finished goods	0	0
Supplies	3	2
Other	70	97
Total current assets	12,725	15,959
Non-current assets		
Property, plant and equipment	233	217
Intangible assets		
Software	1,274	1,290
Other	128	233
Total intangible assets	1,403	1,524
Investments and other assets	493	532
Total non-current assets	2,130	2,274
Total assets	14,856	18,233
Liabilities		
Current liabilities		
Accounts payable - trade	32	40
Income taxes payable	688	474
Provision for bonuses	194	65
Advances received	3,370	5,644
Other	456	633
Total current liabilities	4,743	6,857
Non-current liabilities		
Asset retirement obligations	48	48
Other	1	1
Total non-current liabilities	50	50
Total liabilities	4,793	6,907
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	963	958
Retained earnings	8,699	9,939
Treasury shares	△342	△322
Total shareholders' equity	10,034	11,288
Accumulated other comprehensive income		
Foreign currency translation adjustment	7	9
Total accumulated other comprehensive income	7	9
Share acquisition rights	8	12
Non-controlling interests	12	15
Total net assets	10,062	11,325
Total liabilities and net assets	14,856	18,233

(2) Quarterly consolidated statement of income and comprehensive income
 Quarterly consolidated statement of income
 Consolidated first three quarters

(Million yen)

	First three quarters of fiscal 2021 (from April 1, 2020 to December 31, 2020)	First three quarters of fiscal 2022 (from April 1, 2021 to December 31, 2021)
Net sales	4,750	6,686
Cost of sales	1,362	1,940
Gross profit	3,388	4,746
Selling, general and administrative expenses	1,414	1,721
Operating profit	1,973	3,024
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	1	1
Foreign exchange gains	2	1
Subsidy income	3	—
Miscellaneous income	1	0
Total non-operating income	8	3
Ordinary profit	1,982	3,027
Extraordinary income		
Gain on reversal of share acquisition rights	9	1
Gain on sales of non-current assets	3	—
Total extraordinary income	12	1
Extraordinary losses		
Loss on liquidation of subsidiaries	2	—
Loss on retirement of non-current assets	0	—
Total extraordinary losses	2	—
Profit before income taxes	1,992	3,029
Income taxes	627	944
Profit	1,365	2,084
Profit attributable to non-controlling interests	2	3
Profit attributable to owners of parent	1,363	2,081

Quarterly consolidated statement of comprehensive income
Consolidated first three quarters

(Million yen)

	First three quarters of fiscal 2021 (from April 1, 2020 to December 31, 2020)	First three quarters of fiscal 2022 (from April 1, 2021 to December 31, 2021)
Profit	1,365	2,084
Other comprehensive income		
Foreign currency translation adjustment	△1	1
Total other comprehensive income	△1	1
Comprehensive income	1,363	2,086
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,361	2,083
Comprehensive income attributable to non-controlling interests	2	3

(3) Notes to quarterly consolidated financial statements

(Notes on the premise of a going 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 three quarters 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.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 issued on March 31, 2020; hereinafter, "Accounting Standard for Revenue Recognition"), etc. from the beginning of the first three months of the consolidated fiscal year under review and recognizes revenue in the amount expected to be received in exchange for promised goods or services when the control of those goods or services is transferred to customers.

As a result, sales rebates, which were previously recorded as selling, general and administrative expenses, are now deducted from sales. The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first three months of the consolidated fiscal year under review was added to or subtracted from the beginning balance of retained earnings of the first three months of the consolidated fiscal year under review. However, this did not have any impact on such beginning balance.

As a result of application of the Accounting Standard for Revenue Recognition, etc., net sales and selling, general and administrative expenses for the first three quarters of the consolidated fiscal year under review both decreased, causing gross profit to fall. However, the impact was insignificant and operating profit, ordinary profit and profit before income taxes were not affected.