

Friday, June 6, 2025

**Financial Results of the Fiscal Year Ended March 31, 2025:
Briefing for Institutional Investors and Analysts [Transcript]**

Digital Arts Inc.



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From April 1, 2024 to March 31, 2025

Briefing for the Financial Results of the Fiscal Year Ended March 31, 2025

May 8, 2025
Digital Arts Inc.
Securities Code: 2326



[Event Overview]

Company name: Digital Arts Inc.

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Event Name: Financial Results Briefing of the Fiscal Year Ended March 31, 2025

Fiscal Period Under Review: Fiscal Year Ended March 31, 2025

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Time: 4:00pm-5:00pm (JST)

Format: Streamed Online

Speakers: Toshio Dogu, Representative Director, President and CEO

Fumihiko Tanizaki, General Manager, Investor Relations Office

[Moderator]

Hello, everyone. We will now begin the Digital Arts Inc. financial results briefing of the fiscal year ended March 31, 2025. Allow me to introduce the representatives in attendance today. We have Toshio Dogu, Representative Director, President and CEO. And Fumihiko Tanizaki, General Manager of the Investor Relations Office. Without further ado, CEO Dogu will start by providing a summary of Digital Arts' financial results.

[Dogu]

As we released our financial results yesterday, I would like to skip over the parts you are already aware of and speak for around 20 minutes on the key points. As I'm sure there will be many questions, I will keep my presentation brief.

Product Price			DigitalArts 30YEARS
i-FILTER@Cloud Reference Price (monthly): 500 yen	i-FILTER Reference Price (monthly): 250 yen (for purchases of 500 licenses)	FINALGRADE@Cloud Reference Price (monthly): 1,000 yen ^{*1} (for purchases of 10 licenses)	i-FILTER@Cloud GIGA School Reference Price (monthly): 150 yen
m-FILTER@Cloud Reference Price (monthly): 500 yen	m-FILTER Reference Price (monthly): 250 yen (for purchases of 500 licenses)	FINALGRADE Reference Price (monthly): 1,000 yen ^{*1} (for purchases of 10 licenses)	Desk GIGA School Reference Price (monthly): 250 yen (for a minimum of 10 licenses)
Measures to provide pop-ups for email misdelivery Outlook/Becky/Thunderbird version m-FILTER MailAdviser Reference Price (monthly): 300 yen	Measures to provide pop-ups for email misdelivery For Microsoft365 software m-FILTER MailAdviser Reference Price (monthly): 300 yen	f-FILTER Reference Price (monthly): 300 yen (for a minimum of 10 licenses)	Desk Reference Price (monthly): 300 yen (for a minimum of 10 licenses)
Option Available options when purchased together with i-FILTER or m-FILTER		StartIn Reference Price (monthly): 300 yen (monthly): 150 yen ^{*2} (for a minimum of 10 licenses)	^{*1} : Fees are charged only for users in organizations who perform encryption and editing. ^{*2} : Applies when purchasing Start In together with Digital Arts products
Anti-Virus & Sandbox Reference Price (monthly): 200 yen	f-FILTER Reference Price (monthly): 100 yen		

Page 4 shows our product lineup and unit pricing for licensing. As Digital Arts is strongly associated with being the provider of i-FILTER, we prepared this slide to give you an idea of the other products in our portfolio.

Key Points



Contracts achieved double-digit growth and **exceeded the initial plan** following sales growth in the enterprise sector market and healthy orders received for projects for the second phase of GIGA School Concept. **Net sales grew**, driven by growth in the enterprise sector market. **Operating profit increased**, with a rise in cost of sales offset by the net sales growth and control of selling, general and administrative expenses.

Enterprise Sector market

Net sales increased, as a result of the successful strategy for products compatible with both cloud and on-premise environments and sales strategies (cross-selling and up-selling) that combined optional products and new products with mainstay ones. (Excluding DAC*)

Public Sector market

In addition to achieving the considerable growth of market share in terms of the orders for the second phase of GIGA School Concept, the Group received projects for security improvements for Local Governments, for which there is continuous demand, as well as Next-Generation School Affairs DX projects. This led to a **substantial increase in contracts and an increase in net sales**.

Revenue

Operating profit increased, with the increase in net sales and reduction of selling, general and administrative expenses absorbing a hike in cost of sales in line with the increase in communication expenses for data centers resulting from growth in the number of users of cloud service products.

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

First, I would like to go over the key points of our financial results for the fiscal year ended March 31, 2025. As you can see, contracts exceeded our internal projections. You can also see our results in the Enterprise Sector market and Public Sector market. I will go over these in more detail later on.

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Contracts

Means the total amount of orders received by the Company from its customers during the current accounting period (i.e., orders received) Therefore, we hope that the status of contracts will be taken as an indication of the business environment.

Net sales

Means the total of the amount of contracts acquired before the previous period that will be recognized as net sales in the current accounting period (net sales carried over) and the amount of contracts acquired during the current accounting period minus the amount of contracts that will be deferred and recognized as net sales in the next period and thereafter (deferred net sales).

In today's presentation, I will focus on the status of contracts and plans

We added this slide because the information is not included in our disclosure materials but I wanted to go over it once more today.

Up to now, we have shared two kinds of figures, net sales and contracts. Starting with this latest disclosure in particular, we have added to the information regarding contracts. That is because I understand that your key point of interest is how our performance is this fiscal year, and the figure that best explains that is contracts. The contracts figure represents the sum monetary amount for the orders we have received from customers this fiscal year.

On the other hand, net sales are especially related to our performance with cloud services-related products, but net sales are calculated by taking into account the portion carried over from contracts in previous years, and the portion carried forward to future periods from contracts such as multi-year agreements secured as orders in the current fiscal year. For this reason, we want to reiterate you that the way that net sales is interpreted differs from companies in other industries.

In particular, as you can see in the fiscal year ended March 31, 2025, as the variance between actual and planned performance in cloud services-related products grows, the portion that is carried forward also inevitably grows, leading to a widening gap between the figures for contracts and net sales. This is the key point I wanted to reiterate.

We are therefore trying to present information about contracts so that you can gain as clear an understanding as possible about our most recent performance. I appreciate your understanding on this point.

Consolidated Results Highlights

DigitalArts
30YEARS

Contracts	10,570 million yen -267 million yen or -2.5% YoY +1,928 million yen or +22.3% YoY *Excluding DAC	<p>Enterprise sector market</p> <p>Public sector market</p>	<p>The Group achieved growth by capturing the demand for cloud security measures related to both Internet and email and the demand for continuing on-premises measures and by successfully cross-selling and upselling new products and optional products.</p> <p>The Group rapidly grew by receiving projects for security improvements for the second phase of the GIGA School Concept, Local Governments and Next-Generation School Affairs.</p>
Net Sales	9,982 million yen -1,529 million yen or -13.3% YoY +666 million yen or +7.2% YoY *Excluding DAC	<p>Enterprise sector market</p> <p>Public sector market</p>	<p>Sales saw robust growth, reflecting sales from strong orders for cloud service products and from license sales products.</p> <p>Net sales rose after posting sales from projects for security improvements for Local Governments and for Next-Generation School Affairs DX that had been obtained and posting sales from the projects for the first and second phases of the GIGA School Concept.</p>
Operating Profit	4,558 million yen +131 million yen or +3.0% YoY	<p>Cost of Sales</p> <p>SG & A expenses</p> <p>Overall</p>	<p>Data center communication expenses increased due to an increase in the number of cloud product users.</p> <p>The Group stepped up sales promotion and increased its investment in human resources within the limit of the plan with an eye to projects for the second phase of GIGA School Concept.</p> <p>Operating profit rose, with the hike in cost of sales offset by the net sales growth and control of selling, general and administrative expenses.</p>

Special Notes The transfer of all shares in Digital Arts Consulting (DAC), a consolidated subsidiary, held by the Company at the end of the previous fiscal year has an impact of lowering contracts and net sales by around 2,196 million yen, and also operating profit by around 99 million yen* respectively for the current fiscal year.

*1: Estimated based on non-consolidated profit of DAC for the fiscal year ended March 31, 2025

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From here on I would like to focus my briefing on contracts, rather than net sales.

Particularly for the fiscal year ended March 31, 2025, since Digital Arts Consulting (DAC) was sold in the previous fiscal year, we have to compare a fiscal year in which DAC's results were included, with another in which they were not. I think it was particularly common among individual investors, but due to our failure to properly communicate this point, we received questions such as "why did net sales decline from the previous year?" and "why have costs decreased so much from the previous year?" However, disclosures prompting these kinds of questions will not go beyond the fiscal year ended March 31, 2025. From the fiscal year ending March 31, 2026, we will not need to add an "excluding DAC" note to the year-on-year comparisons, so I think we can make the presentations easier to understand.

Now, allow me to proceed to the main topic. The contracts figure I just mentioned rose 22.3% year on year in the fiscal year ended March 31, 2025. As this result exceeded our internal projections for the year, we believe we have not only met our planned performance in the Enterprise Sector market and Public Sector market, but actually did rather well. These results are because various products that fall outside our core products like i-FILTER and m-FILTER and were released from the fiscal year before last, such as f-FILTER and StarIn, contributed to the results. We strengthened activities to up-sell or cross-sell these products to our existing customers from the second half of the year. Additionally, in the Public Sector market the second phase of GIGA School Concept started from the fiscal year ended March 31, 2025, and the results of our activities, which were carried out under our goal of attaining 100% market share as stated at the beginning of the fiscal year, were linked to our improved performance.

However, on the cost front, personnel expenses are the main component, and since the percentage of cloud services-related products has increased, communication expenses have also gone up. However, a characteristic that operating profit is heavily affected by net sales is borne out here.

Consolidated Statement of Income



Contracts increased more than 20%, surpassing initial projections. This was due to strong performance both in the enterprise sector market and in the public sector market. **Net sales increased approximately 7%** due to an increase in the cloud service products sales share. (Excluding DAC) **Operating profit grew**, reflecting an increase in net sales that offset the increase in the cost of sales, although the increasing communication expenses of data centers imposed a heavy burden due to the continued increase in the number of users of cloud service products.

(Millions of Yen)

	FY Mar. 2024	FY Mar. 2025	Change YoY	FY Mar. 2025 Full-Year Forecast ^{*1}
Contracts	10,838 [8,641]	10,570	-2.5% [+22.3%]	-
Net sales	11,512 [9,315]	9,982	-13.3% [+7.2%]	10,720
Cost of sales	4,583	2,948	-35.7%	2,850
Gross profit	6,928	7,033	+1.5%	7,870
Selling, general and administrative expenses	2,500	2,474	-1.0%	2,730
Operating profit	4,427 [4,327]	4,558	+3.0% [5.3%]	5,140
Operating margin (%)	38.5%	45.7%	-	47.9%
Ordinary profit	4,443 [4,341]	4,562	+2.7% [+5.1%]	5,140
Profit attributable to owners of parent	4,377 [3,053]	3,183	-27.3% [+4.3%]	3,540
EBITDA^{*3}	5,429	5,566	+2.5%	-

*1: Financial Forecast is the consolidated financial forecast announced on May 8, 2024.

*2: Estimated based on non-consolidated profit of DAC for the fiscal year ended March 31, 2025

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

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This is the consolidated statement of income. The figures shown inside the square brackets are the results excluding DAC, and for the most part represent the statement of income for Digital Arts Inc. on a non-consolidated basis. When we make an apples-to-apples comparison excluding DAC, we can see that contracts increased 22.3% and net sales increased 7.2%.

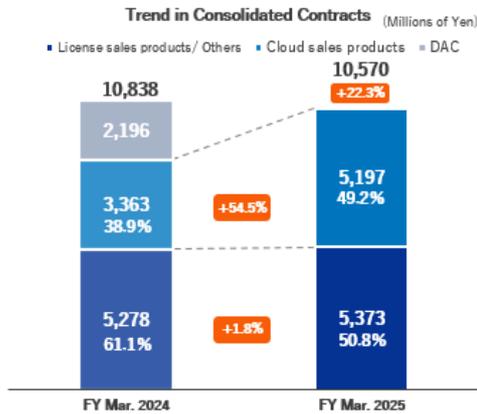
If we look at the relative sizes of contracts and net sales, we can see that net sales exceed contracts in the fiscal year ended March 31, 2024. A similar trend was seen in the period before then. However, looking at the results for the fiscal year ended March 31, 2025, the net sales figure is less than contracts. In other words, the portion of net sales carried forward was greater than the portion carried over from previous periods. This truly fell outside our expectations for this fiscal year, and that is why net sales fell short of our projections.

In addition, something which is not included on the disclosed slides is that we have calculated the operating margin on contracts, from the perspective of emphasizing contracts. We calculate this metric by substituting Contracts for Net Sales in the formula for operating margin. The results of these calculations are 34.6% for the fiscal year ended March 31, 2024, and 48.7% for the fiscal year ended March 31, 2025. In other words, the figure has increased by over ten percentage points since the fiscal year ended March 31, 2024.

Trend in Consolidated Contracts



Consolidated contracts **climbed 22.3%** year on year to **10,570 million yen**, reflecting the growth of cloud service products.



Cloud sales products

- Sales of cloud-based i-FILTER and m-FILTER products were brisk, as they fulfill needs in the enterprise sector market regarding cloud security measures for the Internet and email. (The percentage of m-FILTER sales that were contracts for cloud service products climbed.)
- Sales increased more than planned due to the acquisition of a project for the second phase of the GIGA School Concept a project for next-generation school affairs DX in the public sector market.

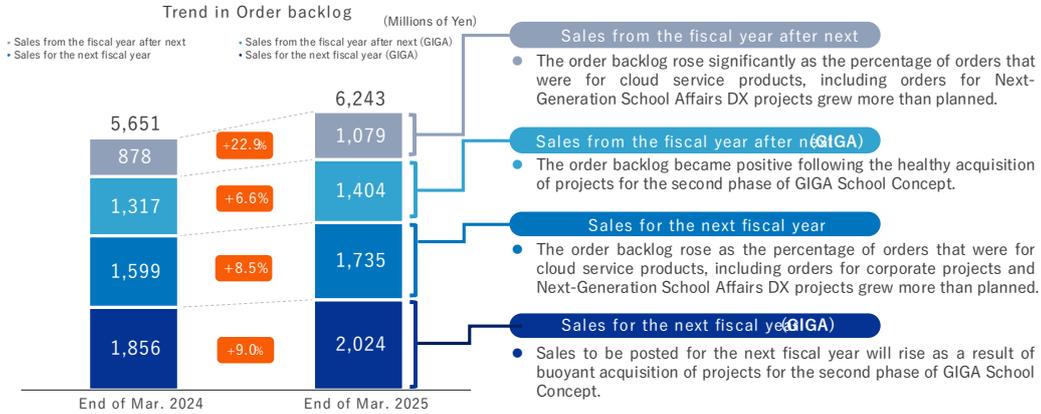
License sales products/ Others

- Growth was achieved by capturing demand for ongoing on-premises measures in the enterprise sector market.
- In the public sector market, growth was achieved following the continuous acquisition of projects regarding security improvements for Local Governments.

This is the ratio between cloud service products and license sales products, which are on-premises installations. The cloud ratio of i-FILTER and m-FILTER products jumped up to the next level in the fiscal year ended March 31, 2025, and as a result, cloud services products increased 54% year on year, an unprecedented rate. In addition, in the Public Sector market sales of the second phase of the GIGA School Concept started from the fiscal year ended March 31, 2025, further boosting the cloud ratio as a result.

Trend in Order Backlog

Order backlog increased steadily after GIGA School Concept, Next-Generation School Affairs DX and other projects were received.



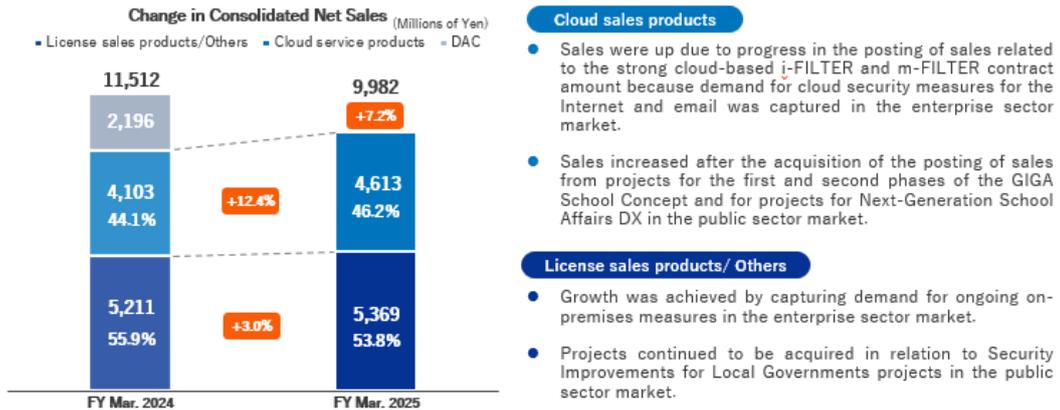
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This slide shows the trend in the order backlog.

Change in Consolidated Net Sales

Consolidated net sales grew 7.2% year on year, to 9,982 million yen. (Excluding DAC)



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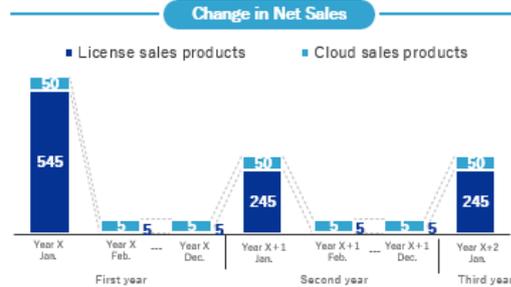
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And this is the change in net sales.

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

クラウド エリア

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.



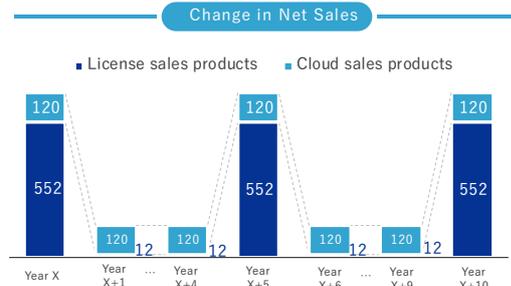
For license sales products, contracts in the second and subsequent years are half of those of the first year. For cloud service products, contracts in the second and subsequent years are the same amounts as those in the first year. An increase in new contracts for cloud service products will result in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

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.

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.

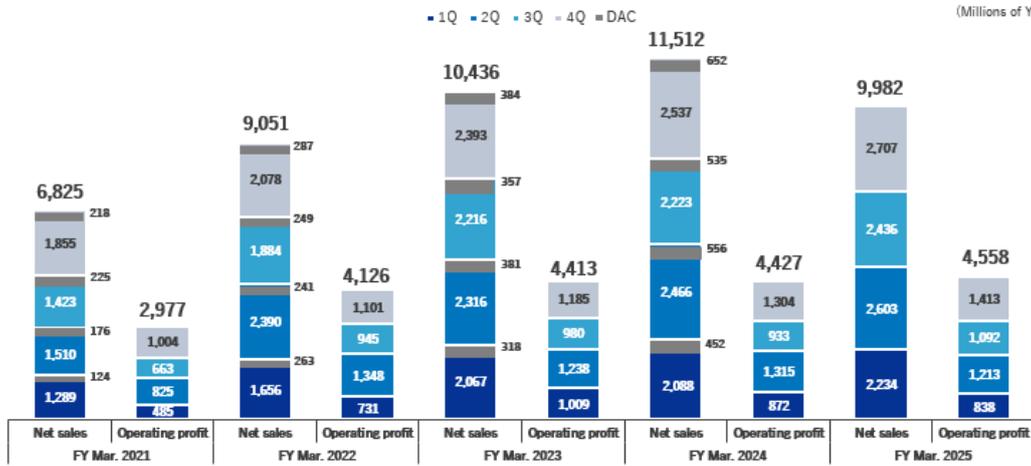


For both license sales products and cloud service products, contract amounts are unchanged at the time of renewal.

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).

This slide describes the relationship between contract amount and net sales. We include this slide each time for your reference.

Trend in Consolidated Net sales, Operating profit



Here you can see the trend in net sales and operating profit. From the fiscal year ended March 31, 2025, results from DAC are no longer included.

Consolidated Cost of Sales and Selling, General and Administrative Expenses



While the consolidated cost of sales and DAC's personnel expenses due to the exclusion of DAC from consolidated decreased because of communication expenses increased at the data center due to the higher-than-planned growth of the percentage of cloud service products. (However, they are trending gradually downward.) Selling, general and administrative expenses were lower than initially planned because of a change in the staff recruitment policy during the fiscal year.

(Millions of Yen)

	FY Mar. 2024	FY Mar. 2025	Change YoY	Main Factors for Change
Cost of sales	4,583	2,948	-1,635	
Labor	2,038	1,040	-997	Increase due to the enhancement of DA's development workforce (+123M) Impact of exclusion of DAC from consolidated (Approx. -1,113M)
Depreciation	839	865	+25	
Communication expenses	1,304	1,505	+201	Data center communication expenses increased due to an increase in the number of cloud product users. (+201M) Note: Including an increase due to the effect of foreign exchange rates (+48M).
Others	1,384	653	-731	Increase due to the development of new DA products (+53M) Impact of exclusion of DAC from consolidated (Approx. -780M)
Transfer to other accounts	-982	-1,116	-134	
Selling, general and administrative expenses	2,500	2,474	-26	
Personnel expenses	1,275	1,229	-46	Increase in DA's personnel expenses (+43M) Impact of exclusion of DAC from consolidated (Approx. -90M)
Advertising expenses	313	309	-4	Impact of exclusion of DAC from consolidated (Approx. -3M)
Others	911	936	+25	DA's Hiring expenses

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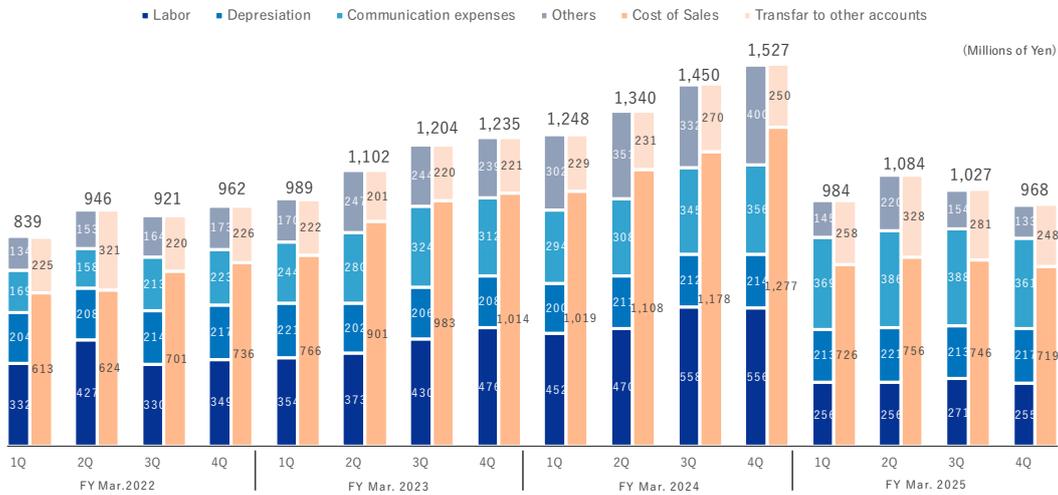
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This slide describes the cost of sales and SG&A expenses.

You can see notable developments in personnel expenses and labor, where the results of investments in personnel announced in the Medium-Term Management Plan have become apparent.

Communication expenses have also risen due to the higher percentage of cloud service products. Data center expenses are included under communication expenses. In the fiscal year ended March 31, 2025 in particular, there was a period when the Japanese yen was trading at over 160 yen to the US dollar, and there was a year-on-year increase of over 200 million yen including that impact. However, in the fiscal year ending March 31, 2026, we are making adjustments to control communication expenses as a percentage of net sales by making software-level improvements, switching data centers, and so on.

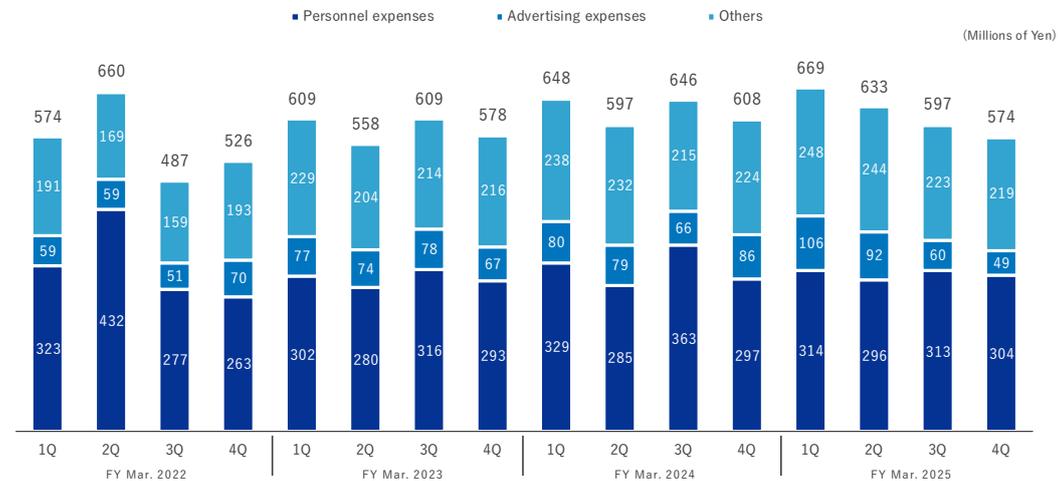
Quarterly Trend in Consolidated Cost of Sales



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Quarterly Trend in Consolidated Selling, General and Administrative Expenses



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These next two slides show quarterly trends in costs.

Consolidated Balance Sheet



Non-current assets increased after posting products for sale, independently-developed internal DX tools and other assets. The equity ratio was up 5.6 percentage points from the end of the previous fiscal year, to 76.6%.

(Millions of Yen)

	As of end of FY Mar. 2024	As of end of FY Mar. 2025	Change from end of FY Mar. 2024	Main factors for changes
Current assets	20,183	20,012	-0.8%	Cash and deposits (-387M)
(Cash and deposit)	18,339	17,952	-2.1%	Fund for treasury share purchases (-1,000M)
Non-current assets	2,334	2,615	+12.0%	Software (+105M), Software in progress (+76M)
Total assets	22,518	22,627	+0.5%	
Current liabilities	6,467	5,209	-19.4%	Income taxes payable (-965M), Advances received (-336M)
(Advanced received)	4,418	4,082	-7.6%	Decreased linked to the progress in the recording of sales.
Non-current liabilities	52	52	-0.2%	
Equity capital	15,986	17,336	+8.4%	Treasury share buy-back (-736M), Dividends paid (-1,095M), Profit(+3,183M), and others
Net assets	15,998	17,365	+8.5%	
Equity ratio	71.0%	76.6%	-	
ROE	29.1%	19.1%	-	
ROA	20.1%	14.1%	-	

20 <https://www.digitalarts.com/ir/en/financial-information/consolidated-balance-sheet> Copyright © Digital Arts Inc.

This is the consolidated balance sheet. In the fiscal year ended March 31, 2025, we conducted treasury share buy-backs of around 1 billion yen.

Difference from Initial Plan



Contracts ended higher than initially planned. The business environment has been evaluated to have been very favorable. Net sales were lower than initially planned. This is explained by a delay in the posting of sales in the accounting process due to a higher percentage of contracts being for cloud service products than initially planned. Operating profit also fell short of the initial plan as a result of net sales failing to reach the initially planned target despite expenses being lower than initially planned.



This slide, as I mentioned earlier, shows how contracts were 2.6% higher than planned, indicating that we achieved our internal targets for contracts. However, when the percentage of cloud business diverges from plans, there is also a divergence between contracts and net sales, as has occurred here. And as a result of net sales diverging from the plan, similar behavior occurs with operating profit. In that sense, we believe this result is regrettable, particularly for investors who emphasize net sales. However, as the figures for contracts show, we believe that we have produced satisfactory results as a business.

Summary of Non-consolidated Results



Contracts increased more than 20%, surpassing initial projections. This was due to strong performance both in the enterprise sector market and in the public sector market. **Net sales increased approximately 7%** due to an increase in the cloud service product sales share. (Excluding DAC) **Operating profit grew**, reflecting an increase in net sales that offset the increase in the cost of sales, although the increasing communication expenses of data centers imposed a heavy burden due to the continued increase in the number of users of cloud service products.

(Millions of Yen)

	FY Mar. 2024	FY Mar. 2025	Change YoY	FY Mar. 2025 Full-Year Forecast* ¹
Contracts	8,630	10,561	+22.4%	-
Net sales	9,304	9,972	+7.2%	10,710
Cost of sales	2,664	2,945	+10.6%	2,850
Gross profit	6,639	7,026	+5.8%	7,860
Selling, general and administrative expenses	2,309	2,464	+6.7%	2,710
Operating profit	4,330	4,562	+5.4%	5,150
Operating margin	46.5%	45.8%	-	48.1%
Ordinary profit	4,348	4,569	+5.1%	5,150
Profit	4,536 [3,030]	3,187	-29.7% [+5.2%]	3,550

*The figure in square brackets [] represents gain of sales excluding DAC.

*1: Financial Forecast is the consolidated financial forecast announced on May 8, 2024.

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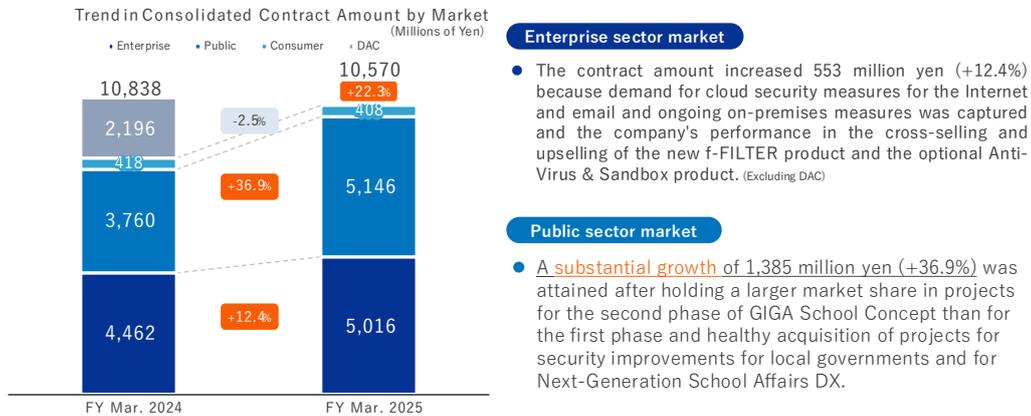
The figures in the summary of non-consolidated results mostly mirror the figures shown in square brackets in the slide on the consolidated statement of income.

Particularly in the fiscal year ended March 31, 2024, the gain from the sale of DAC was included in profit, and that amount led to a significant year-on-year difference.

Consolidated Contract Amount by Market



Consolidated contracts grew by double digits in both the enterprise sector market and the public sector market. (Excluding DAC)



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This slide shows contract amount by market.

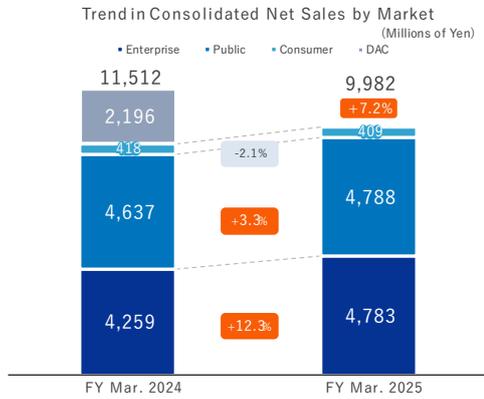
In the Public Sector market, we steadily secured orders for projects funded by government budgets, such as security improvements for local governments and next-generation school affairs DX, in addition to projects for the second phase of GIGA School Concept.

In the Enterprise Sector market, we achieved growth in contracts as a result of successful cross-selling and up-selling. In the fiscal year ended March 31, 2024, contract amount increased 22% year on year, so you may be wondering why the rate of increase slowed to only 12% the following year. The contract amount related to DAC is included in the contract amount for the fiscal year ended March 31, 2024, and also profit margins for DAC were low. However, if you look only at the contract amount growth rate, it was significant. This explains the high 22% year-on-year increase seen in the results. Considering this point, we believe that we achieved growth in line with our plans for the Enterprise Sector market.

Consolidated Net Sales by Market



Sales grew at a double-digit rate in the enterprise sector market, whereas they were up slightly in the public sector market as a result of the increase in the percentage of contracts that were for cloud service products vs. the plan. (Excluding DAC)



Enterprise sector market

- The trend in sales appears similar to the trend in contracts. Sales increased 524 million yen (+12.3%), reflecting the success in capturing the demand for cloud security measures for the Internet and email and for ongoing on-premises measures and the strong performance of the company in the cross-selling and upselling of the new f-FILTER product and the optional Anti-Virus & Sandbox product. (Excluding DAC)

Public sector market

- Sales increased by a small margin, specifically 151 million yen (+3.3%), due to the slow posting of sales from increased orders for cloud service products in Next-Generation School Affairs DX and second phase GIGA School Concept projects despite the progress in the posting of sales in connection with projects for security improvements for Local Governments and for the first phase of GIGA School Concept.

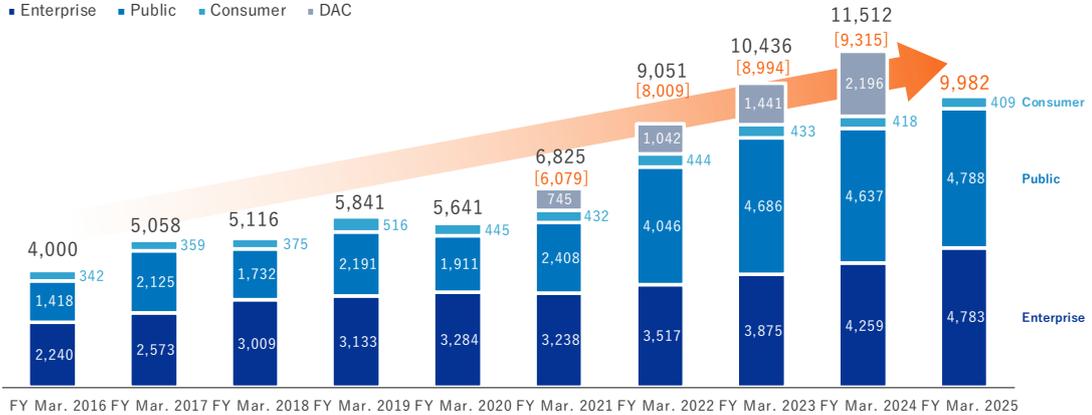
This slide shows net sales by market.

Trend in Consolidated Net Sales by Market



Net sales for the full year **reached a record high.** (Excluding DAC)

■ Enterprise ■ Public ■ Consumer ■ DAC



FY Mar. 2016 FY Mar. 2017 FY Mar. 2018 FY Mar. 2019 FY Mar. 2020 FY Mar. 2021 FY Mar. 2022 FY Mar. 2023 FY Mar. 2024 FY Mar. 2025

Note: DAC figures for 2020 and earlier are omitted, given that they have minor impacts. The figure in square brackets [] represents net sales excluding DAC.

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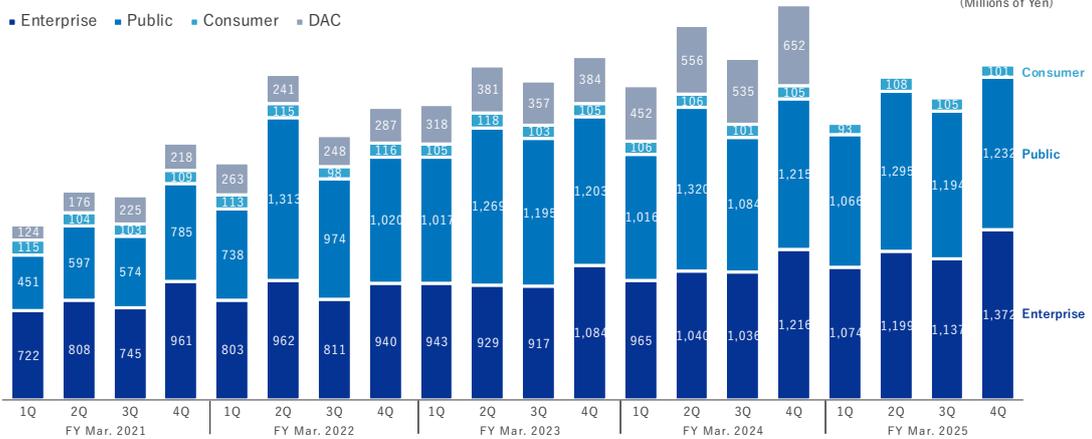
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Quarterly Trend in Consolidated Net Sales by Market



Net sales for the 4Q **reached a record high.** (Excluding DAC)

■ Enterprise ■ Public ■ Consumer ■ DAC

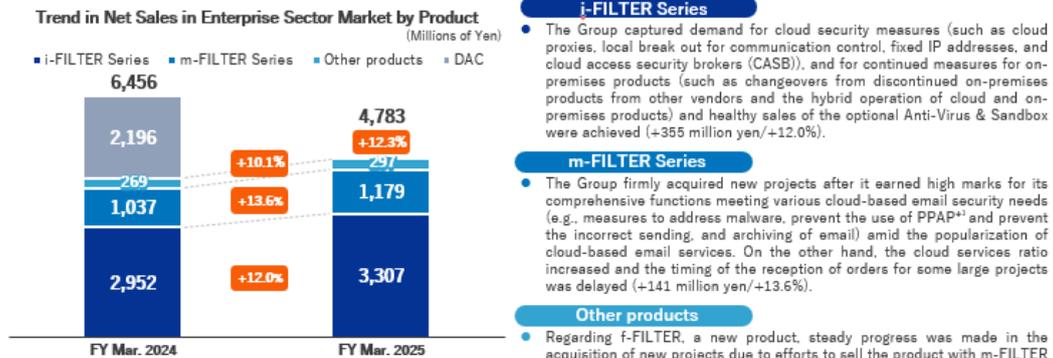


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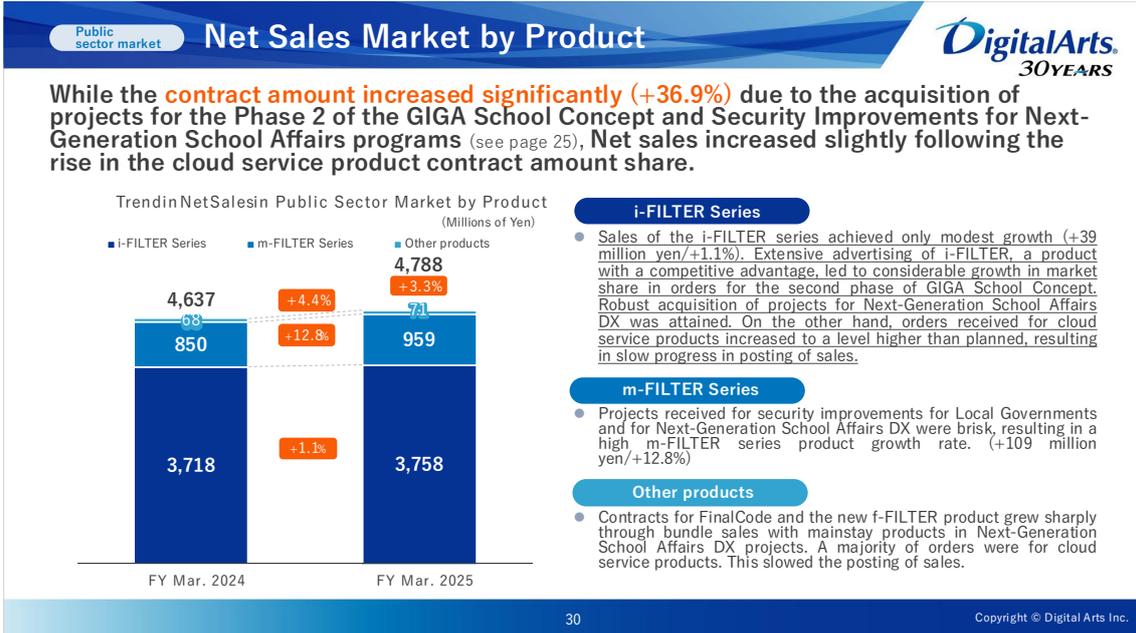
These slides show both quarterly and yearly trends in net sales by market.

Net sales grew enormously as a result of the capturing of demand for cloud security measures and for continued on-premises measures and the strong sales of the new f-FILTER product and the optional Anti-Virus & Sandbox product. (Excluding DAC)



*1: PPAP: A file transfer practice in which the file is converted into a password-protected zip file before sending and the password is sent in a separate e-mail message.

This slide describes net sales by product in the Enterprise Sector market. Sales of i-FILTER and m-FILTER in particular have achieved growth. In "other products," sales of f-FILTER also grew, in part as a result of cross-selling with i-FILTER and m-FILTER.

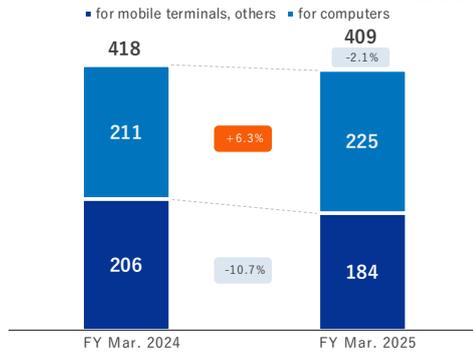


This slide describes net sales by product in the Public Sector market. Sales only increased 3.3% year on year, but the contract amount rose 36.9% over the same period.

The reason for strong performance in contract amount was the start of the second phase of the GIGA School Concept during the fiscal year ended March 31, 2025, and the high share we enjoy in the market. Another factor was the steady securing of orders for projects related to security improvements for local governments and next-generation school affairs DX.

In the consumer sector market, sales of filtering measures for mobile devices slowed following the end of demand for such measures. The Group will increase its efforts to sell these solutions to expand its target customers and tap into new demand.

Trend in Net Sales in Consumer Sector Market by Product
(Millions of Yen)



- Net sales declined reflecting a slowdown in new contracts obtained despite the strengthening of sales promotion activities for multi-year package products and the implementation of initiatives for products for Internet cafes. (-8 million yen/ -2.1%)
- Regarding products for personal computers and mobile phones, given the sense of a plateauing of demand for filtering measures for children, the Group will strengthen its products, while also securing new revenue sources through the expansion of target customers.
- To capture new demand, the Group aspires to advertise solutions to emerging social issues in the future, especially phishing fraud and online casinos.

This slide describes net sales by product in the Consumer Sector market. The products we provide in the Consumer Sector market have mainly been targeted at children. However, we want to cultivate these markets by developing products designed for a broader range of targets, and we expect that sales in the fiscal year ending March 31, 2026 will slightly increase from the results in the fiscal year ended March 31, 2025.

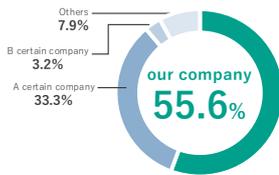
Market shares of i-FILTER and m-FILTER in the enterprise sector and public sector markets



Market shares of i-FILTER in the enterprise sector and public sector markets

According to the ITR Market Review: Cyber Security Solutions Market 2024 market research report published by ITR Corporation, i-FILTER had a 55.6% market share in "Web Filtering Market: Sales Share by Vendor" in FY2022, indicating it had the largest share of the market.

Web Filtering Market: Sales Share by Vendor in FY2022

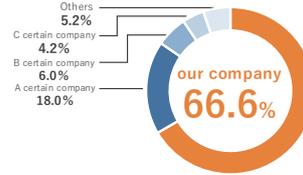


*Source: "Web Filtering Market: Sales Share by Vendor (FY2022)" in ITR Corporation: ITR Market Review: Cyber Security Solutions Market 2024 (published in May 2024)

Market shares of m-FILTER in the enterprise sector and public sector markets

According to Current State and Future Prospect of Internal Threat Control Solutions Market in FY2023 (<https://micr.co.jp/mr/03010/>) market research report by Deloitte Tohmatsu MIC Research Institute Co., Ltd., m-FILTER had a 66.6% market share in "Shipment Volume Share in Email Filtering and Archive Tools Market" in FY2022. This affirms that it had the largest share of the market.

Email Filtering and Archive Tools Market: Shipment Volume Share by Vendor



*Source: MIC Research Institute Ltd. "Information Security Solutions Market: Status and Outlook 2023 - Internal Information Leakage Prevention Solutions (<https://micr.co.jp/mr/03010/>)" Email Filtering/Archive Market: Vendor Share (by shipment) (FY2022) (Published February 2024).

In this next section I will describe the results of the measures we implemented in the fiscal year ended March 31, 2025. This data on market share is a little dated as it applies to FY2022, but is the latest available.

Reference: What is our mainstay solutions “White Operation” ?



White operations use a whitelist method that permits **users to connect only to websites and email messages that have been verified as secure in advance**. It protects ICT environments from known and unknown threats irrespective of the computer literacy of the user.

	White Operation (whitelist method)	Security measures other than DA (blacklist method)
Access to unknown hazardous websites	<ul style="list-style-type: none"> - are blocked and cannot be accessed - When users attempt to access these websites at anytime, attacks are blocked. 	<ul style="list-style-type: none"> - are accessible - Measures are taken after a cyber attack occurs. - Devices are secure if they access them in the future.
Receive of unknown hazardous email	<ul style="list-style-type: none"> - are not received - The product does not prevent users from securely opening other messages. 	<ul style="list-style-type: none"> - are received - Measures are taken after a cyber attack occurs. - are now safe to open
Difference	<p>There is a major difference between white operation, which blocks users from connecting to "gray areas" where it is unknown if it is safe or dangerous, and security measures provided by vendors other than Digital Arts, which allow users to connect to gray areas.</p>	

Why do competitors not adopt white operations?

White operations cannot be realized without the two elements mentioned on the right. It is therefore difficult for them to achieve them. However, Digital Arts have achieved white operations using its original technologies.

1

Database with a high coverage rate and high accuracy constructed



2

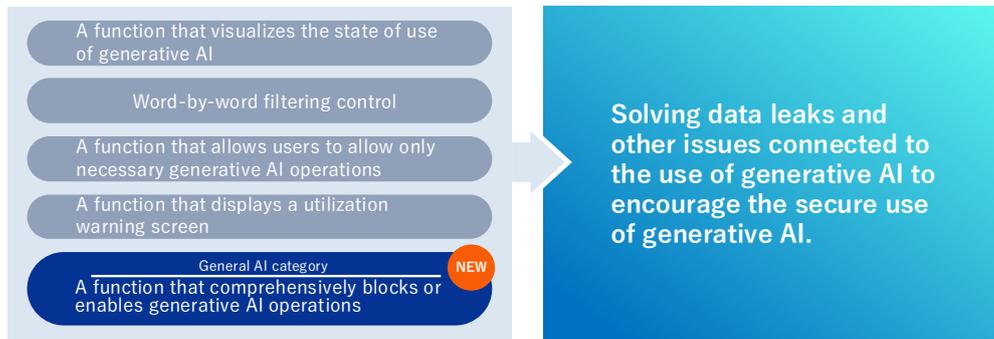
The implementation of measures to prevent the falsification of the database

One of the characteristics of our solution is "white operation." The reason so many security breaches are occurring day after day is because the security measures other than what we provide are generally based on a blacklist system. In other words, blacklisted sources (those known to be dangerous) are blocked, but those that fall under a grey area (sources that have not been identified as either safe or dangerous) are not blocked. A characteristic of our solution is that it employs "white operation," where all sources other than those which have been whitelisted, whether they be grey or black, are blocked.

The reason white operation helps protect systems is that the most common cause of security breaches are these grey areas I just mentioned. A blacklisted source is something that has long been known to be dangerous and is easy to block, but when it is unclear whether a source is black or white, it is let through, and can lead to security breaches. Under the white operation we implement, grey sources are blocked as a first step. We then perform a verification process to determine whether the grey source is actually safe (white) or dangerous (black). If it is determined to be white, the user is allowed to access it, but if it is determined to be black, no access is granted, and it is added to our blacklist. To put it simply, security breaches don't occur with our solutions because we operate this system. Personally I find this concept easy to grasp, but parts of it are still not adequately understood in the security industry.

Released in December 2024

Strengthen generative AI security using i-FILTER



The use of AI has now become popular in Japan as well. In the US, where it is even more popular, AI has started to cause a number of issues. In some cases, AI has recommended that a child kill their parents. In other situations, some people have blindly used the results of AI to create work documents, leading to mistakes or information leaks. Currently, our i-FILTER product is already equipped with functions that block responses from AI and retain a history of AI use. Considering the potential risks from the use of generative AI going forward, in the near future we intend to further enhance the product with even more advanced security measures. These features that have already been implemented are also highly regarded, but over the next few years, I think users will have a stronger sense of the risks posed by AI.

Product Releases: Functions Upgrade [f-FILTER]

DigitalArts
30YEARS

Released in July 2024

Large-size storage / file storage period adjustment functions

Examples of requests for f -FILTER



Customer A

We hope that f-FILTER will **support large files of over 100 MB**, since they cannot be sent by e-mail.



Customer B

For security reasons, we want to limit the file access period to several days. (A period shorter than 30 days is desirable.)



Customer C

We hope that, for **audit purposes**, files can be stored for a longer period than 30 days, such as five to seven years.

Enhancement of features

▶ **The uploadable file size is increased to 20 GB** and an option is provided that allows users to choose from different levels of storage capacity according to their needs.

▶ The software is modified to provide a **standard function that allows users to set** the file access period within a range from one day to 30 days.

▶ **An option is provided** that allows users to configure the file storage period to one year, three years, five years, seven years and others.

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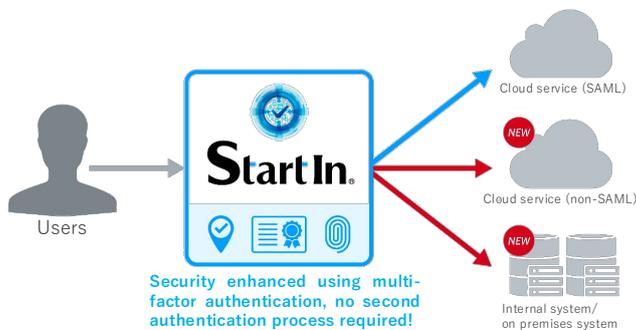
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Product Releases: Functions Upgrade [StartIn]

DigitalArts
30YEARS

Released in March 2024

A solution has been released that resolves the cumbersomeness of ID management and authentication connected to coexisting on-premises and cloud systems.



NEW

A single sign on is available for all online services, including non-SAML services and internal systems where the login form is accessed using a web browser.

37

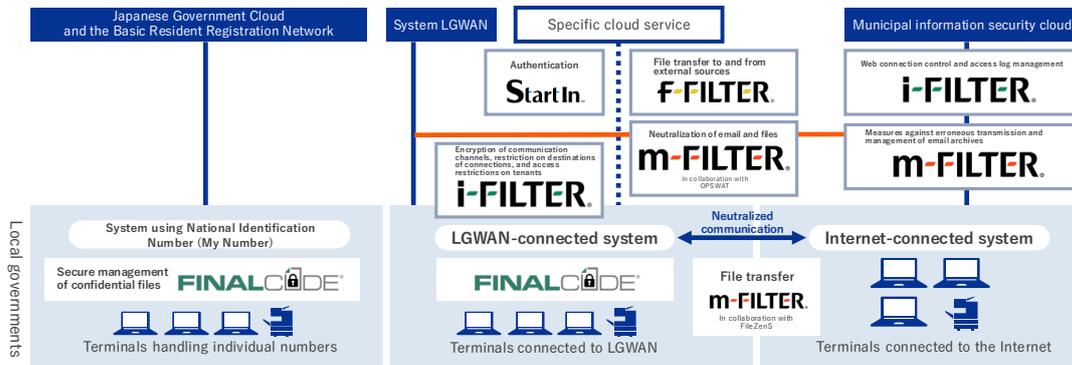
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These slides provide some information about the detailed feature improvements we continue to make to the products we have already released.

Toughening of Security for Local Government: Compliance with New Guidelines



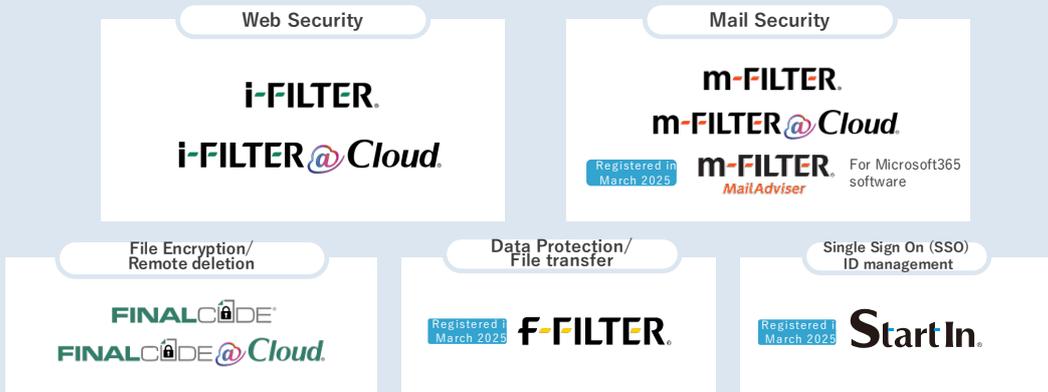
The α model is a commonly used security solution characterized by three-layer isolation. It is used for Local Governments' networks and personal computers and other business devices connected to them. Because of its emphasis on security, it is difficult to operate flexibly. Its drawbacks are in user convenience and operation efficiency. The new guidelines defined the α' model as a method for connecting business devices directly to cloud services. That ultimately enlarged the scope of effective applicability of Digital Arts' solutions. In addition, the measure requires registration with the Information System Security Management and Assessment Program (ISMAP)^{*1}. This means it is expected that our solutions that are already registered with ISMAP will be more likely to be selected.



Digital Arts' Solutions: Status of ISMAP^{*1} Registration



Registration of all of the cloud products for public institution with ISMAP^{*1} was completed in March 2025.



Released in April 2024

Visualizing what websites schoolchildren and students view and how often

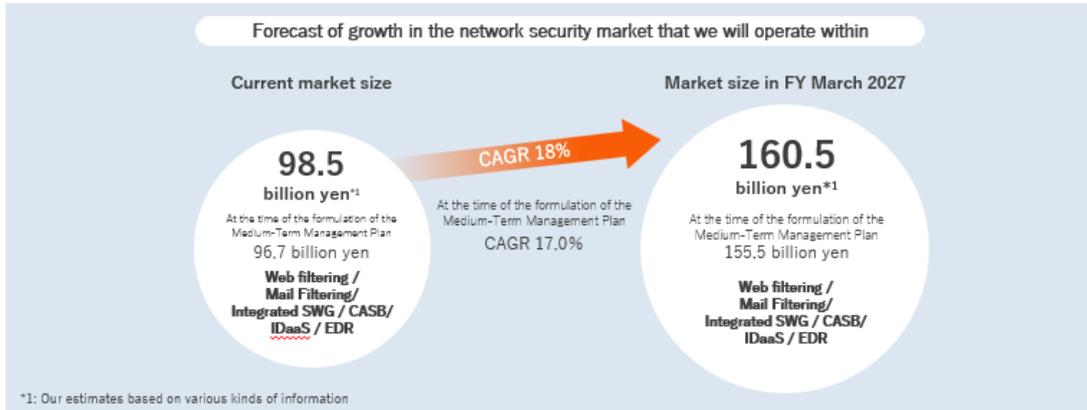
<p>CASE 1</p> <p>Number of those using terminals in the late nighttime slot</p>	<p>CASE 2</p> <p>Terminal use ratio by school</p>	<p>CASE 3</p> <p>Duration of use by online service</p>	<p>CASE 4</p> <p>Ranking of time slots in terms of ratio of use</p>
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Meeting one of the conditions for subsidies for terminal replacement costs, **monitoring the state of operation of terminals** for fulfillment of the minimum standard for specifications. **It greatly aided the expansion of the market share in orders for the second phase of GIGA School Concept.**



This slide describes the product development we have carried out to comply with new guidelines in the Public Sector market.

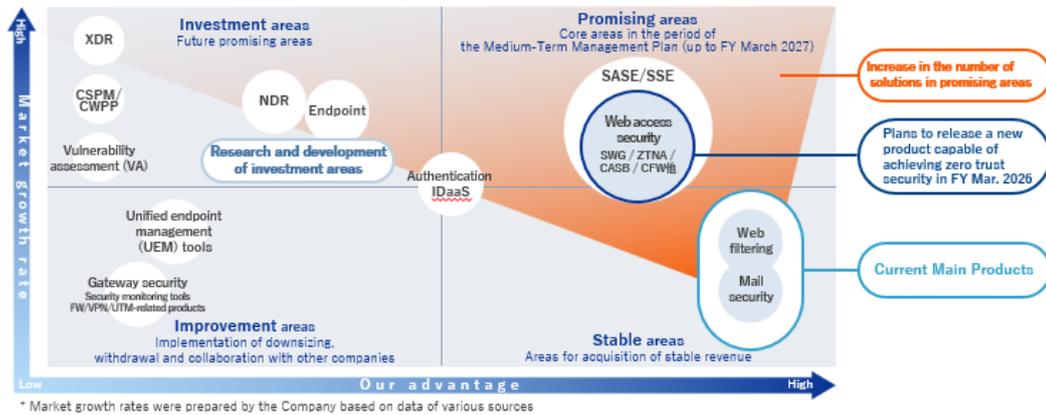
Following a recent increase in the number of security incidents, the security market is growing faster than when the Medium-Term Management Plan (From FY March 2025 to FY March 2027) was being formulated. The need for security measures is expected to remain strong.



In this next section I would like to talk about the fiscal year ending March 31, 2026, a period that just began last month in April.

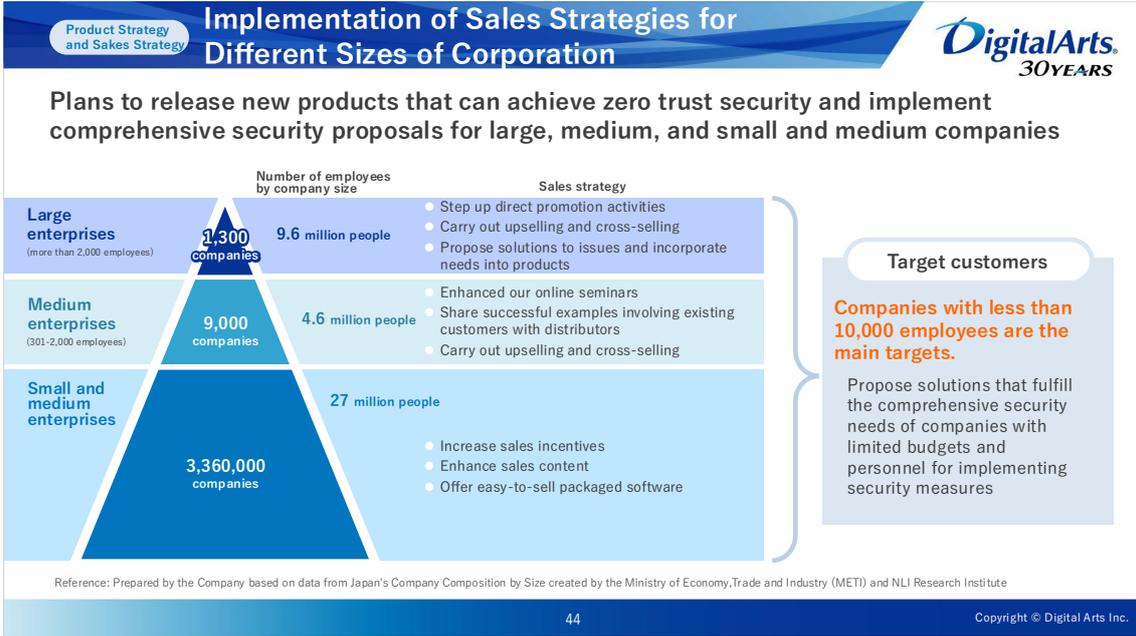
As many of you are probably experiencing, it seems that security-related incidents are occurring on a daily basis, and the security market is steadily growing as a result.

The Group will enhance its solutions in promising areas where the market is growing at a high rate and where the Group's advantages can be used, and it will carry out research and development in investment areas for the future expansion of its business.



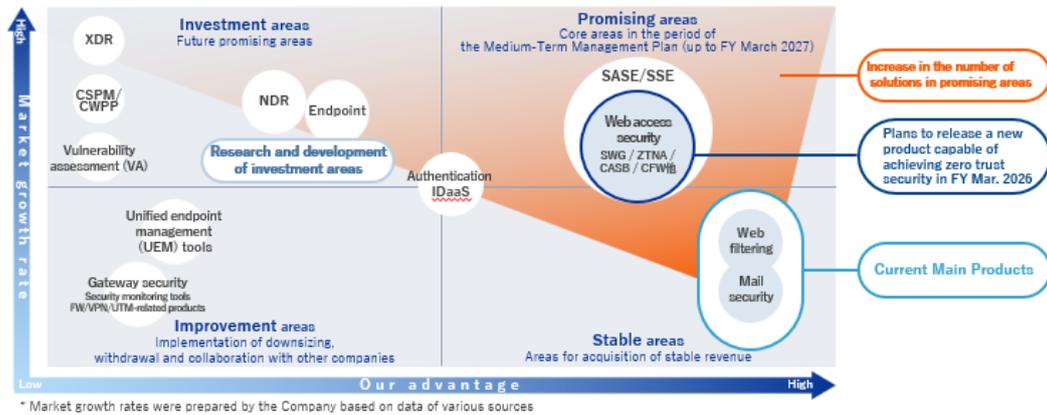
These next few slides describe the key points I would especially like you to focus on.

We have already announced figures related to our expected performance in the fiscal year ending March 31, 2026, and in the Public Sector market, I think many of you realize that most of the projects for the second phase of the GIGA School Concept will occur in this period. However, I also think how we will do in the Enterprise Sector market is another crucial point. Meeting our targets under the Medium-Term Management Plan, both for the fiscal year ending March 31, 2026 and the year after, will take more than simply executing well on projects under the second phase of the GIGA School Concept. We don't believe that this alone is sufficient for us to sustain growth in the next year, the year after that, and beyond. During this time when we can take advantage of the special demand generated by projects for the second phase of the GIGA School Concept, I believe it is important that we take steps to properly put our operations in the Enterprise Sector market onto a solid growth track.

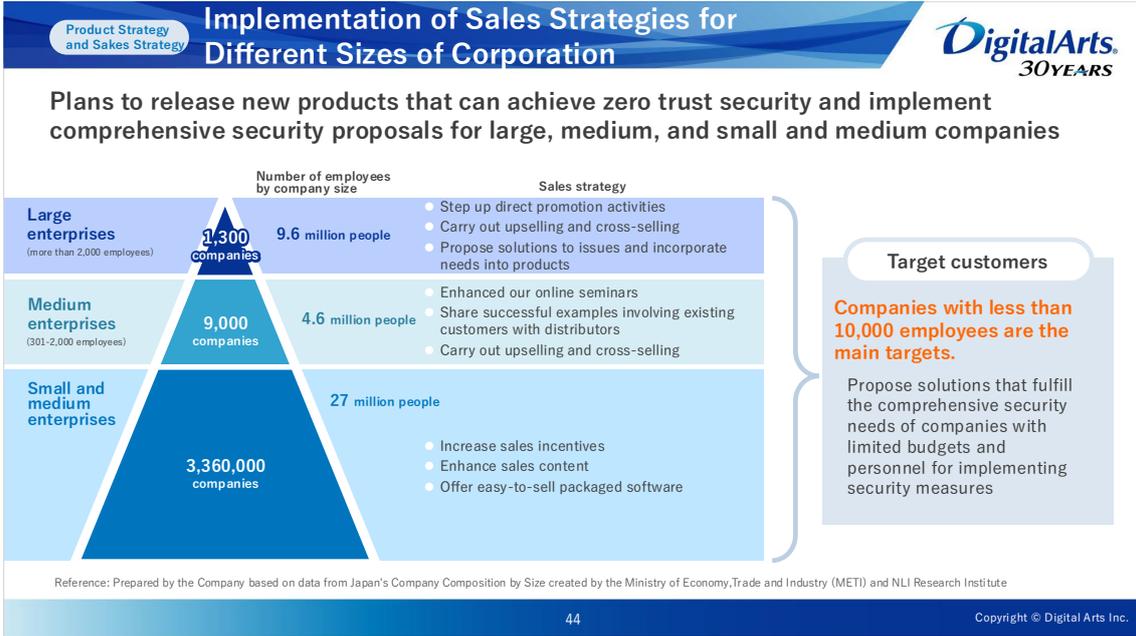


The slides explaining this are a little out of order, but in the Enterprise Sector market, as you are aware, there is a pyramid-type structure based on the different sizes of corporations, and 99% of them fall under the category of small and medium enterprises, or SMEs. The enterprise products we offer are still mainly adopted by large companies, and unless we take solid steps to promote adoption among SMEs, we will not be able to pursue a high rate of growth in the Enterprise Sector market. Now I will go back the previous slide. (Continued on the next page)

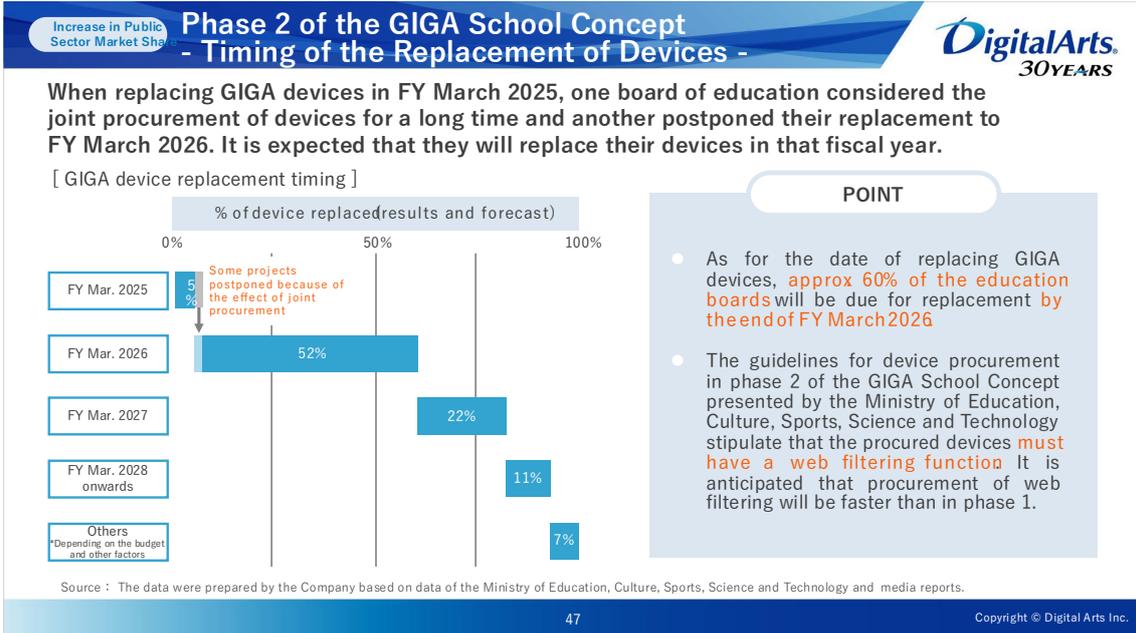
The Group will enhance its solutions in promising areas where the market is growing at a high rate and where the Group's advantages can be used, and it will carry out research and development in investment areas for the future expansion of its business.



In particular, transitioning to the cloud has already become essential for SMEs. The area enclosed by the blue circle in the diagram, which reads "web access security," is the area of cloud-enabled products that can be operated by SMEs. We will release a product that covers this area in the current fiscal year. We already informed our sales partners of this in the previous fiscal year, and we plan to release the new product as early as possible this year. (Continued on the next page)



Our core policy for driving growth in the Enterprise Sector market over the next three or so years starting this fiscal year will be to release products designed for the market made up of the 99% of companies smaller than large companies.

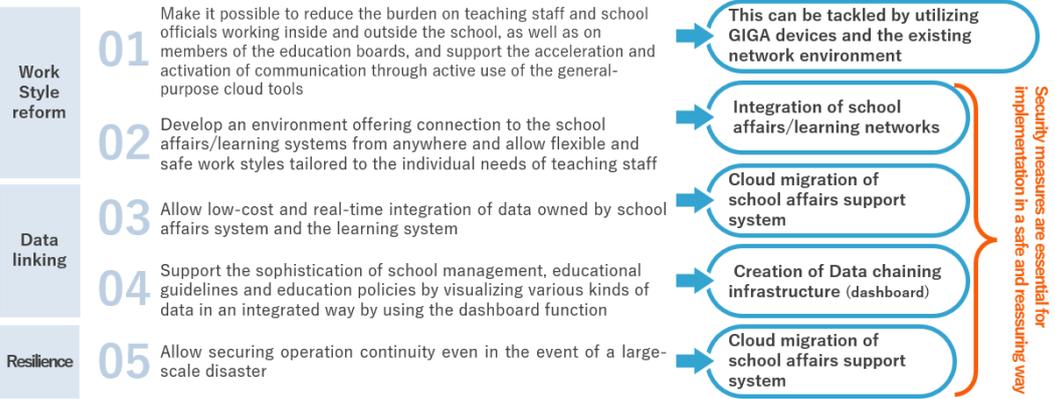


Next, I would like to describe the initiatives we will be pursuing in the Public Sector market. As I have now mentioned repeatedly, this fiscal year will be the peak of projects for the second phase of the GIGA School Concept. In the fiscal year ended March 31, 2025, which was the first year of the second phase, we managed to secure a large market share, as I mentioned earlier.

The second phase of the GIGA School Concept runs for five years. In our initial predictions, we estimated that 8% of procurements over that five year period would occur in that first year, but some of those procurements were deferred to the following period, which is this fiscal year. With those deferred procurements and the 52% of procurements we have originally expected to see in this fiscal period, we now project that out of the five-year period of the second phase, more than 52% of procurements will take place during this fiscal year. Given those conditions, our plan in the Public Sector market is to secure a large market share this fiscal year, just as we did in the previous fiscal year, as I just mentioned.

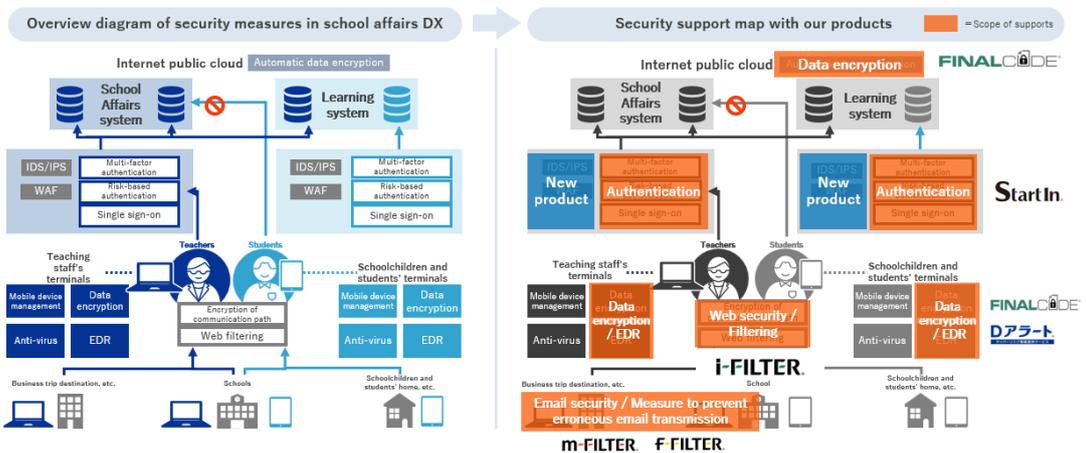
The Ministry of Education, Culture, Sports, Science and Technology calls for the following implementation as the direction of the Next-Generation School affairs DX:

*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



Source: Created by the Company based on https://www.mext.go.jp/b_menu/shingi/chousa/shotou/175/mext_01385.html

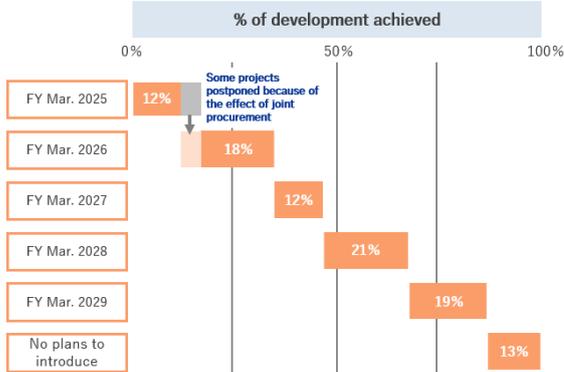
New product releases will further expand the range of areas supported by our products.



In addition to projects under the second phase of the GIGA School Concept, we also expect to secure a variety of other projects in the Public Sector market, such as next-generation school affairs DX as you can see here. We plan to steadily secure orders for these projects as well.

Product procurement in FY March 2026 will be at the same level as in the previous fiscal year with a view toward beginning the operation of the school affairs support system.

[School Affairs DX development schedule]



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

POINT

- 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
- The Ministry of Education, Culture, Sports, Science and Technology's document, School Affairs DX under the GIGA School Concept, stresses the importance of security measures by presenting some case studies. For school affairs that involve the personal information of school-aged children, it is necessary to apply **stronger measures than the measures used for GIGA School Concept devices.**

This slide shows the development schedule for next-generation school affairs DX.

Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2026 (Consolidated)



We will carry out product and sales strategies in the enterprise sector market and maximize our market share and the amount of orders received in the public sector market to achieve the growth of net sales, operating profit and ordinary profit.

(Millions of Yen)

	FY Mar. 2025 Full-Year Results	FY Mar. 2026 Full-Year Forecast	Change	% Change	Note
Contracts	10,570	16,475	+5,904	+55.9%	It is expected that contracts and net sales will increase due to the stepping up of solution proposal activities involving priority targets and the conducting of cross-selling and up-selling activities for existing customers to increase our presence in the enterprise sector market and receive projects for the second phase of GIGA School Concept and Next-Generation School Affairs DX projects.
Net sales	9,982	12,550	+2,567	+25.7%	
Cost of sales	2,948	3,290	+341	+11.6%	Investment of nearly 200 million yen for development human resource, depreciation following product enhancement and a rise of 180 million yen in communication expenses due to growing usership of cloud service products are anticipated.
Gross profit	7,033	9,260	+2,226	+31.7%	
Gross profit point	70.5%	73.8%	-	-	
SG & A	2,474	3,110	+635	+25.7%	It is projected that around 400 million yen will be invested in increasing base pay, recruitment and training.
Operating profit	4,558	6,150	+1,591	+34.9%	
Operating margin	45.7%	49.0%	-	-	
Ordinary profit	4,562	6,150	+1,587	+34.8%	
Profit attributable to owners of parent	3,183	4,200	+1,016	+31.9%	

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Now let's move on to our financial forecast for the fiscal year ending March 31, 2026. As I mentioned earlier, we project a 55.9% increase in contracts, which is a year-on-year increase of 5,904 million yen to 16,475 million yen. We expect to generate operating profit of 6,150 million yen with an operating margin of 49.0%, with ordinary profit of 6,150 million yen. When we calculate the operating margin on contracts, which I mentioned earlier, we obtain a figure of 61.2%. In other words, the profit margin obtained when deducting total costs from the total monetary amounts of orders we expect to receive in the fiscal year ending March 31, 2026 will be 61.2%.

Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2026 (Non-Consolidated)



We will carry out product and sales strategies in the enterprise sector market and maximize our market share and the amount of orders received in the public sector market to achieve the growth of net sales, operating profit and ordinary profit.

(Millions of Yen)

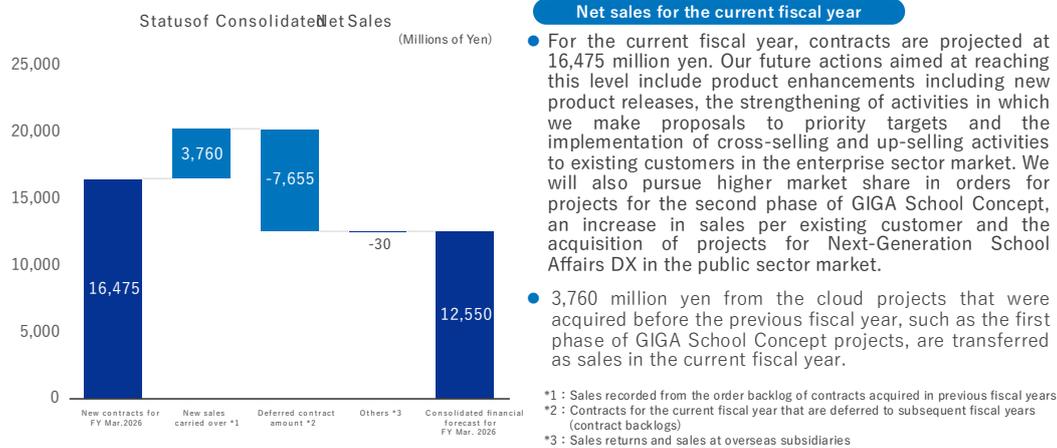
	FY Mar. 2025 Full-Year Results	FY Mar. 2026 Full-Year Forecast	Change	% Change	Note
Contracts	10,561	16,470	+5,908	+55.9%	It is expected that contracts and net sales will increase due to the stepping up of solution proposal activities involving priority targets and the conducting of cross-selling and up-selling activities for existing customers to increase our presence in the enterprise sector market and receive projects for the second phase of GIGA School Concept and Next-Generation School Affairs DX projects.
Net sales	9,972	12,545	+2,572	+25.8%	
Cost of sales	2,945	3,290	+344	+11.7%	Investment of nearly 200 million yen for development human resource, depreciation following product enhancement and a rise of 180 million yen in communication expenses due to growing usership of cloud service products are anticipated.
Gross profit	7,026	9,255	+2,228	+31.7%	
Gross profit point	70.5%	73.8%	-	-	
SG & A	2,464	3,095	+630	+25.6%	It is projected that around 400 million yen will be invested in increasing base pay, recruitment and training.
Operating profit	4,562	6,160	+1,597	+35.0%	
Operating margin	45.8%	49.1%	-	-	
Ordinary profit	4,569	6,160	+1,590	+34.8%	
Profit	3,187	4,210	+1,022	+32.1%	

Our non-consolidated forecasts largely mirror the consolidated forecast.

Status of Consolidated Net Sales



Consolidated net sales are forecast as follows:



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Earlier I mentioned that we would emphasize the contracts figure, but that doesn't mean we are disregarding net sales. Reflecting on our performance in the previous fiscal year, in our plans for this fiscal year we have factored in a higher percentage of net sales relating to cloud service-type products being deferred to the following fiscal year. For that reason, we have set figures based on the premise that if we achieve the contract amounts shown here, we will still be able to achieve our projected net sales figures even if the percentage of cloud service-type product sales is higher than the previous fiscal year.

This slide shows the results of those calculations. Net sales is calculated on the premise that 7,655 million yen will be deferred as net sales in the next fiscal year or later.

Status of Consolidated Contracts by Market



Consolidated contracts by market are forecast as follows:



Enterprise sector market

- Contracts are expected to grow, reflecting the expansion of White Operation through proposal activities targeting customers selected in consideration of their industry and the size of their business to cultivate new customers, the proposal of solutions involving a combination of cross-selling and up-selling activities and new products that can achieve zero trust security to White Operation customers and the continual functional upgrading of products.

Public sector market

- Aiming to maximize contracts for projects for the second phase of GIGA School Concept, we will capitalize on our customer base with our leading market share to collect requests from users for further upgrading i-FILTER's functions for educational institutions in a bid to boost customer satisfaction and product value. In addition, we will continue to implement the project management method that was practiced to produce favorable results in the previous fiscal year. We will strictly carry out sales and marketing activities that advertise additional value for the purpose of increasing both our market share in orders and sales per existing customer. With a view to bolstering contracts for projects for Next-Generation School Affairs DX, we will leverage the customer base for GIGA School Concept to generate sales opportunities. We will not only sell mainstay products on a standalone basis but also sell them in combination with new products and option products.

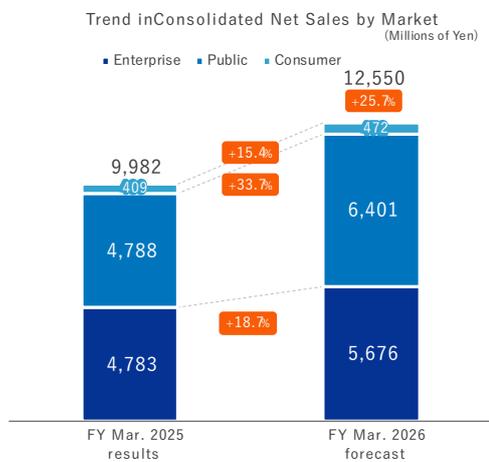
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Status of Consolidated Net Sales by Market



Consolidated net sales by market are forecast as follows:



Enterprise sector market

- Net sales are expected to grow, reflecting the expansion of White Operation through proposal activities targeting customers selected in consideration of their industry and the size of their business to cultivate new customers, the proposal of solutions involving a combination of cross-selling and up-selling activities and new products that can achieve zero trust security to White Operation customers and the continual functional upgrading of products.

Public sector market

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These are the figures for contracts and net sales by market.

Consolidated Cost of Sales and Selling, General and Administrative Expenses



Regarding cost of sales, depreciation is projected to increase, mainly due to investment in development personnel and product enhancement. Selling, general and administrative expenses are expected to rise mainly due to the increased investment in human resources.

(Millions of Yen)

	FY Mar. 2025 Full-Year Results	FY Mar. 2026 Full-Year Forecast	Change YoY	Main Factors for Change
Cost of Sales	2,948	3,290	+11.6%	
Labor	1,040	1,239	+19.1%	Investment in new products and personnel for functional development
Depreciation	865	976	+12.8%	Increase in depreciation associated with software development and improvement
Communication expenses	1,505	1,684	+11.9%	While communication expenses will increase following the increase in the number of users of cloud service products, we will carry out fundamental measures to control expenses and limit the cost increase.
Others	653	699	+6.9%	
Transfer to other accounts	-1,116	-1,309	-17.2%	Transfer of costs related to software development to other accounts
SG & A	2,474	3,110	+25.7%	
Personnel expenses	1,229	1,630	+32.7%	Investments in human resources including the hiring of new graduates, the increase of base pay, and incentive plans
Advertising expenses	309	348	+12.7%	Increase in sales promotion expenses for receiving projects for the second phase of GIGA School Concept and expenses related to the Group's 30th anniversary
Others	936	1,131	+20.8%	Strengthening of recruitment (approx. 130 million yen)

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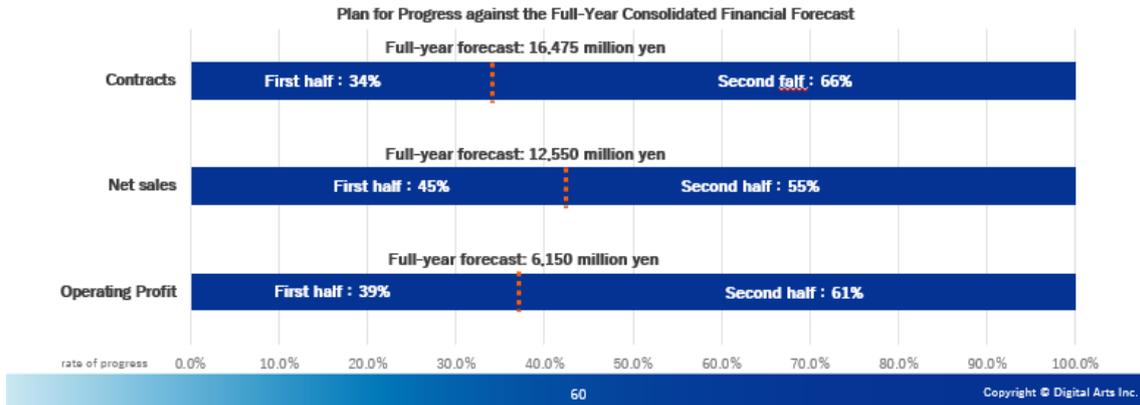
In terms of costs, in the Medium-Term Management Plan we mentioned making investments in human resources, so we expect human resources-related costs to be a little larger.

I would also like to explain about communication expenses. We expect contracts to increase by around 60% compared with the previous year, but we only expect communication expenses to increase by around 12% over the same period. This is because we plan to limit the rate of increase for communication expenses by making software improvements and also improving our equipment.

Plan for Progress against the Full-Year Consolidated Financial Forecast



The plan envisions progress in contracts to be made mainly in the second half due to the concentration of orders for projects for the second phase of GIGA School Concept and other orders in the second half. The plan foresees that net sales will grow at a higher rate than contracts in the first half given the posting of sales for cloud service products, orders for which were received in the previous fiscal year and earlier. The plan expects a greater concentration of operating profit in the second half than net sales, given that selling, general and administrative expenses will be concentrated in the first half.



This shows the ratio between the first and second halves of the year in our full-year consolidated financial results forecast. We predict that contracts will be quite heavily weighted toward the second half of the year. This is mainly because bidding activities in the Public Sector market, which accounts for two-thirds of contracts, are concentrated in the second half, and this has a significant impact.

Return to Shareholders for the Fiscal Year Ending Mar. 2026



Starting FY March 2026, we will change our shareholder return policy as follows to strengthen our stance on returning profit to shareholders. Under the new policy, we plan shareholder returns for the fiscal year ending March 31, 2026 as follows.

FY Mar. 2025	FY Mar. 2026
Policy	Policy
Target payout ratio: 30% or more	Progressive dividends <small>*A dividend policy of maintaining and increasing dividends, and avoiding decreasing them in principle</small> Target payout ratio: 50% or more
Shareholder returns	Return to Shareholders for the Fiscal Year Ending Mar. 2026 (forecast)
Dividends: 85.00 yen per share	Dividends 95.00 yen per share Up 10.00 yen from FY Mar. 2025 (Dividends have increased for 12 consecutive years) Including a commemorative dividend of 5.00 yen for the Group's 30th anniversary
	Purchase of treasury shares 1 billion yen* <small>*We will purchase treasury shares flexibly in consideration of the trends in our performance and the stock market and other factors.</small>

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This slide shows the changes to our shareholder return policy starting in the fiscal year ending March 31, 2026. We plan to purchase around 1 billion yen of treasury shares this fiscal year.

This concludes my part of the presentation. Thank you for your attention.

[Moderator]

We would now like to begin the Q&A session.

[Q&A]

◆ Recently, cases of investment securities accounts being hijacked have been in the news. What contributions do you expect Digital Arts will make to deal with these trends?

[Dogu]

Regarding the hijacking of investment securities accounts, over this past month alone the monetary damages have grown considerably, and personally I receive many phishing emails on a daily basis. To put it simply, I believe this relates to cases where individuals have received phishing emails and end up entering their ID and password. We think this is an issue that cannot be ignored. I briefly mentioned this earlier, but we are currently in the process of developing a product for individual use, what we refer to as the Consumer Sector market. We believe this product will limit the damage from these phishing emails.

We plan to issue a press release when we are ready to market this product, but we encourage you to stay tuned for updates, as we believe our white operation approach can prevent these kinds of issues.

◆ There are concerns about the Trump tariffs negatively impacting corporate performance. To what degree do you expect this to impact Digital Arts in the Enterprise Sector market?

[Dogu]

As you noted, there is a risk that Japanese companies could be impacted by U.S. tariff policies in terms of earnings. However, if you take into account the current situation where information security incidents are occurring on a daily basis, and the fact that companies are increasingly motivated to invest in security, I don't think current conditions suggest that companies will hold back spending on security products just because their business performance has declined due to tariffs. That is why we do not anticipate a decline in sales of our products in the Enterprise Sector market due to tariffs.

◆ Over the past few years, you have not met the operating profit levels disclosed in your forecasts. Isn't the 6.15 billion yen operating profit forecast for this fiscal year a little too optimistic? In particular, you are forecasting a 5.9 billion yen increase in contracts. We can assume that costs associated with receiving these orders will increase, so won't the cost of sales increase by an appreciable amount?

[Dogu]

We are confident that our operating profit forecasts can be met by securing the planned number of orders for the second phase of the GIGA School Concept. When contract amounts and net sales increase, for other companies I assume this translates into higher transportation and personnel expenses, but in our case, deliveries occur via email so there are no transportation expenses, and we are in a position to adequately deal with projects for the second phase of the GIGA School Concept under our current staffing framework. Given that, contracts increasing by around 6 billion yen doesn't necessarily mean that personnel and advertising expenses will rise. The communication expenses I mentioned earlier are, by nature, strongly linked with net sales, but we believe we are able to keep the other costs we have disclosed to within expected ranges.

◆ Please comment about the background behind the revisions to shareholder returns.

Return to Shareholders for the Fiscal Year Ending Mar. 2026 

Starting FY March 2026, we will change our shareholder return policy as follows to strengthen our stance on returning profit to shareholders. Under the new policy, we plan shareholder returns for the fiscal year ending March 31, 2026 as follows.

FY Mar. 2025	FY Mar. 2026		
<p>Policy</p> <p>Target payout ratio: 30% or more</p> <p>Shareholder returns</p> <p>Dividends: 85.00 yen per share</p>	<p>Policy</p> <p>Progressive dividends <small>*A dividend policy of maintaining and increasing dividends, and avoiding decreasing them in principle</small></p> <p>Target total return ratio: 50% or more</p> <p>Return to Shareholders for the Fiscal Year Ending Mar. 2026 (forecast)</p> <table border="1"> <tr> <td> <p>Dividends 95.00 yen per share Up 10.00 yen from FY Mar. 2025 (Dividends have increased for 12 consecutive years) Including a commemorative dividend of 5.00 yen for the Group's 30th anniversary</p> </td> <td> <p>Purchase of treasury shares 1 billion yen* <small>*We will purchase treasury shares flexibly in consideration of the trends in our performance and the stock market and other factors.</small></p> </td> </tr> </table>	<p>Dividends 95.00 yen per share Up 10.00 yen from FY Mar. 2025 (Dividends have increased for 12 consecutive years) Including a commemorative dividend of 5.00 yen for the Group's 30th anniversary</p>	<p>Purchase of treasury shares 1 billion yen* <small>*We will purchase treasury shares flexibly in consideration of the trends in our performance and the stock market and other factors.</small></p>
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[Dogu]

Regarding the changes to our shareholder return policy, we regularly engaged in discussions with key members about how to balance dividends with the purchase of treasury shares. We reached the conclusion that we should continue to increase dividends while actively implementing treasury share buy-backs, and this led to the change in policy.

[Moderator]

This concludes the Q&A session. If you have any questions about the contents of today's briefing, please contact Fumihiko Tanizaki from the Investor Relations Office.

[Dogu]

Personally, I am not exactly comfortable with this online format where we speak one-sidedly without being able to see anyone's faces, but if you have any feedback or questions, please feel free to reach out to our Investor Relations Office.

[Moderator]

This concludes the Digital Arts Inc. financial results briefing for the fiscal year ended March 31, 2025. Thank you for taking the time out of your busy schedules to take part in today's proceedings.