



**Consolidated Financial Results for the First Three Quarters
of the Fiscal Year Ending March 31, 2024**

(From April 1, 2023 to December 31, 2023)

Financial Results Briefing Materials

January 31, 2023

Digital Arts Inc.
(Securities Code: 2326)

Web

Enabling users to securely connect to websites without security concerns



i-FILTER.
i-FILTER@Cloud™

Endpoint Web security

i-FILTER.
ブラウザ & クラウド

Secure proxy appliance

D-SPA.

Malicious website-filtering software for home use

いフィルター.

E-mail

Enabling users to securely send and receive email without security concerns



m-FILTER.
m-FILTER@Cloud™

Serverless solutions to prevent wrong email transmission by providing advice when necessary

Countermeasures to prevent wrong email transmission for email software

m-FILTER.
MailAdviser

Countermeasure against wrong email transmission for Outlook Web App (OWA)

NEW
m-FILTER.
MailAdviser OWA

file

File encryption solution

Automatically protecting files from the moment of creation and allowing users to delete them after transfer



FINALCODE.
FINALCODE@Cloud™

File transfer solution

Supporting secure file transfers without leaking critical information

NEW



f-FILTER.

IDaaS

Equipped with multi-factor authentication to ensure the secure management of IDs for cloud services

NEW



Start In.

Communication

Providing workplaces and places for education with secure and comfortable communication spaces

NEW



Chat and online conferencing

Desk.

Video conferencing tool

Desk Event.

In the fiscal year ending March 31, 2024, net sales rose, reflecting an increase in demand for security, but profit declined due to the costs of developing new products and hiring additional staff at subsidiaries.

1

In the enterprise section market, both software and consulting net sales rose significantly, reflecting increasing demand for security measures.

2

In the public sector market, net sales declined slightly, with net sales for Security Improvements for Local Governments projects and GIGA School Concept projects more than offset by the absence of sales from public agency projects recorded in the previous fiscal year.

3

Net sales increased due to a rise in net sales in the enterprise section market, which was offset by a decrease in the public sector market. Operating profit was pushed down mainly by a significant increase in expenses due to the expansion of DAC's business.

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**Material on Consolidated Financial Results
for the First Three Quarters of the Fiscal Year Ending March 31, 2024**

01 Consolidated Results Highlights

Contracts

7,267 million yen

(up +223million yen
or +3.2% year on year)

- In the enterprise section market, the Group attained growth by winning projects that aimed to meet the need to transition from the castle and moat security model and projects from new clients switching from competitors' products. DAC attained new customers, which also contributed to the growth.
- In the public sector market, the Group experienced negative growth due to a gradual decrease in projects received through special demand.

Net sales

8,322 million yen

(up +663million yen
or +8.7% year on year)

- Net sales grew in the enterprise sector market, reflecting sales of cloud service products, license sales products and sales at DAC.
- In the public sector market, net sales declined slightly, with net sales for Security Improvements for Local Governments projects and GIGA School Concept projects more than offset by the absence of sales from large public agency projects recorded in the previous fiscal year.

Operating profit

3,122 million yen

(-105 million yen
or -3.3% year on year)

- Cost of sales increased mainly due to the expansion of business, including an increase in the number of DAC consultants.
- SG&A expenses rose chiefly due to an increase in personnel expenses at DAJ and DAC.

Consolidated Statement of Income



Net sales grew while expenses rose due to the release of new products and the expansion of DAC's business.

(Million yen)

	First 3 Quarters FY March 2023	First 3 Quarters FY March 2024	Change YoY	FY March 2024 Full-Year Forecast
Contracts	7,043	7,267	+3.2%	-
Net sales	7,658	8,322	+8.7%	11,500
Cost of sales	2,651	3,306	+24.7%	3,850
Gross profit	5,006	5,015	+0.2%	7,650
Selling, general and administrative expenses	1,778	1,892	+6.4%	2,500
Operating profit	3,228	3,122	(3.3%)	5,150
Operating margin	42.2%	37.5%	-	44.8%
Ordinary profit	3,241	3,132	(3.4%)	5,150
Profit attributable to owners of parent	2,235	2,162	(3.3%)	3,550
EBITDA	3,966	3,852	(2.9%)	-

* Financial Forecast is the consolidated financial forecast announced on May 9, 2023.

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

Consolidated Cost of Sales and Selling, General and Administrative Expenses



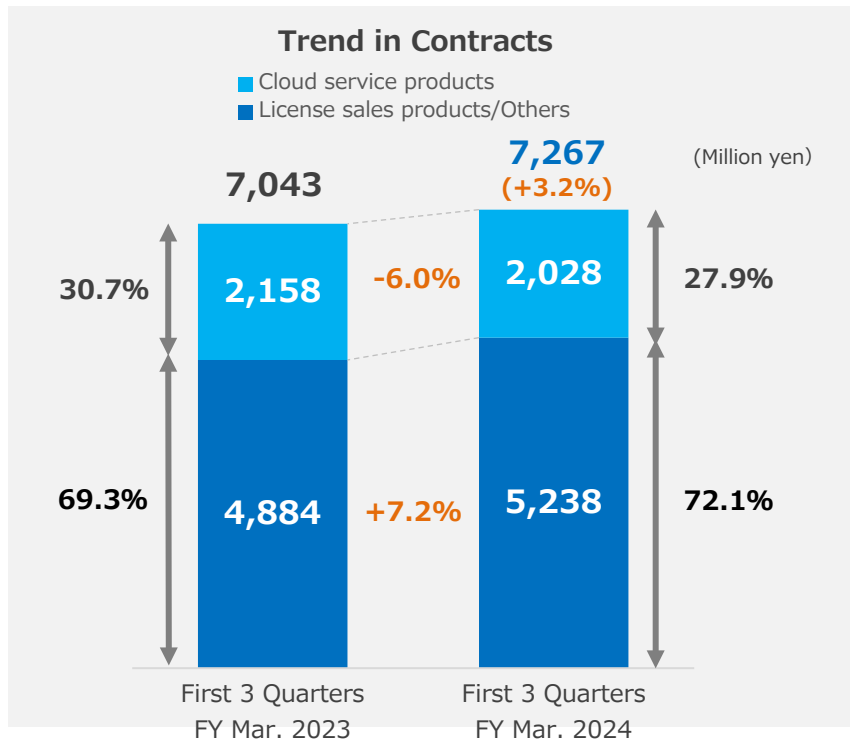
(Million yen)

	First 3 Quarters FY March 2023	First 3 Quarters FY March 2024	Change YoY	Main Factors for Change
Cost of sales	2,651	3,306	+655	
Labor	1,158	1,482	+323	Increase due to the enhancement of DAJ's ^{*1} development workforce (+61M) It rose with the strengthening of DAC's ^{*2} consultants (+261M)
Depreciation	629	624	(5)	
Communication expenses	850	948	+97	Cloud server expenses rose as a result of an increase in licenses for cloud service products and foreign exchange fluctuations (+97M)
Other	657	984	+326	Increase due to the development of new DAJ products (+84M) Increase due to the expansion of DAC's business (+242M)
Transfer to other accounts	(644)	(732)	(87)	
Selling, general and administrative expenses	1,778	1,892	+114	
Personnel expenses	899	977	+78	Increase in the number of personnel in DAJ ^{*1} (+51M) Increase in the number of personnel in DAC ^{*2} (+27M)
Advertising expenses	230	227	(2)	
Other	648	687	+38	

*1: DAJ = Digital Arts Inc.

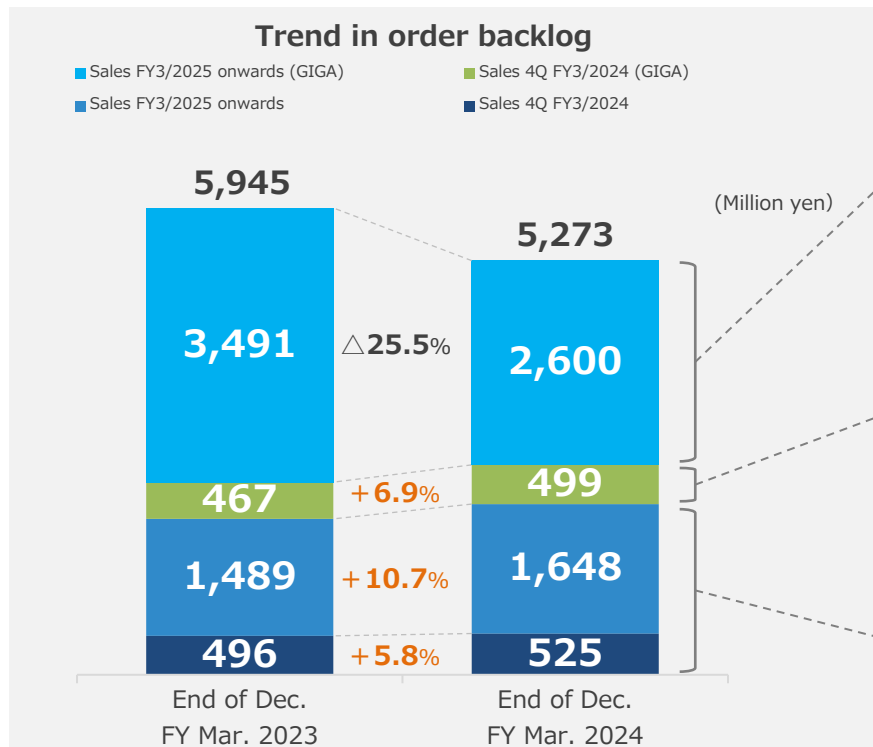
*2: DAC = Digital Arts Consulting Inc.

Consolidated contracts totaled **7,267 million yen**, up **+3.2%** year on year.



- Contracts for cloud service products declined 6.0% due to a decrease in new GIGA School Concept project orders from the previous fiscal year, although the Group captured the demand for the transition from the castle and moat security model and received projects in the enterprise section market by adding functions and increasing promotion.
- In the license sales products and other category, contracts rose 7.2%, reflecting an increase in contracts at DAC and the acquisition of projects from new clients switching from competitors' products in the enterprise sector market, offsetting a downturn after receiving orders for large public agency projects in the previous fiscal year in the public sector market.

The **order backlog** excluding GIGA School projects **increased** despite a reduction of total contracts.



Sales FY3/2025 onwards (GIGA)

Many GIGA School Concept projects are five-year contracts. Over time, more sales are posted. The amount of sales to be recorded will drop in FY March 2025 and later.

Sales 4Q FY3/2024 (GIGA)

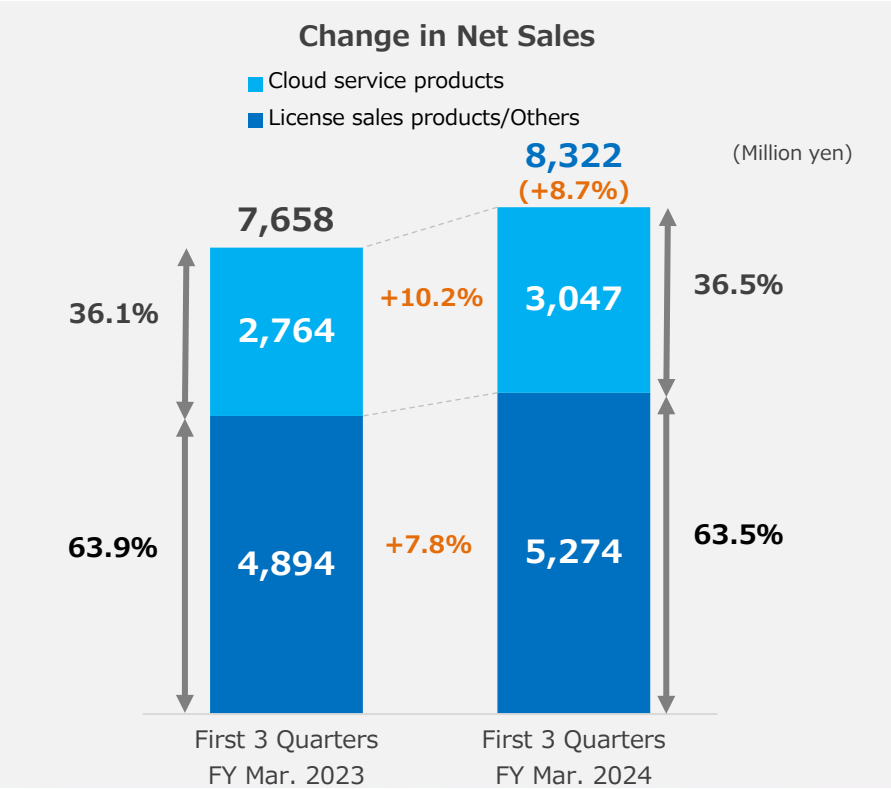
Sales to be recorded in the 4Q period of the fiscal year under review will rise because the Group has been continuously gaining new GIGA School Concept projects.

Contracts are expected to rally sharply following an increase in projects related to the NEXT GIGA School Concept that started in FY March 2024.

Sales FY3/2025 onwards **Sales 4Q FY3/2024**

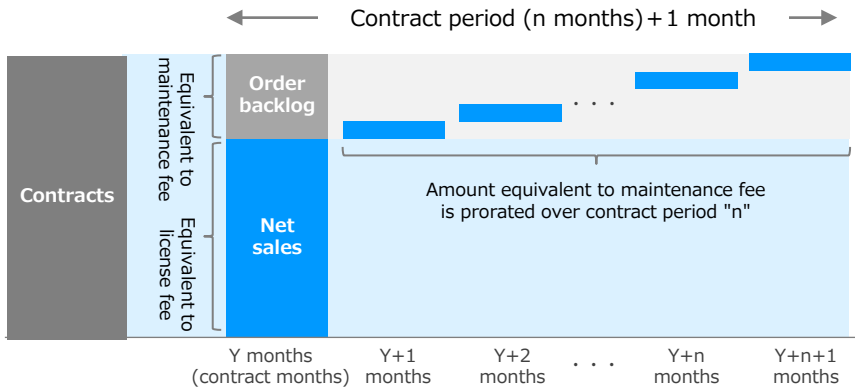
The order backlog is steadily increasing, reflecting the gradually growing percentage of enterprise contracts that are for cloud service products. Many of these are one-year contracts.

Consolidated net sales grew **8.7%** year on year, to **8,322 million yen**.



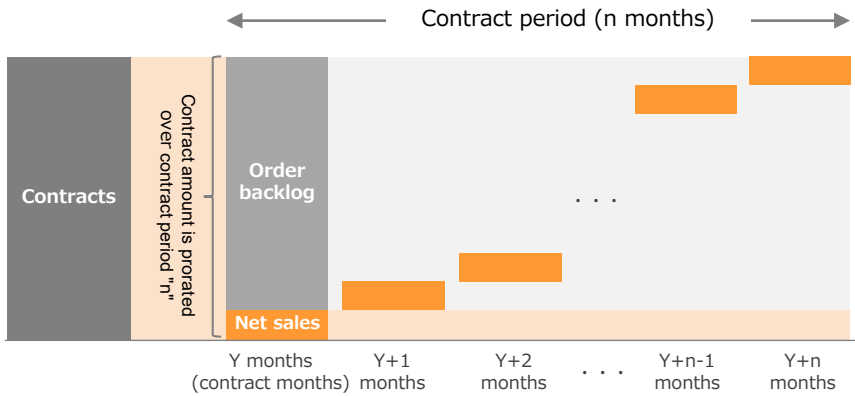
- Net sales of cloud service products increased 10.2% year on year, reflecting steady growth in sales in the enterprise sector market, as well as sales recorded for new GIGA School Concept projects for which orders were received before and during the current fiscal year.
- Net sales of license sales products and other increased 7.8% year on year due to a rise in DAC's sales, and as described in the "Trend in Consolidated Contracts" page, projects from new clients switching from competitors' products were won in the enterprise sector market, offsetting a downturn after receiving orders for large public agency projects in the previous fiscal year in the public sector market.

License sales products



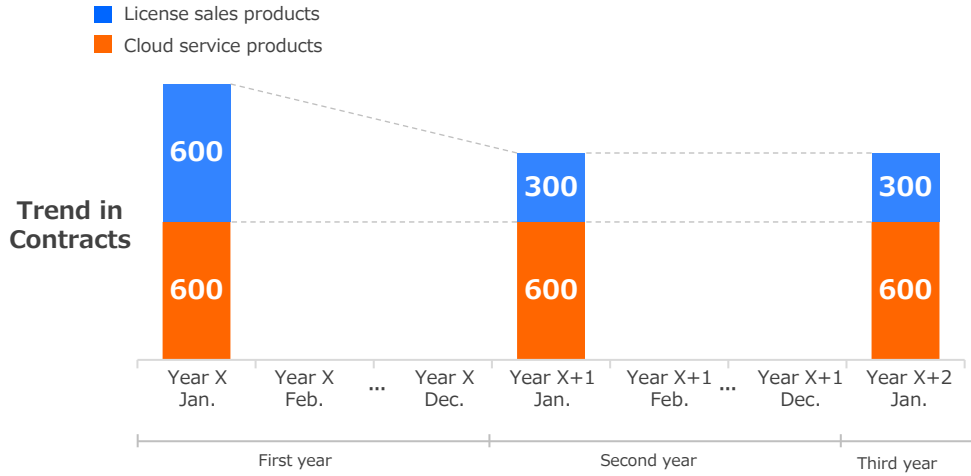
- License fees make up a large proportion of the contract amount. This portion is recorded in a lump sum as sales in the month when the contract is obtained.
- Amount equivalent to maintenance fee is recorded on a pro rata basis over the contract period.

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.

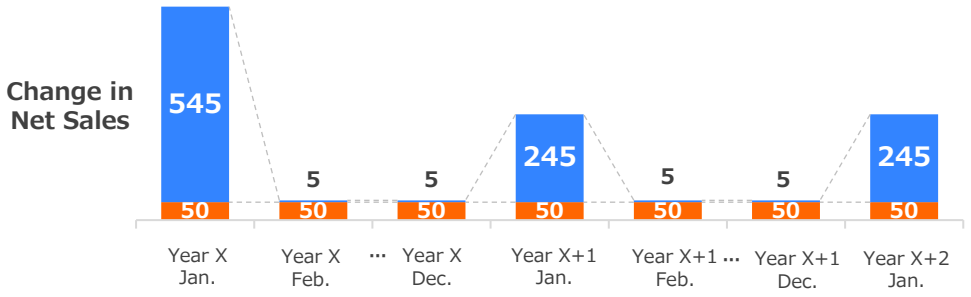
Supplement) Relationship between contract amount and sales by product (one-year contracts)



For example, the diagrams on the left show the relationships between the contract amount and net sales in license sales products and cloud service products with a one-year contract at the amount of 600 million yen.

Contracts

For license sales products, contracts in the second and subsequent years are half of those of the first year. For cloud service products, contracts in the second and subsequent years are the same amounts as those in the first year. An increase in new contracts for cloud service products will result in a higher growth rate in coming fiscal years than for license sales products.



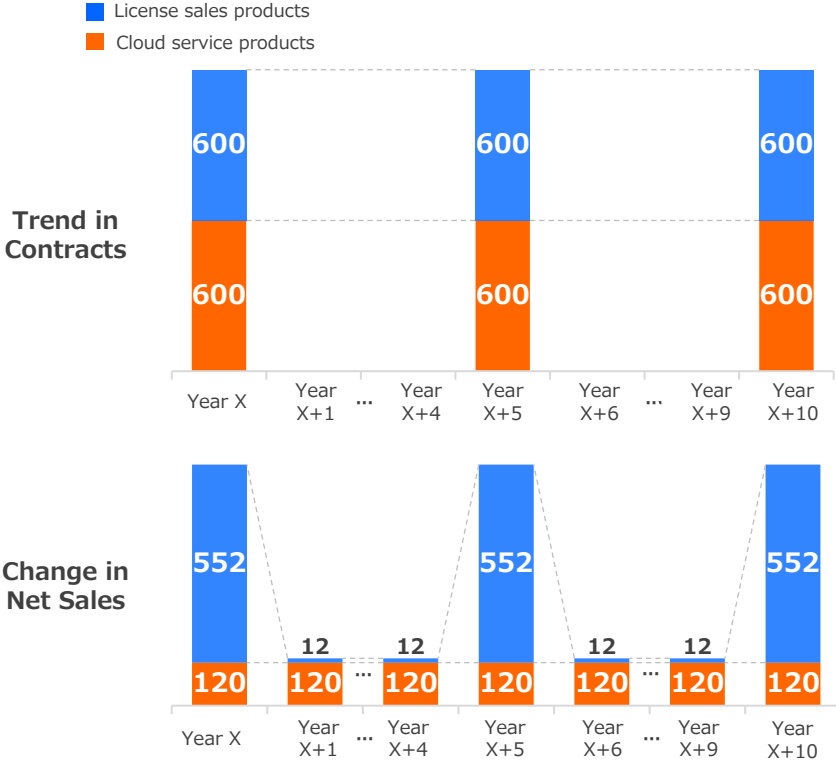
Net sales

For license sales products, a high percentage of net sales is recorded at the time of the contract. For cloud service products, net sales are posted in monthly installments. For license sales products, net sales decrease because of a decline in contracts at the time of renewal. For cloud service products, net sales are constant.

Supplement) Relationship between contract amount and sales by product (multi-year contracts)



Many projects in the public sector market are multi-year contracts, such as five-year ones. They have longer periods until renewal.



For example, the diagrams on the left show the relationships between the contract amount and net sales in license sales products and cloud service products with a five-year contract of 600 million yen.

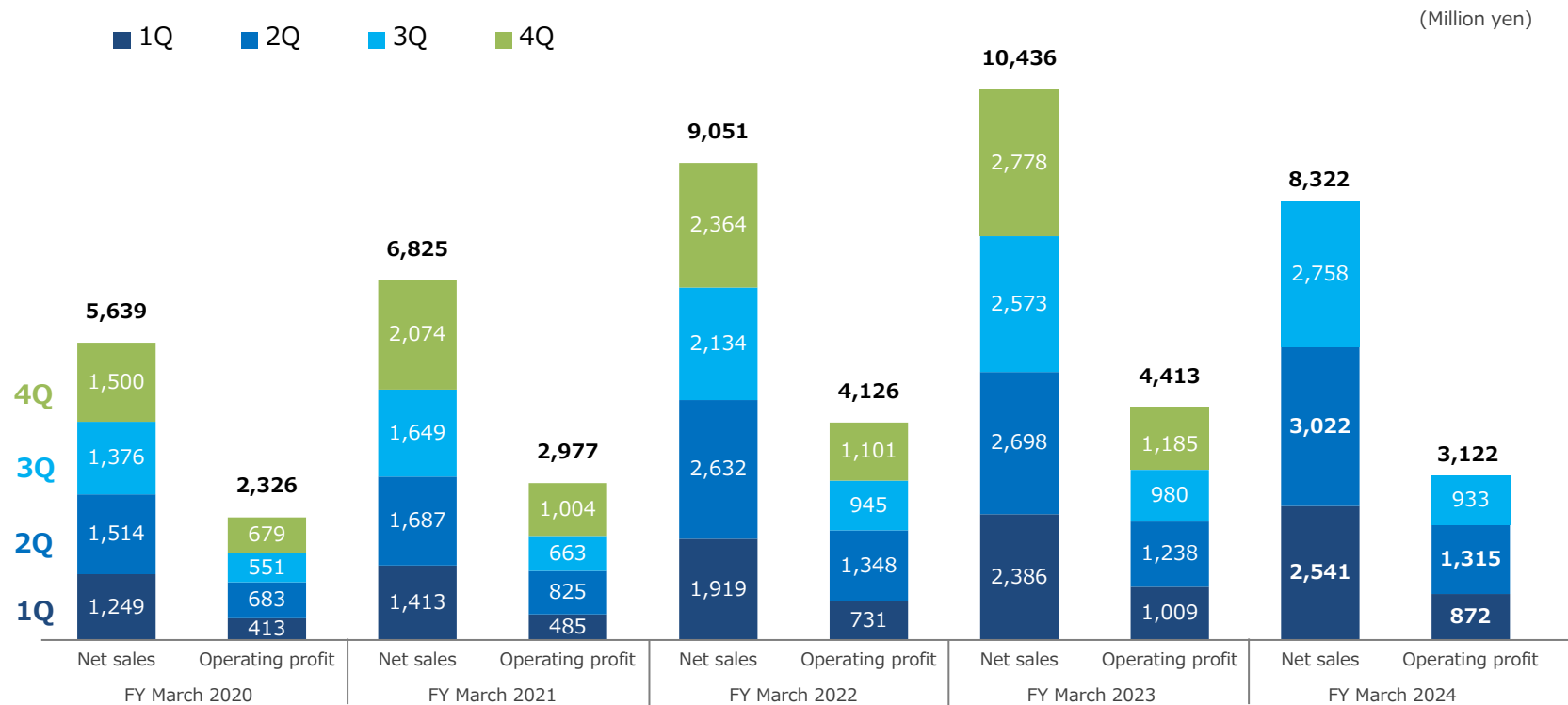
Contracts

For both license sales products and cloud service products, contract amounts are unchanged at the time of renewal.

Net sales

For license sales products, a high percentage of net sales is recorded at the time of the contract. For cloud service products, sales are recorded in monthly installments for a period of five years. This means a wider gap between the contract amount and net sales (order backlog).

Quarterly Trend in Net sales, Operating profit

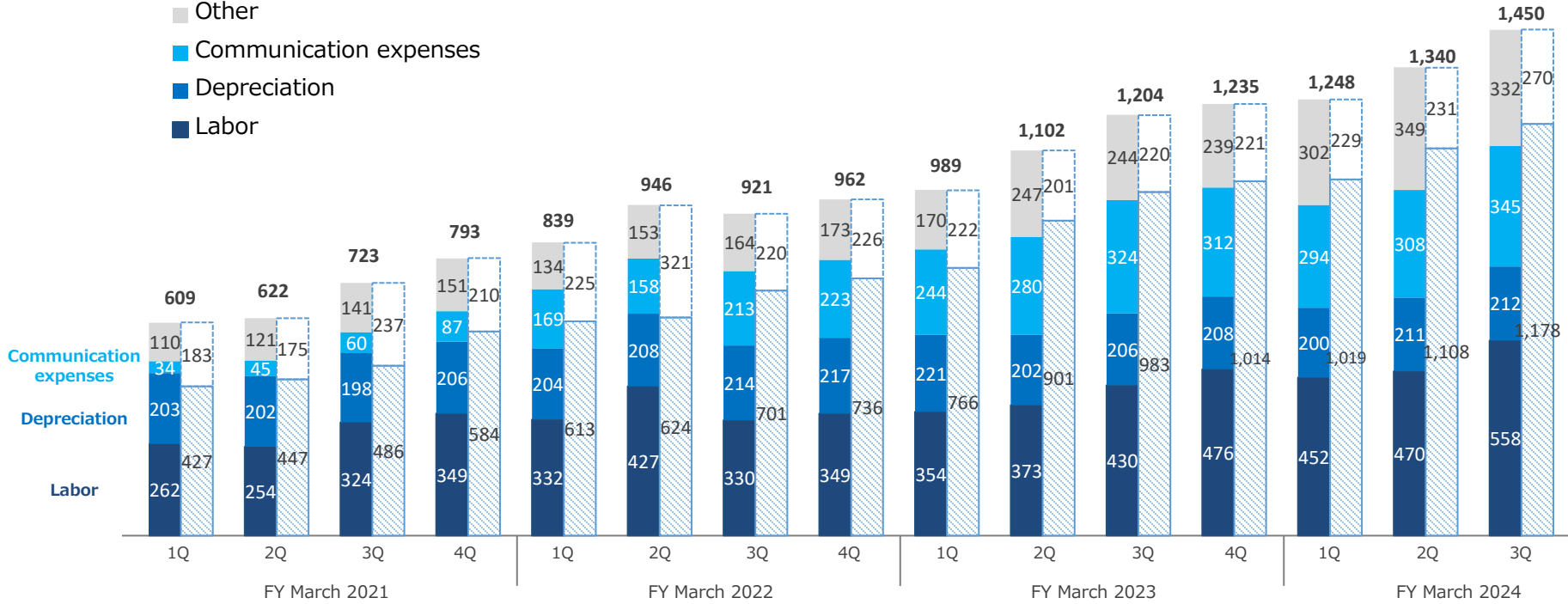


Quarterly Trend in Consolidated Cost of Sales



- Transfer to other accounts
- Cost of sales
- Other
- Communication expenses
- Depreciation
- Labor

(Million yen)

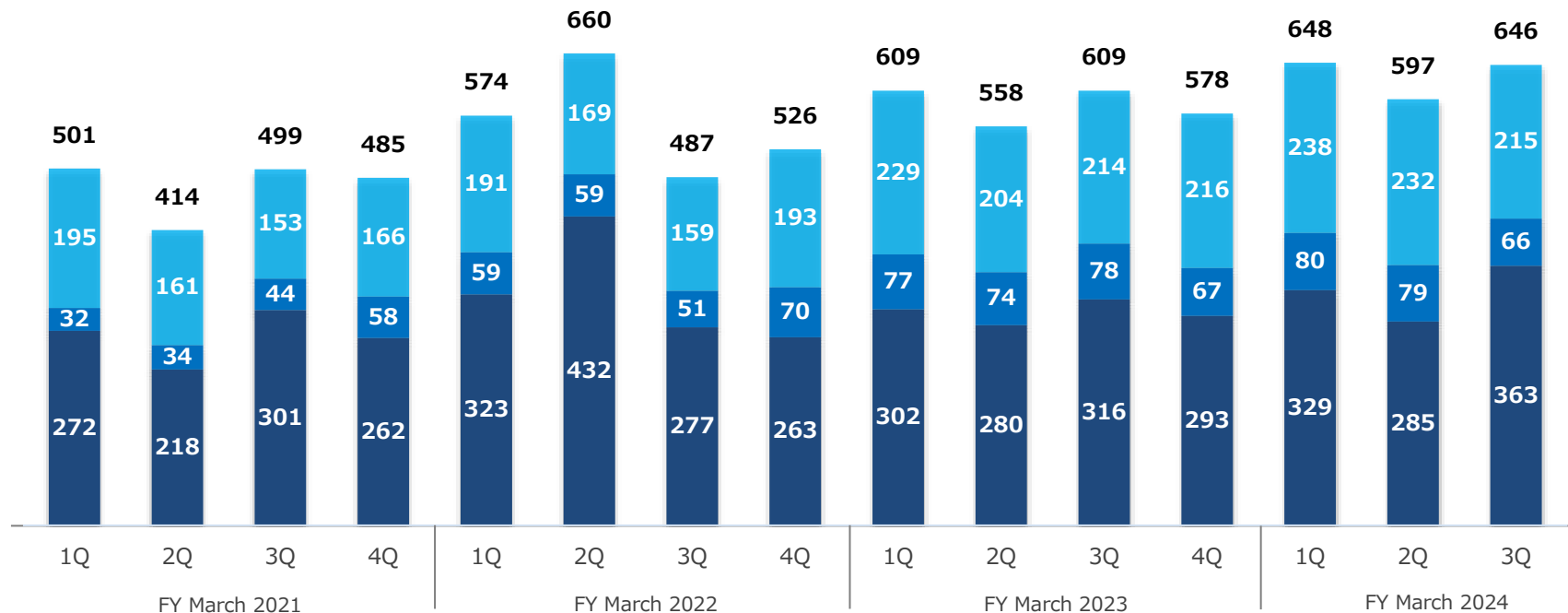


Quarterly Trend in Consolidated Selling, General and Administrative Expenses



- Personnel expenses
- Advertising expenses
- other

(Million yen)



Consolidated Balance Sheet



The equity ratio increased to 69.8%, reflecting a decrease in total assets after the acquisition of treasury shares and payment of dividends.

(Million yen)

	As of end of 3Q FY March 2023	As of end of FY March 2023	As of end of 3Q FY March 2024	Change from end of FY March 2023	Main Factors for Change
Current assets	17,631	18,925	17,422	(7.9%)	Treasury share buy-back fund (1,430M)
(Cash and deposits)	16,072	17,018	15,961	(6.2%)	Treasury share buy-back fund (1,430M)
Non-current assets	2,209	2,223	2,294	+3.2%	
Total assets	19,840	21,149	19,717	(6.8%)	
Current liabilities	6,442	6,924	5,862	(15.3%)	Income taxes payable (537M) Decreased 122 M following the payment of accounts payable - trade for license purchases and others (122M)
(Advanced received)	5,326	5,187	4,784	(7.8%)	
Non-current liabilities	50	50	51	+1.6%	
Equity capital	13,314	14,141	13,768	(2.6%)	Treasury share buy-back (1,422M), Dividends paid (1,116M), Profit +2,162M
Net assets	13,347	14,173	13,803	(2.6%)	
Equity ratio	67.1%	66.9%	69.8%	-	
ROE	17.6%	23.3%	15.5%	-	
ROA	11.4%	15.1%	10.6%	-	

**Material on Consolidated Financial Results
for the First Three Quarters of the Fiscal Year Ending March 31, 2024**

02

Non-consolidated Results Highlights

Summary of Non-consolidated Results



Net sales grew, but cost of sales and SG&A expenses rose due to development costs related to the release of new products and an increase in base pay.

(Million yen)

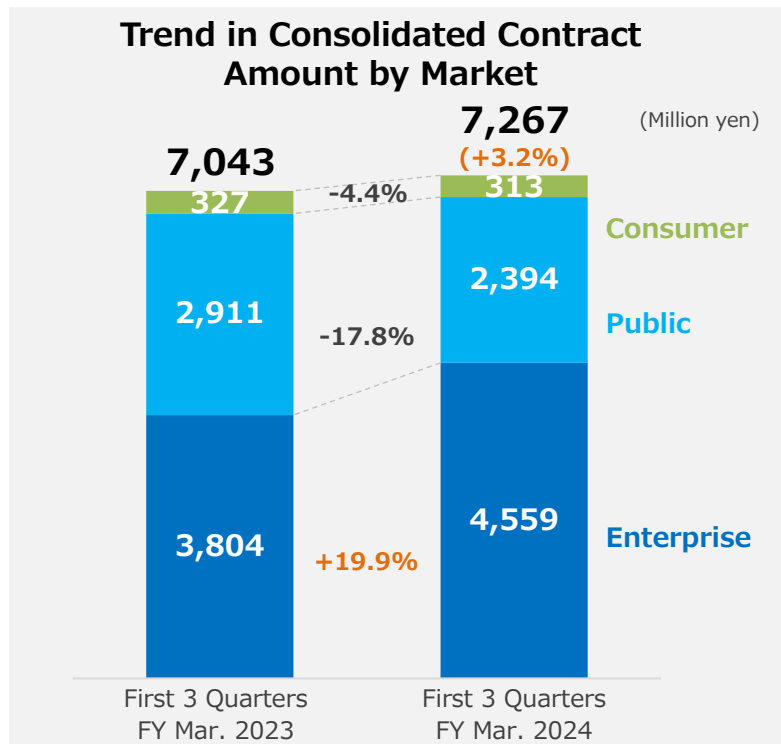
	First 3 Quarters FY March 2023	First 3 Quarters FY March 2024	Change YoY	FY March 2024 Full-Year Forecast
Contracts	5,978	5,714	(4.4%)	-
Net sales	6,593	6,769	+2.7%	10,000
Cost of sales	1,769	1,952	+10.4%	2,650
Gross profit	4,824	4,816	(0.2%)	7,350
Selling, general and administrative expenses	1,629	1,734	+6.4%	2,350
Operating profit	3,194	3,081	(3.5%)	5,000
Operating margin	48.5%	45.5%	-	50.0%
Ordinary profit	3,202	3,094	(3.4%)	5,000
Profit	2,213	2,142	(3.2%)	3,450

* Financial Forecast is the non-consolidated financial forecast announced on May 9, 2023.

**Material on Consolidated Financial Results
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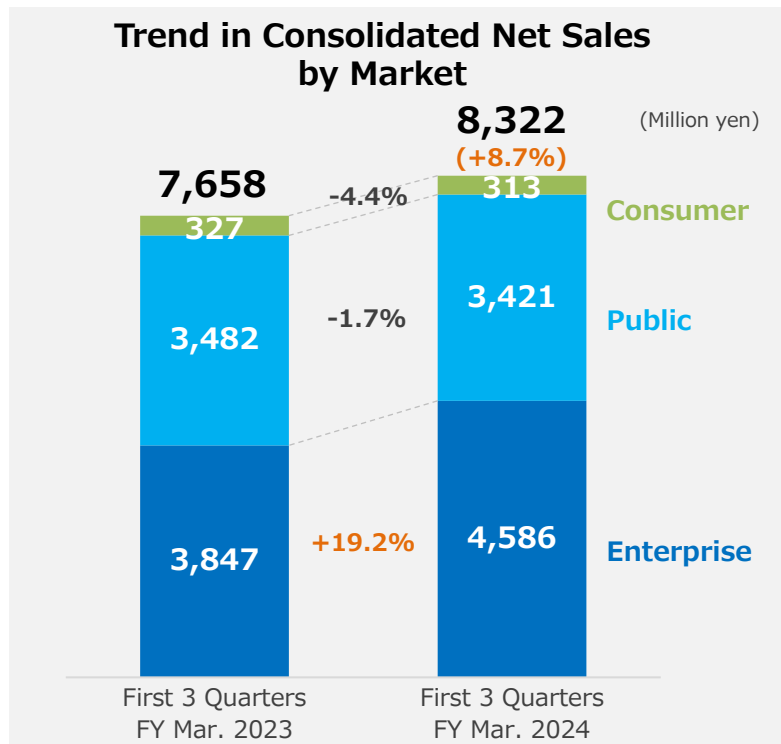
03 Net Sales by Market

The contract amount expanded in the enterprise sector market while it contracted in the public sector market.



- In the enterprise sector market, the contract amount was up 755 million yen or 19.9% due to the acquisition of projects that aimed to meet the need to transition from the castle and moat security model and projects from new clients switching from competitors' products, as well as new customers gained at DAC.
- In the public sector market, the contract amount declined by 517 million yen or 17.8%, reflecting the absence of contracts for large public agency projects and prefectural government security cloud projects recorded in the previous fiscal year and a slowdown in growth in the contract amount of Security Improvements for Local Governments projects and GIGA School Concept projects.

The contract amount expanded in the enterprise sector market while it slightly contracted in the public sector market.

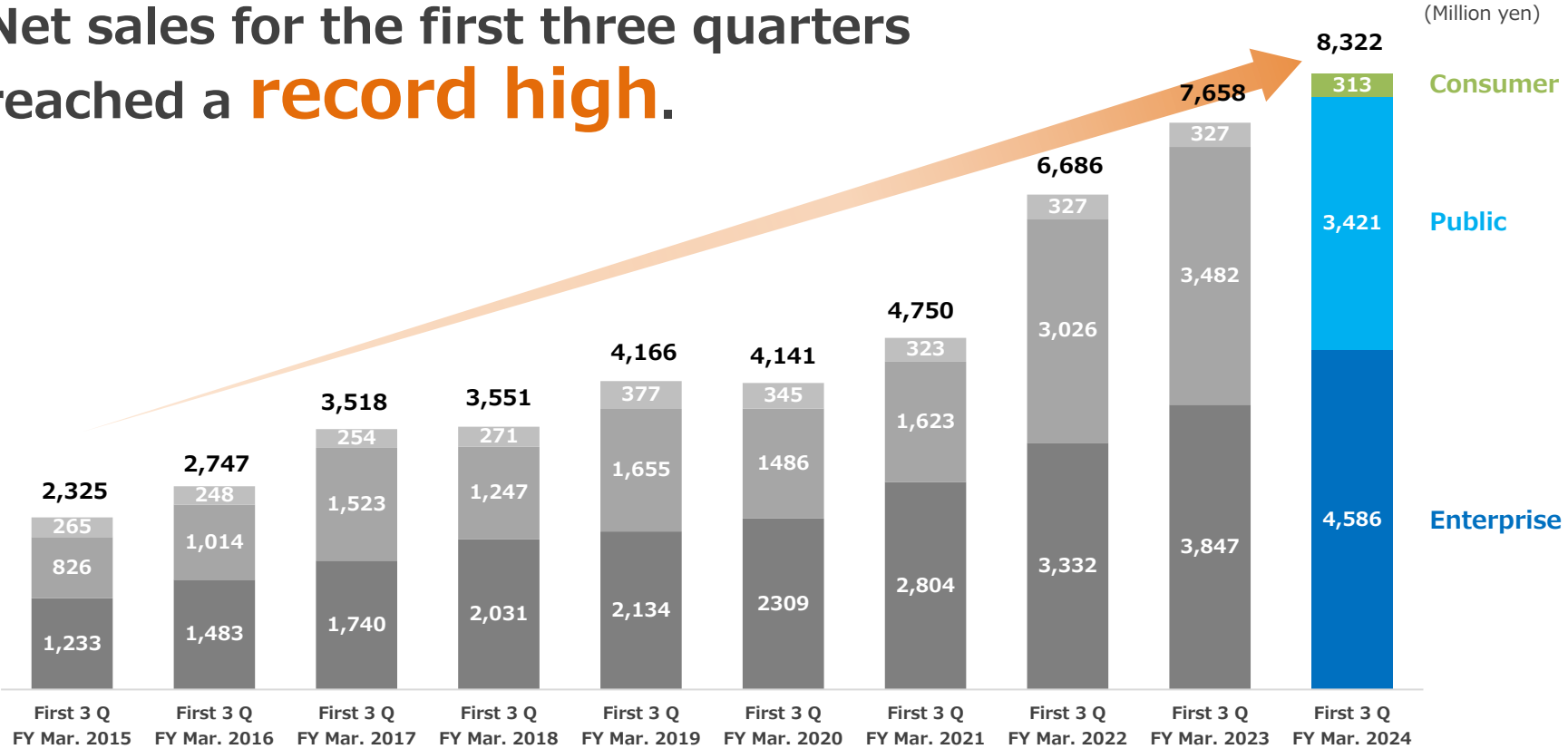


- In the enterprise sector market, net sales increased 19.2%, or 739 million yen, due to orders for cloud service products, projects that aimed to meet the need to transition from the castle and moat security model, and projects from new clients that switched from competitors' products, as well as new customers gained at DAC.
- In the public sector market, net sales declined 1.7%, or 60 million yen. This is chiefly due to the absence of sales of large public agency projects and prefectural government security cloud projects for which orders were received in the previous fiscal year, which was only partially offset by the acquisition of Security Improvements for Local Governments projects and GIGA School Concept projects.

Trend in Consolidated Net Sales by Market

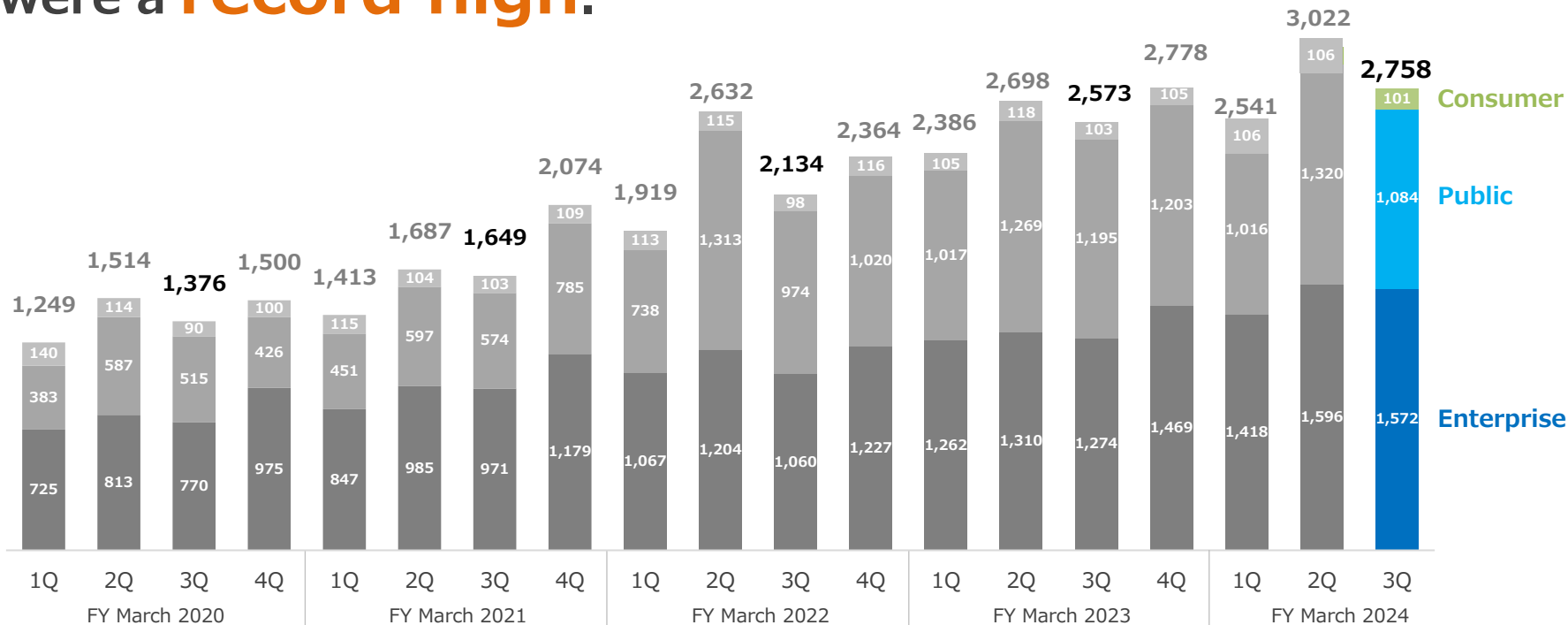


Net sales for the first three quarters reached a **record high**.



Net sales for the third quarter were a **record high**.

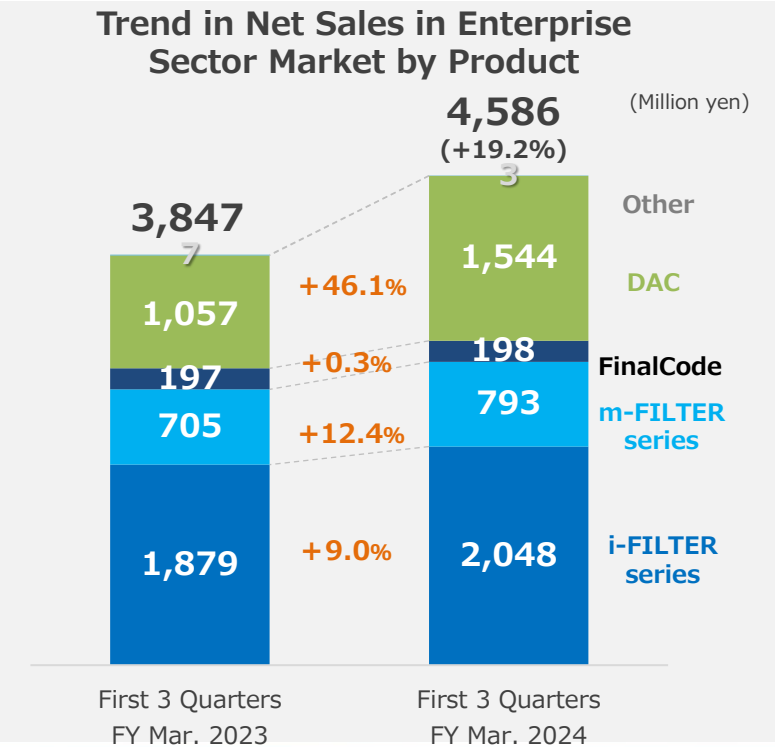
(Million yen)



03 Net Sales by Market

Enterprise Sector

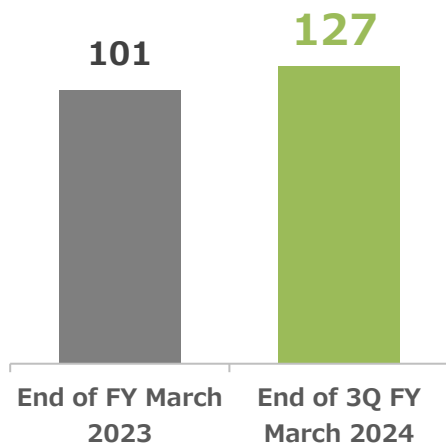
Net sales increased more sharply as the Group captured demand for comprehensive security solutions due to the shift from the castle and moat security model, which has started in earnest, and the expansion of the scope of targets of protection due to an increasing incidence of diverse cyber attacks.



- Sales of i-FILTER series were firm as the Group captured demand for a transition from the castle and moat security model and demand for a shift from the products being used to increase safety. (+169 million yen/+9.0%)
- The m-FILTER series captured demand for countermeasures to address ransomware and the insecure practice of sending a password-protected zip file and a password for unzipping it separately by email (commonly known as PPAP in Japan), as well as demand for e-mail security solutions in the cloud environment. Sales were strong. (+87 million yen/+12.4%)
- The release of new products has enabled the Group to capture wider ranging demand. Additionally, pipelines expanded.
- DAC made good progress acquiring new clients and achieved substantial sales growth, reflecting advancing DX and growing demand for security measures among enterprises. (+487 million yen/+46.1%)

Number of consultants

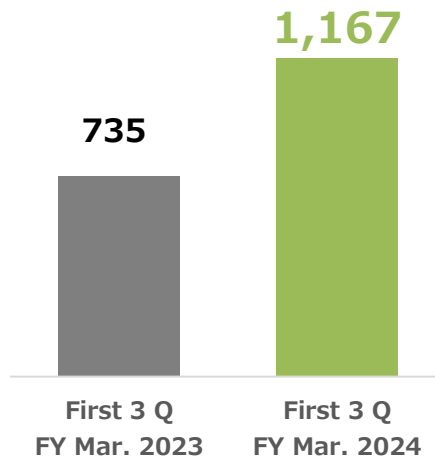
(Persons)



DAC actively recruited individuals with rich knowledge and experience in operational reforms and DX and with a high level of expertise in the area of technology and cybersecurity.

Security consulting sales*

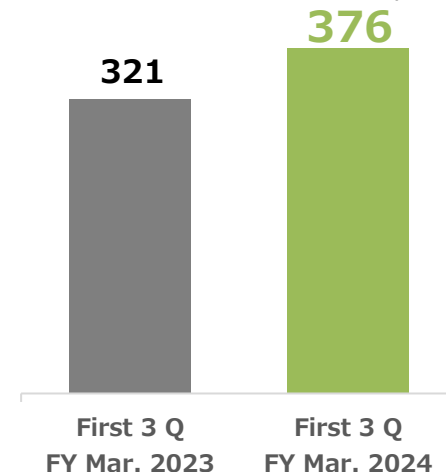
(Million yen)



Sales increased significantly after receiving projects for the comprehensive support of all processes including the examination, construction and operation for assisting the enhancement of security through the application of advanced technologies, as well as assisting the development of security governance systems such as the Information system Security Management and Assessment Program (ISMAP).

IT strategy consulting sales*

(Million yen)



Sales grew steadily as a result of acquisition of consulting projects regarding the formulation of IT strategies, operational reforms, enhanced customer experience (CX) and other matters for establishing superiority through the positive utilization of digital technologies.

*DAC's net sales (after consolidated journal adjustments)

03 Net Sales by Market

Public Sector

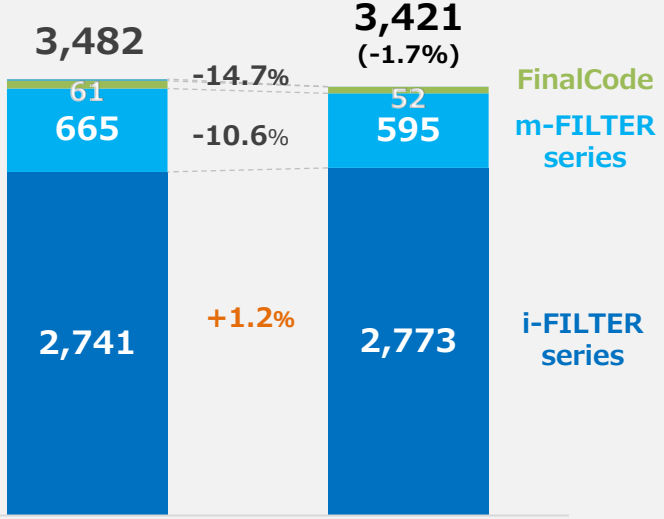
Net Sales of Public Sector Market by Product



The Group continued to receive new Security Improvements for Local Governments and GIGA School Concept projects. However, sales were slowing gradually. Meanwhile, the Group started to anticipate its reception of NEXT GIGA School Concept projects starting in the next fiscal year.

Trend in Net Sales of Public Sector Market by Product

(Million yen)

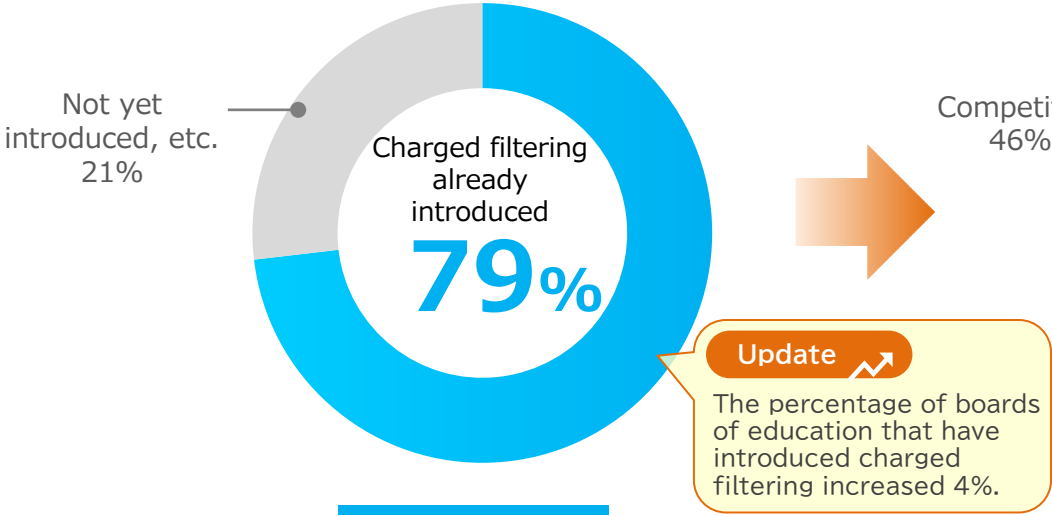


First 3 Quarters FY Mar. 2023 First 3 Quarters FY Mar. 2024

- Sales of the i-FILTER series grew due to sales for Security Improvements for Local Governments projects and GIGA School Concept projects, which had been recorded since before the current fiscal year, although the sales were affected by sales from large public agency projects for which orders were received in the previous fiscal year. (+32 million yen/+1.2%)
- Sales of the m-FILTER series experienced negative growth due to less active procurement for Security Improvements for Local Governments than in the previous fiscal year. (-70 million yen/-10.6%)
- The Group has set up a project team for NEXT GIGA School Concept projects, where GIGA terminals will be updated beginning from the next fiscal year onward, and has started to anticipate the reception of the projects.

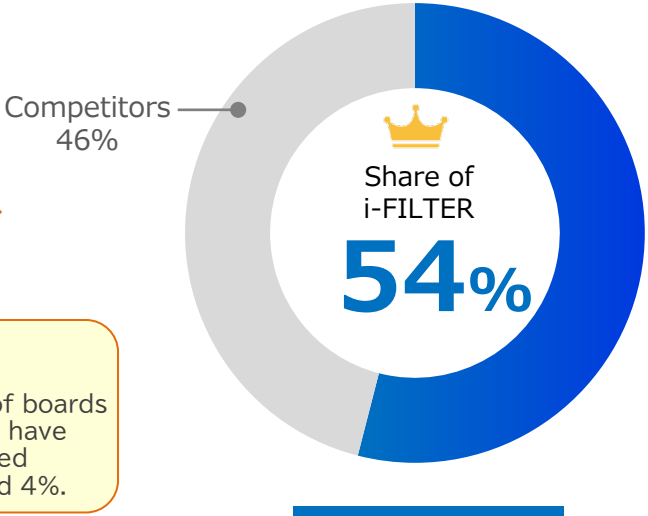
Introduction of filtering under the GIGA School Concept*1

Introduction of pay filtering by Boards of Education



The percentage of boards of education that have adopted pay filtering reached **79%**.

Share of charged filtering introduced



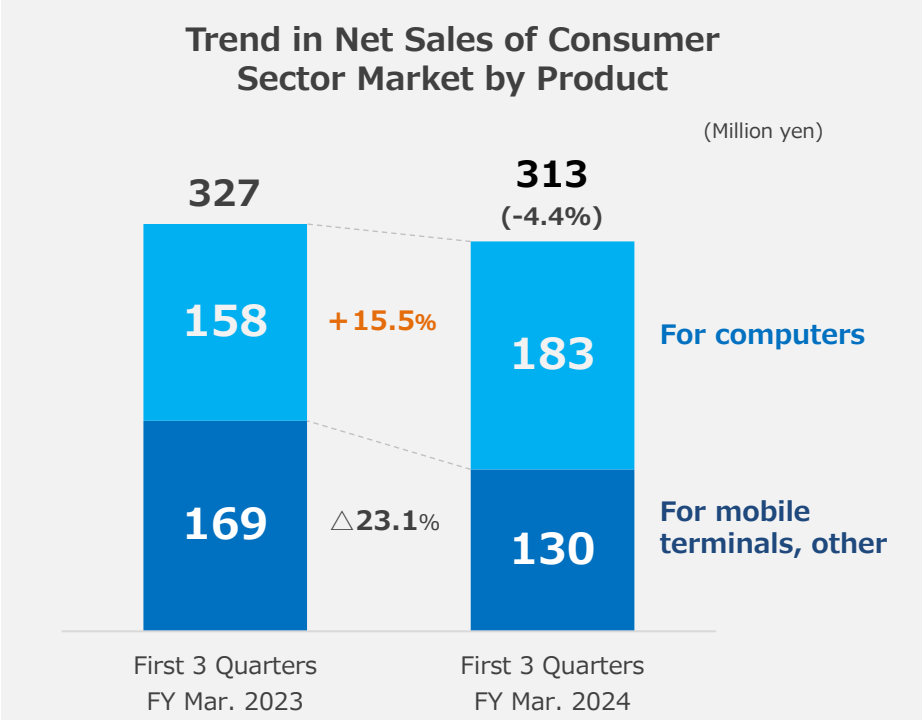
Of the boards of education that have introduced charged filtering, **54%** have implemented i-FILTER.

*1 : According to our survey of 1,741boards of education (Dec. 2023)

03 Net Sales by Market

Consumer Sector

In the consumer sector market, the demand for paid filtering for mobile phones and other terminals is declining.

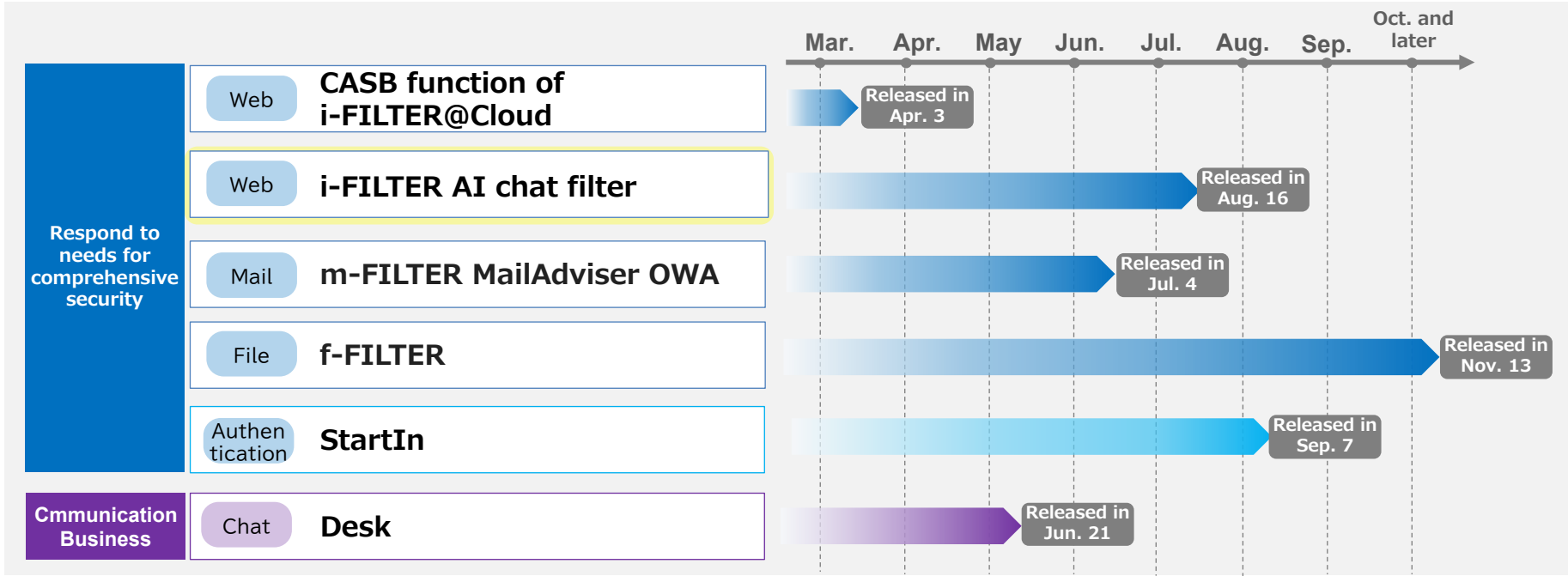


- In products for computers, new contracts remained firm, and net sales increased with promotions of multiple-year package products and initiatives for products for Internet cafes. (+25 million yen/+15.5%)
- With regard to products for mobile phones and other terminals, revenue from contract development of products for mobile terminals for carriers increased, while new contracts declined, leading to a decrease in net sales. (-39 million yen/-23.1%)

**Material on Consolidated Financial Results
for the First Three Quarters of the Fiscal Year Ending March 31, 2024**

04 Status of Measures for the Fiscal Year Ending March 2024

- ◆ The functional upgrade to fulfill comprehensive security needs and new product releases, both of which were due to be done in the current fiscal year, were done.



- ◆ Sales of Anti-Virus & Sandbox, launched in the previous fiscal year, were strong. The release of new products planned for the current fiscal year was completed. The Group aims to increase sales in the new product lineup.
- ◆ The contract amount for Security improvements for Local Governments and GIGA School Concept projects continues to increase cumulatively.

Measures

Actions

Respond to needs for comprehensive security

- ◆ Upgrade next-generation SWG functions by adding the CASB function to i-FILTER@Cloud
- ◆ Upgrade measures for detecting and responding to malware infections
- ◆ Improve measures against PPAP and wrong email transmission solution
- ◆ Develop non-VPN remote access products
- ◆ Encourage the smart utilization of generative AI
- ◆ Release IDaaS products with original authentication methods such as authentication using positional data and third-party authentication



Improve next-generation SWG functions and anti-malware measures

Total sales of Anti-Virus & Sandbox increased to 778 million yen from the previous fiscal year's 358 million yen.

Response to the PPAP, wrong email transmissions, generative AI, ID management and other issues

The release of new products fulfilling security needs planned for this fiscal year was completed.

i-FILTER@Cloud

CASB function

AI chat filter

m-FILTER

Mail Adviser OWA

F-FILTER

StartIn.

For public organizations and schools

- ◆ Expand sales in Security Improvements for Local Governments
- ◆ Increase GIGA School Concept project market share and prepare for the next update.



Security Improvements for Local Governments

Total contracts increased from 1,739 million yen in the previous fiscal year to 2,340 million yen.

GIGA School Concept

Total contracts increased from 8,724 million yen in the previous fiscal year to 9,534 million yen.

**Material on Consolidated Financial Results
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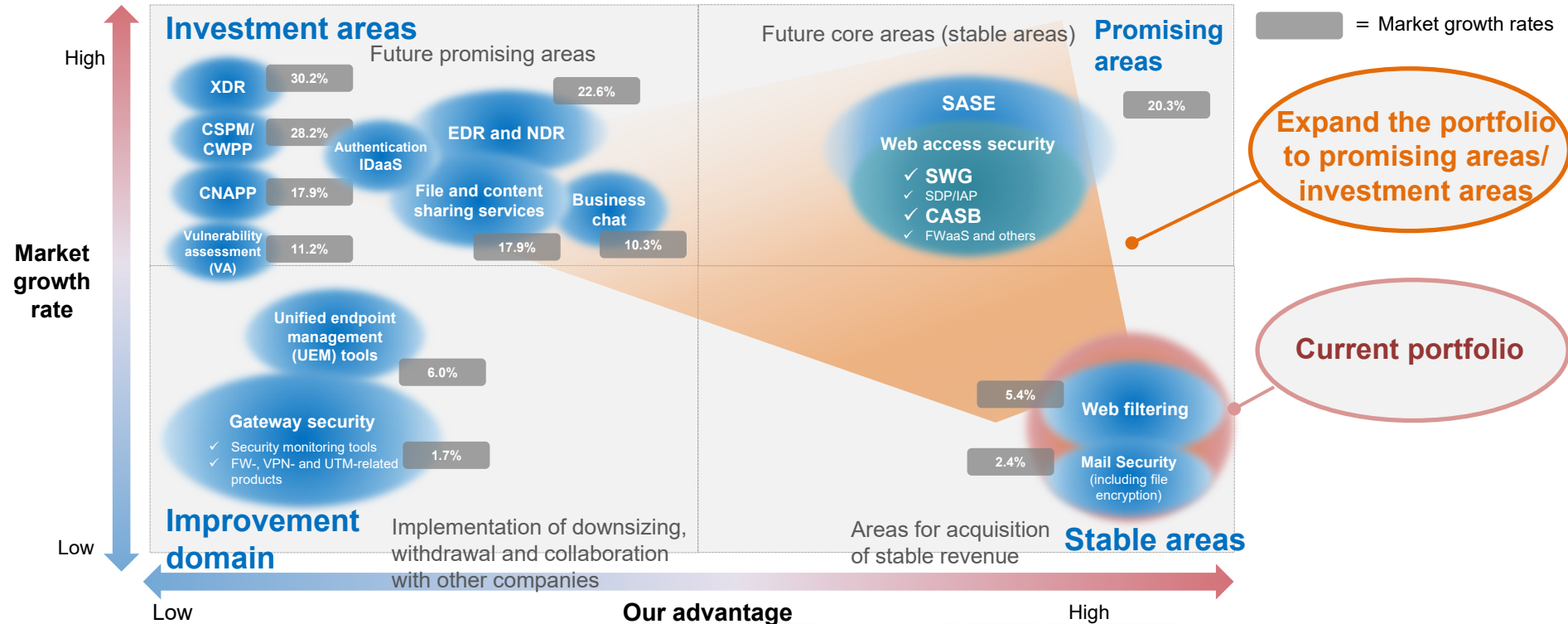
05 **FY03/24 Initiatives**

05 FY03/24 Initiatives

Responding to the ICT Environment

Strategy in Security Products Market

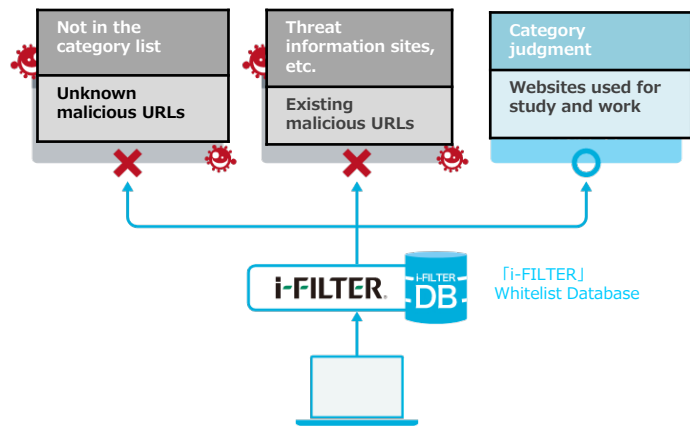
Expand the product portfolio to promote synergy in terms of the existing main products' functions and customer base.



Maximize synergy between the existing main products and new products, centering around **White Operation**, which is our strength.

What is White Operation?

The products adopt White Operation based on whitelist database, instead of blacklisting, which is a common concept of security measure. It protects an ICT environment from unknown and/or existing threats irrespective of user's literacy.



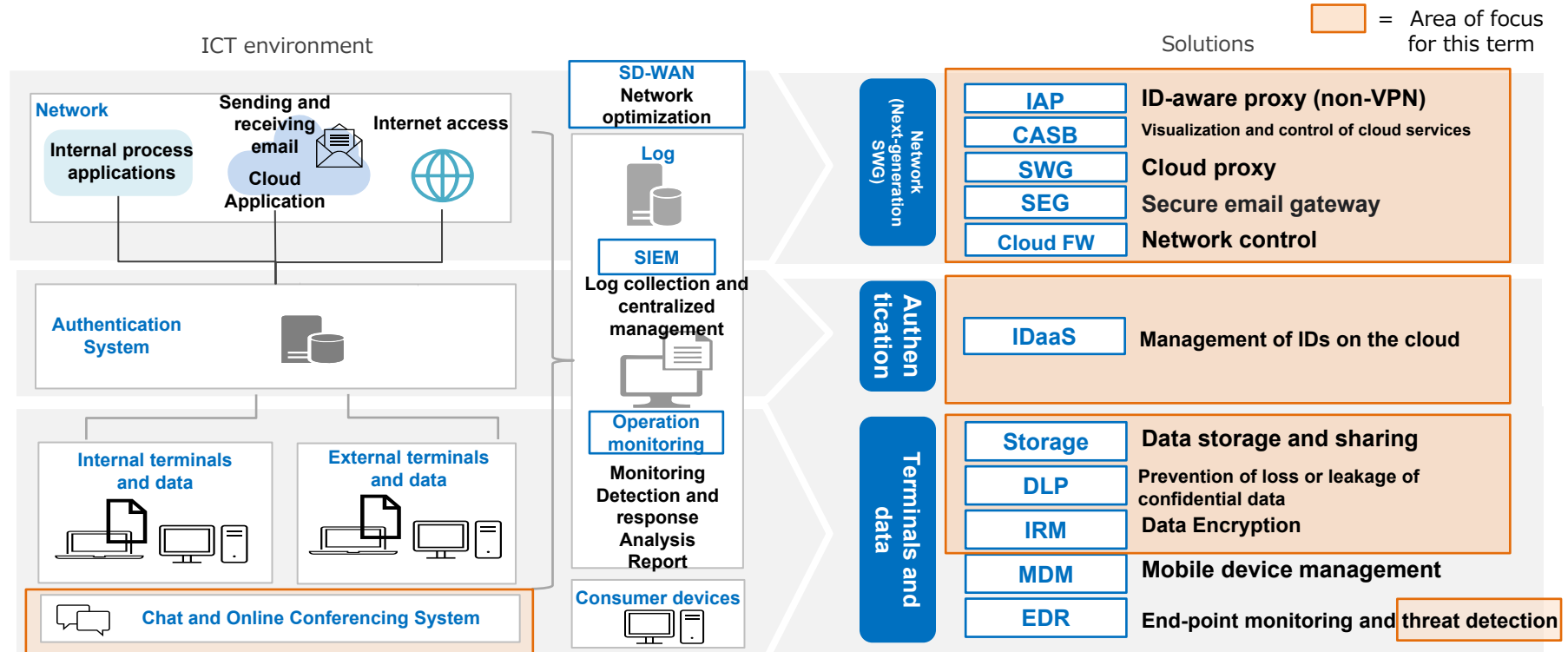
Features of White Operation:

- ✓ Digital Arts' unique operating method
- ✓ Constructing high coverage rate/high accuracy DB of whitelist
- ✓ Having countermeasures against falsification

Responding to the ICT Environment

Areas of Focus for This Term

Release new products/new functions for Network, Authentication, Terminal/Data and Chat and Online Conferencing System aiming at providing the total support for the ICT environment.



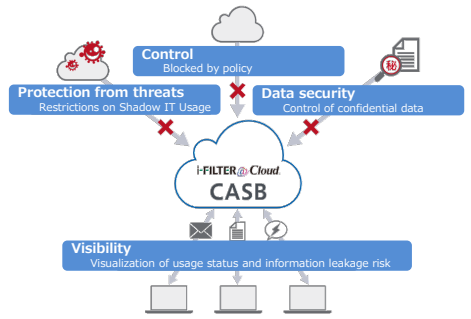
Network Security

Add the CASB function, to be one of the main functions in the next-generation SWG plan, and a new function for visualizing/controlling the status of use of generative AI increasingly in demand, to i-FILTER as standard features.

New features

i-FILTER@Cloud™

CASB function



- Visualize and control the status of use of cloud services
- Enabling flexible and robust countermeasures against information leakage

AI chat filter

No.	システム / AIチャットフィルター / AIチャットログ	グループ	日時	サービス	検出	検出単語
1	1302 168 0.2	営業部	2023/07/13 13:40:44	OpenAI (ChatGPT)		
2	1302 168 0.2	営業部	2023/07/13 15:40:13	OpenAI (ChatGPT)	ブロック	検出単語
3	1302 168 0.2	営業部	2023/07/13 15:47:27	OpenAI (ChatGPT)	ブロック	検出単語
4	1302 168 0.2	営業部	2023/07/13 15:44:41	Ring AI	ブロック	検出単語

Support for confirmation of users who made a post, their group and time of posting/support for highlighting of detected words/reasons for detection

Support for confirmation of target generative AI

Support for confirmation of detected words and word category

Supporting flexible management/control of access to generative AI by service and by account

POINT

- ✓ The AI chat filter is a new function designed for companies and organizations willing to proactively use generative AI, which is a trendy tool.
- ✓ Aim at creating further projects and increasing user satisfaction, mainly targeting small and medium enterprises who cannot afford the high-priced products of foreign affiliates due to their limited budgets since both the functions are provided as standard features.

Network Security

- A product to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA) environment
- Equipped with the original function to solve PPAP issues, meeting a wide range of needs for security measures in email delivery

Strengthening the brand of products aimed to prevent email misdelivery

m-FILTER[®]

MailAdviser OWA

Recipients tab shows a list of all email addresses in To, Cc and Bcc fields

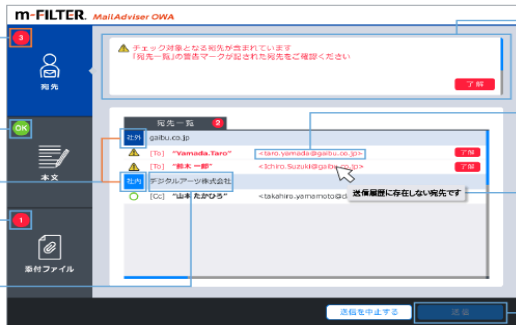
Indicating the number of problems in the Recipients, Text and Attached File tabs.

The categories displayed at the beginning of each domain are "external," "mobile," and "internal".

* In addition to the above categories, External, "Outside the unit" and "Within the unit" can be added.

The receiver can instantly be identified.

Automatically obtain information on each user's organization and convert the domain into the organization information so that erroneous addresses can be spotted right away.



Displaying the risks of erroneous sending at once

Click on the destination address itself to confirm

Pointing out what needs to be confirmed when a cursor is pointed at the address

The mail cannot be sent if any item is left unconfirmed

The mail cannot be sent unless all the tabs, "Recipients," "Text" and "Attached Files," are confirmed.

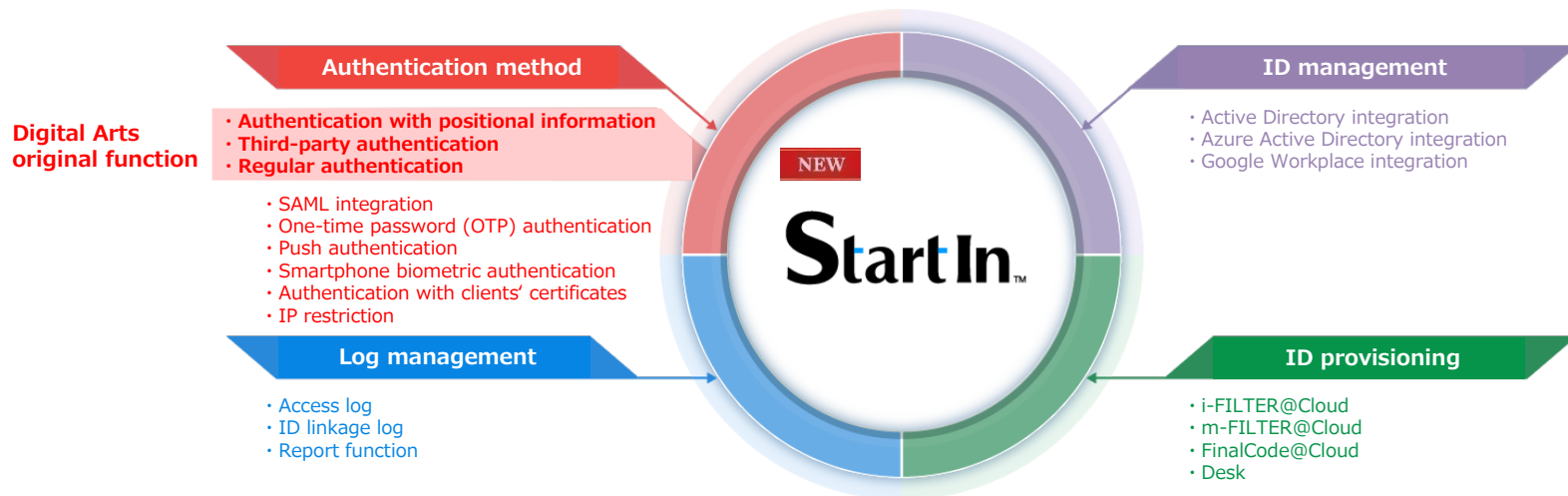
POINT

- ✓ More users choose the Microsoft 365's OWA environment as an environment to send and receive emails since it works in any terminal
- ✓ Providing the original function to solve PPAP issues in addition to the function to prevent email misdelivery and allowing easy introduction
- ✓ Unify the name of m-FILTER MailAdviser OWA with the brand m-FILTER MailAdviser (for email software) to accelerate project creation.

- Measures to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA)
- Robust measures to prevent email misdelivery and solve PPAP issues

Authentication security

Release StartIn, a new product featuring the original multifactor authentication method, in addition to ID management, log management and ID provisioning, and providing secure authentication when using SaaS



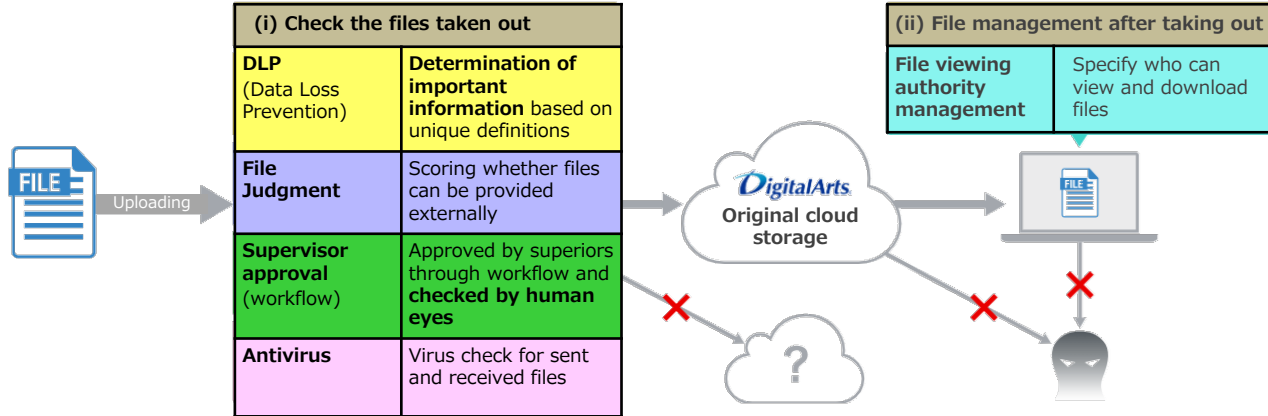
POINT

- ✓ The Group is continuously enhancing the product based on feedback from users and the market.
- ✓ The Group aims to increase projects by **cross-selling** to over 12 million existing users of the Company and **proposing product integration** to potential new users.

Data security

- Release f-FILTER, an original solution to file transfer featuring the DLP function
- Meeting the needs for measures to prevent information leakage of terminals/data in the ICT environment

NEW f-FILTER™

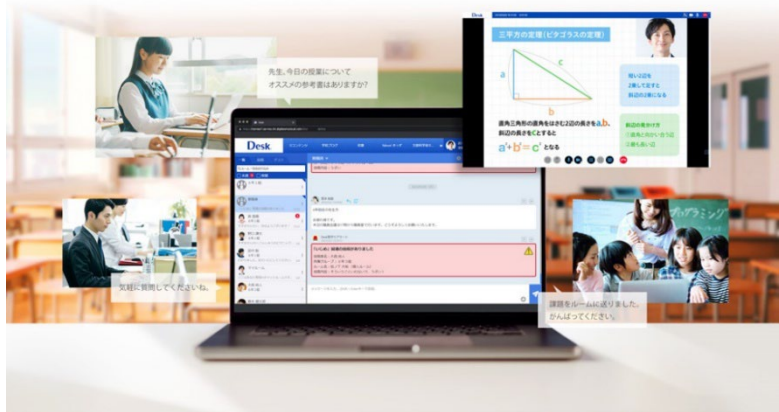


POINT

- ✓ The Group is **actively creating projects** as solutions to PPAP by linking with m-FILTER.
- ✓ **The link to the CASB function** of i-FILTER has been strengthened, which will lead to the creation of network DLP projects.

Chat and Online Conferencing System

- Desk was released on June 21 (our anniversary of foundation), launching the communication business.
- Addressing security risks emerging in communication.



Chat and online conferencing

Desk®

Chats (for schools)

Desk® GIGAスクール版

Enhancement of features

Video conferencing tool

Desk Event™

POINT

- ✓ Listen to voices at education sites and add **the usage time restriction and Google Workspace collaboration** functions to GIGA School Edition
- ✓ The Group will continue to **enhance the product** and implement marketing initiatives targeted at users in education.

05 FY03/24 Initiatives

Education Business (GIGA School/School Affairs DX)

In the education business, **contracts can be expected to increase** due to the special demands for GIGA School Concept and Next-generation school affairs DX for the five years following the FY March 2025.



**Compatible
with
guidelines**

**Renewal of the
existing
GIGA business**



**Increase of our
market share due to
enhanced products**



Next-generation school affairs DX Security measures

- Maintenance of information security in the network with the assumption of access control
- Expanded scope of security support provided by the new product

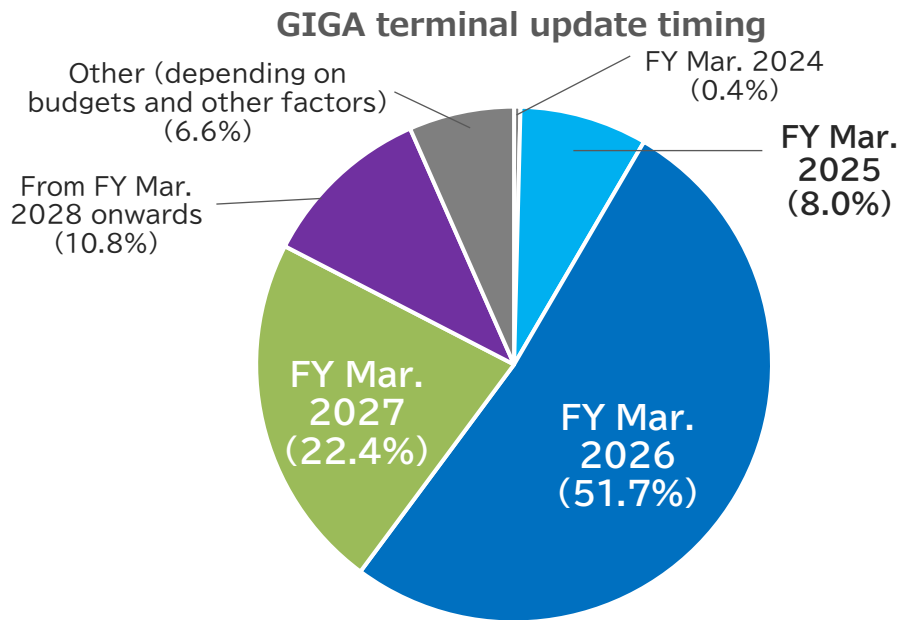
Budget size
Approx. **¥444.8** billion
or more ※

**Increase in the introduction
rate of pay filtering due to
NEXT GIGA**



*Created by the Company based on each press article

GIGA terminals are being gradually updated due to the NEXT GIGA School Concept since FY Mar. 2025 and will go into full swing in FY Mar. 2026.



POINT

- ✓ As for the date of updating GIGA terminals, **approx. 60% of the education boards will be due for updating by the end of Mar. 2026.**
- ✓ In November 2023, the cabinet approved a draft budget for NEXT GIGA. The budget includes a **GIGA terminal replacement cost of 264.3 billion yen** (for public schools). The preparations for terminal replacement are progressing steadily.

The data were prepared by the Company based on survey data of the Ministry of Education, Culture, Sports, Science and Technology and media reports.

The Ministry of Education, Culture, Sports, Science and Technology calls for the following implementation as the direction of the next-generation school affairs DX:

* As a regional fiscal measure, financial support of 180.5 billion yen on a single-year basis has always been provided for computerization of school affairs.

Work style reform

(i) Make it possible to reduce the burden on teaching staff and school officials working inside and outside the school, as well as on members of the education boards, and support the acceleration and activation of communication through active use of the general-purpose cloud tools.

This can be tackled by utilizing GIGA terminals and the existing network environment.

(ii) Develop an environment offering connection to the school affairs/learning systems from anywhere and allow flexible and safe work styles tailored to the individual needs of teaching staff

Integration of school affairs/learning networks

Data linking

(iii) Allow low-cost and real-time integration of data owned by school affairs system and the learning system.

Cloud migration of school affairs support system

(iv) Support the sophistication of school management, educational guidelines and education policies by visualizing various kinds of data in an integrated way by using the dashboard function.

Creation of data linkage platform (dashboard)

Resilience

(v) Allow securing operation continuity even in the event of a large-scale disaster.

Cloud migration of school affairs support system

Maintenance of security is essential for implementation in a safe and reassuring way.

Security measures in school affairs DX will **start from FY Mar. 2025**, aiming to bring the system into operation in FY Mar. 2026.

◆ Schedule for introduction/renewal of integrated school affairs support systems

Fiscal year	FY Mar. 2026	FY Mar. 2027	FY Mar. 2028	FY Mar. 2029	FY Mar. 2030	No plans to introduce, etc.
Number of municipalities	317 (17.5%)	319 (17.6%)	216 (11.9%)	380 (20.9%)	353 (19.4%)	230 (12.7%)

◆ Example of schedule for environmental development aimed at the next-generation school affairs DX

System procurement will begin in FY Mar. 2025

	FY Mar. 2023	FY Mar. 2024	FY Mar. 2025	FY Mar. 2026	FY Mar. 2027	FY Mar. 2028
		Development of model case Drafting of the next-generation school affairs DX guideline (provisional name), etc.				
Local governments scheduled to introduce/renew the system in FY Mar. 2026	Consideration at the expert meeting	Consensus formation Specification formulation Budget request Steady implementation	Procurement contract System design/construction Trial operation of transitional initiatives	Next-generation system operation		
Local governments scheduled to introduce/renew the system in FY Mar. 2027			Consensus formation Specification formulation Budget request Steady implementation of transitional initiatives	Procurement contract System design/construction Trial operation	Next-generation system operation	

Source: Ministry of Education, Culture, Sports, Science and Technology "Results of a survey on computerization of school affairs (as of September 2022)" https://www.mext.go.jp/content/20230308-mxt_jogai01-000027984_001.pdf

**Material on Consolidated Financial Results
for the First Three Quarters of the Fiscal Year Ending March 31, 2024**

**06 Full-Year financial Forecast for
the Fiscal Year Ending March 2024**

Expand existing businesses and develop new businesses with the aim of increasing net sales and profit

(Million yen)

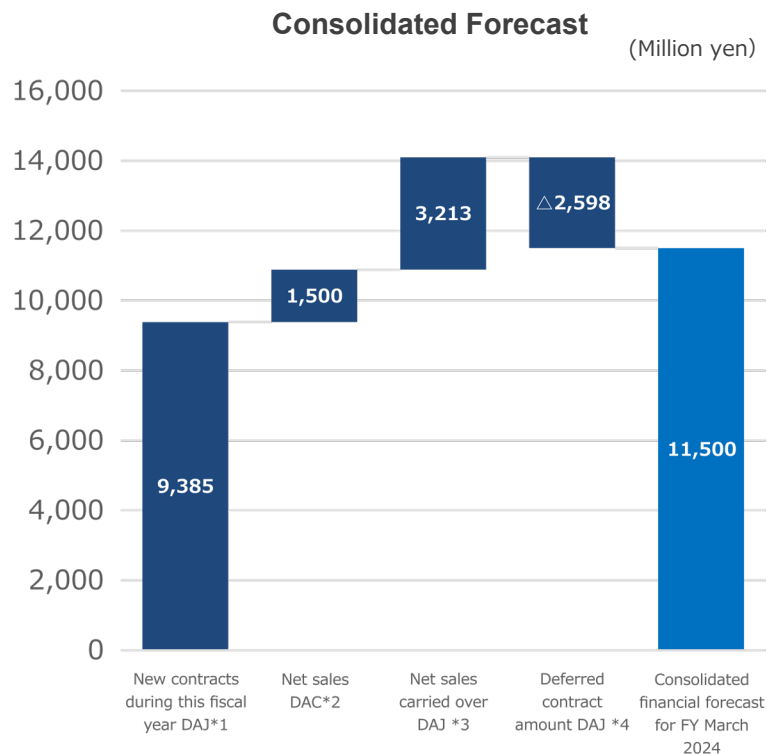
	FY March 2023 Full-Year Results	FY March 2024 Full-Year Forecasts	Change	% Change
Net sales	10,436	11,500	+1,063	+10.2 %
Cost of sales	3,666	3,850	+183	+5.0 %
Gross profit	6,769	7,650	+880	+13.0 %
Gross profit margin	64.9%	66.5%	-	-
Selling, general and administrative expenses	2,356	2,500	+143	+6.1 %
Operating profit	4,413	5,150	+736	+16.7 %
Operating margin	42.3%	44.8%	-	-
Ordinary profit	4,429	5,150	+720	+16.3 %
Profit attributable to owners of parent	3,062	3,550	+487	+15.9 %

Expand existing businesses and develop new businesses with the aim of increasing net sales and profit

(Million yen)

	FY March 2023 Full-Year Results	FY March 2024 Full-Year Forecasts	Change	% Change
Net sales	8,984	10,000	+1,015	+11.3 %
Cost of sales	2,425	2,650	+224	+9.3 %
Gross profit	6,559	7,350	+790	+12.1 %
Gross profit margin	73.0%	73.5%	-	-
Selling, general and administrative expenses	2,163	2,350	+186	+8.6 %
Operating profit	4,395	5,000	+604	+13.7 %
Operating margin	48.9%	50.0%	-	-
Ordinary profit	4,407	5,000	+592	+13.4 %
Profit	3,048	3,450	+401	+13.2 %

Consolidated net sales are forecast as follows:



- Net sales that will be carried over to and posted for the fiscal year in question will increase given an increase in the number of contracts acquired in previous fiscal years in connection with **the GIGA School Concept** in the public sector market.
- New DAJ contracts are expected to amount to 9,385 million yen following **measures to expand sales of new functions and new products for the enterprise sector market and public sector market, together with strategic sales measures.**

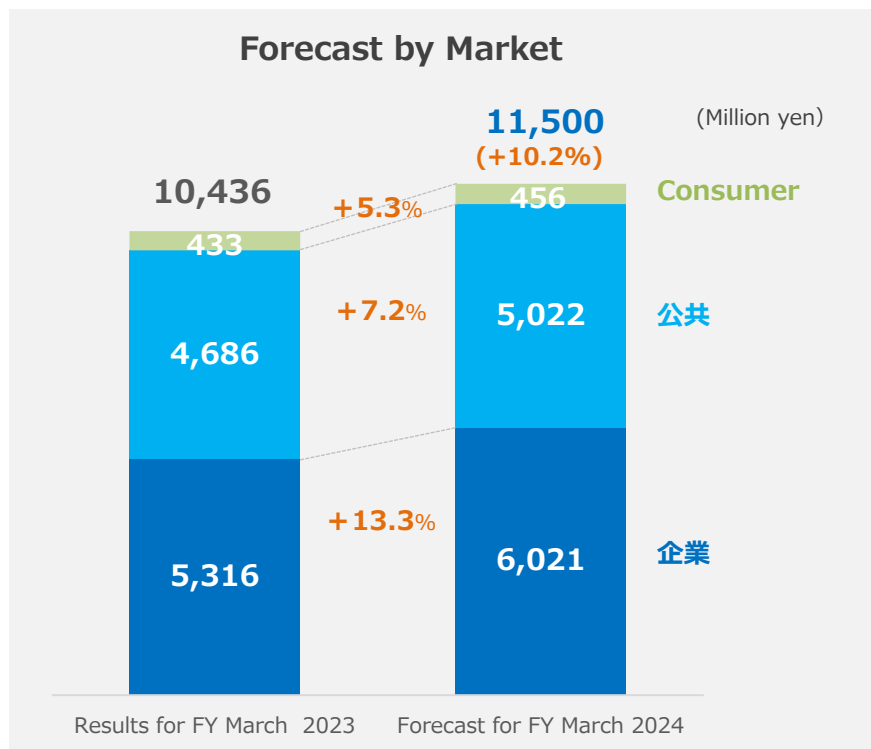
*1 : DAJ = Digital Arts Inc.

*2 : DAC= Digital Arts Consulting Inc.

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

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

Consolidated net sales by market are forecast as follows:



- In response to corporate needs for total security solutions, we will **enhance the product lineup** in order to **attract new clients**.
- Net sales that will be carried over to and posted for the fiscal year in question will increase given an increase in the number of contracts acquired in previous fiscal years in connection with **the GIGA School Concept** in the public sector market.
- **The market share in GIGA School Concept projects will increase, and Security Improvements for Local Governments projects will expand sales.**

Consolidated Cost of Sales and Selling, General and Administrative Expenses



Labor costs, communication expenses and personnel expenses are expected to increase after the release of the new products/new functions.

(Million yen)

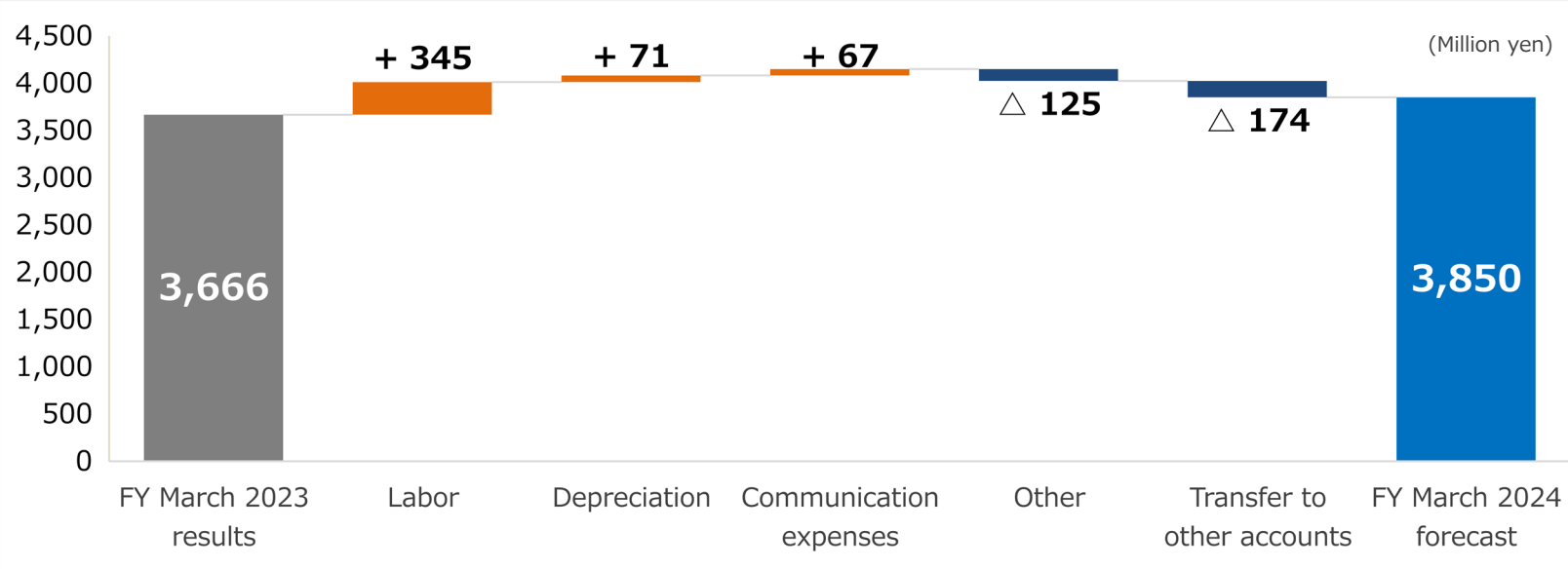
	Results for FY March 2023	Forecast for FY March 2024	Change YoY	Main Factors for Change
Cost of sales	3,666	3,850	+5.0%	
Labor	1,634	1,980	+21.1%	Increase in number of DAJ's development personnel.
Depreciation	838	910	+8.5%	Increase in depreciation of software for cloud products.
Communication expenses	1,162	1,230	+5.8%	An increase in cloud server expenses as a result of the expansion of sales of cloud service products and an increase in the number of licenses.
Other	895	770	△14.1%	A decrease in outsourcing expenses following a shift of engineering operations outsourced by DAC to internal operation.
Transfer to other accounts	△865	△1,040	+20.1%	
Selling, general and administrative expenses	2,356	2,500	+6.1%	
Personnel expenses	1,193	1,310	+9.7%	An increase in the number of personnel due to the recruitment of new graduates.
Advertising expenses	297	310	+4.1%	Advertising in newspapers and other media will increase.
Other	865	880	+1.7%	An increase in travel and transportation expenses as the COVID-19 pandemic fades.

Status of Consolidated Cost of Sales



The increase in DAJ's development personnel will lead to a rise in labor expenses. Cloud server expenses (communication expenses) will grow with the expansion of sales of cloud service products and an increase in the number of licenses.

Status of Consolidated Cost of sales



Status of Consolidated Cost of Sales



Personnel expenses will surge due to an increase in the number of staff after new graduates employees joined the Group.
Travel and transportation expenses as well as entertainment expenses (as part of Other) will increase as the COVID-19 pandemic fades.



**Material on Consolidated Financial Results
for the First Three Quarters of the Fiscal Year Ending March 31, 2024**

07 **Return to Shareholders for the
Fiscal Year Ending March 31, 2024**

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, 2024: 31.6%
- ◆ Annual dividends of surplus forecasted for fiscal year ending March 31, 2024: 80.00 yen per share.
- ◆ We expect to increase the annual dividend by 5.00 yen per share.

	Dividend (in yen) per share			Consolidated payout ratio
	2Q-end	Year-end	Annual	
FY March 2023	35.00	40.00	75.00	34.4%
FY March 2024	40.00			
FY March 2024 (forecast)		40.00	80.00	31.6%

Treasury shares will be purchased using a flexible approach, with a focus on returns to shareholders while taking into consideration trends in business performance and stock market movements.

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, i-FILTER Anti-Virus & Sandbox, i-FILTER@Cloud Anti-Virus & Sandbox, i-FILTER@Cloud Dアラート発信レポートサービス, info board, Active Rating System, D-SPA, Anti-Virus & Sandbox for D-SPA, NET FILTER, SP-Cache, White Web, ZBRAIN, クレデンシャルプロテクション, ホワイト運用, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER Anti-Virus & Sandbox, m-FILTER@Cloud Anti-Virus & Sandbox, m-FILTER@Cloud Dアラート発信レポートサービス, m-FILTER File Scan, Mail Detox, m-FILTER EdgeMTA, EdgeMTA, FinalCode, i-フィルター, DigitalArts@Cloud, Desk, Desk Event, StartIn, f-FILTER, Dアラート, Dコンテンツ, f-FILTER and other logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.

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