Digital Arts Inc.
Financial Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2027
[Transcript]

*Note: This document is an edited and organized version of the remarks made during the financial results briefing for IR disclosure and investor reference.

Event Overview

Company name	Digital Arts Inc.
Securities Code	2326
Event name	Financial Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2027
Event Type	Briefing for Institutional Investors and Analysts
Fiscal Period Under Review	Second Quarter (First Half) of the Fiscal Year Ending March 31, 2027
Schedule	Monday, November 2, 2026
Time	4:00pm-4:30pm (JST)
Format	Streamed Online
Speakers	Toshio Dogu, Representative Director, President and CEO Fumihiko Tanizaki, General Manager, Investor Relations Office

Moderator's Remarks

As scheduled, we will now begin the Digital Arts Inc. financial results briefing for the second quarter of the fiscal year ending March 31, 2027.

Today's attendees are Toshio Dogu, Representative Director, President and CEO, and Fumihiko Tanizaki, General Manager of the Investor Relations Office. Mr. Dogu will now provide an overview of our financial results.

Presentation by Toshio Dogu, Representative Director, President and CEO

I will now explain the overview of our financial results for the second quarter of the fiscal year ending March 2027. Thank you for joining us today.

Apology and Explanation Regarding the Unauthorized Access

First, I would like to offer my sincere apologies to our investors and shareholders for the concern and inconvenience caused by the unauthorized access to the Company that we recently announced.

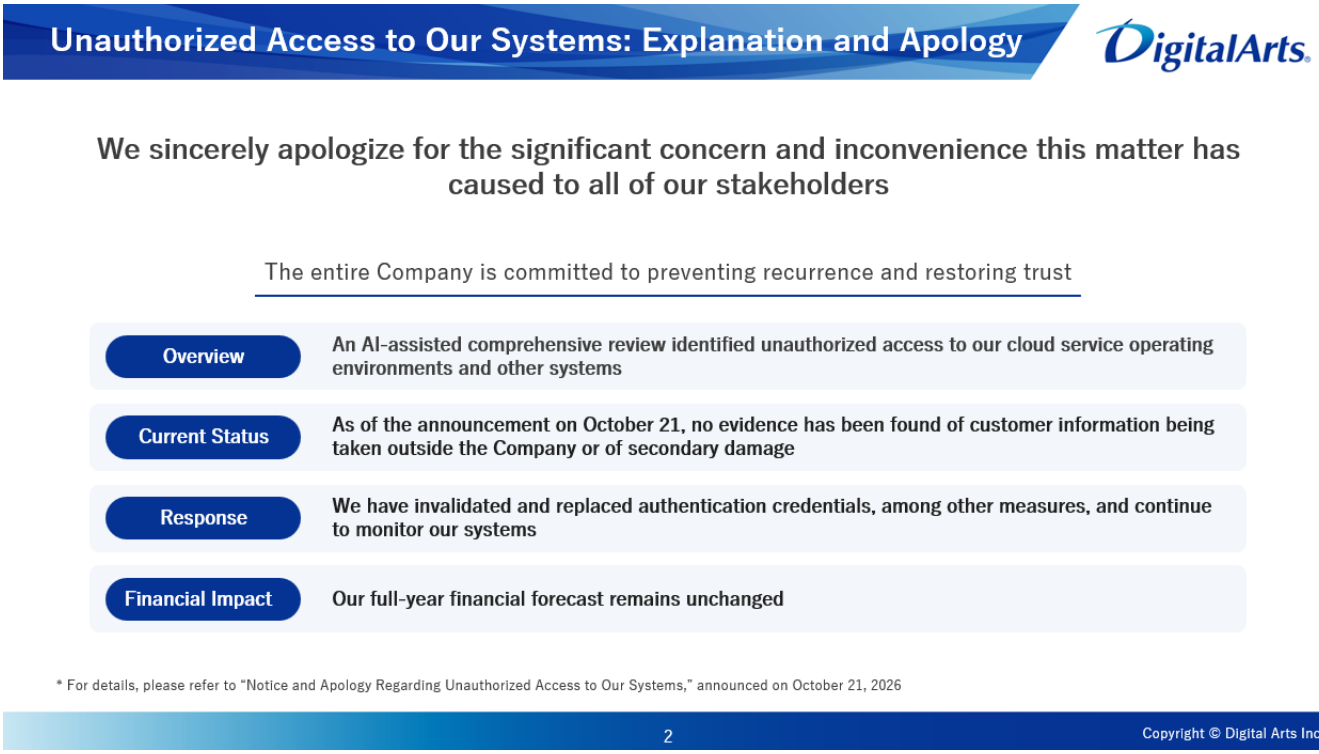
On October 9, we conducted a company-wide inspection of our systems, products, and internal environment using AI, and as a result, we identified traces of unauthorized access to the operating environment of our cloud services and to our internal environment. Specifically, credentials used to operate our cloud services had been illicitly obtained by a third party and used to access the service operating environment. Upon discovery, we promptly took the necessary measures and made a public announcement on October 21.

This incident stemmed from an issue in our operational management; there was no problem with the security features of our products themselves, including White Operation. As of the time of the announcement, no exfiltration of customer information or secondary damage had been confirmed.

We take this incident very seriously and are working to prevent recurrence by strengthening credential management, access control, and monitoring. There is no change to our full-year financial forecast. Should any matters arise that require disclosure regarding the impact on our business performance, we will announce them promptly.

In addition, I personally spoke with major partners and end users. They understand that this incident did not involve any problem with the security features of our products themselves. Our partners have told us that they will continue to sell our products, and end users have told us that they will continue to use them.

We remain committed to responding to this matter and preventing recurrence, while continuing to provide our services and conduct our business as usual.



First-Half Results, Operating Margin, and Full-Year Plan

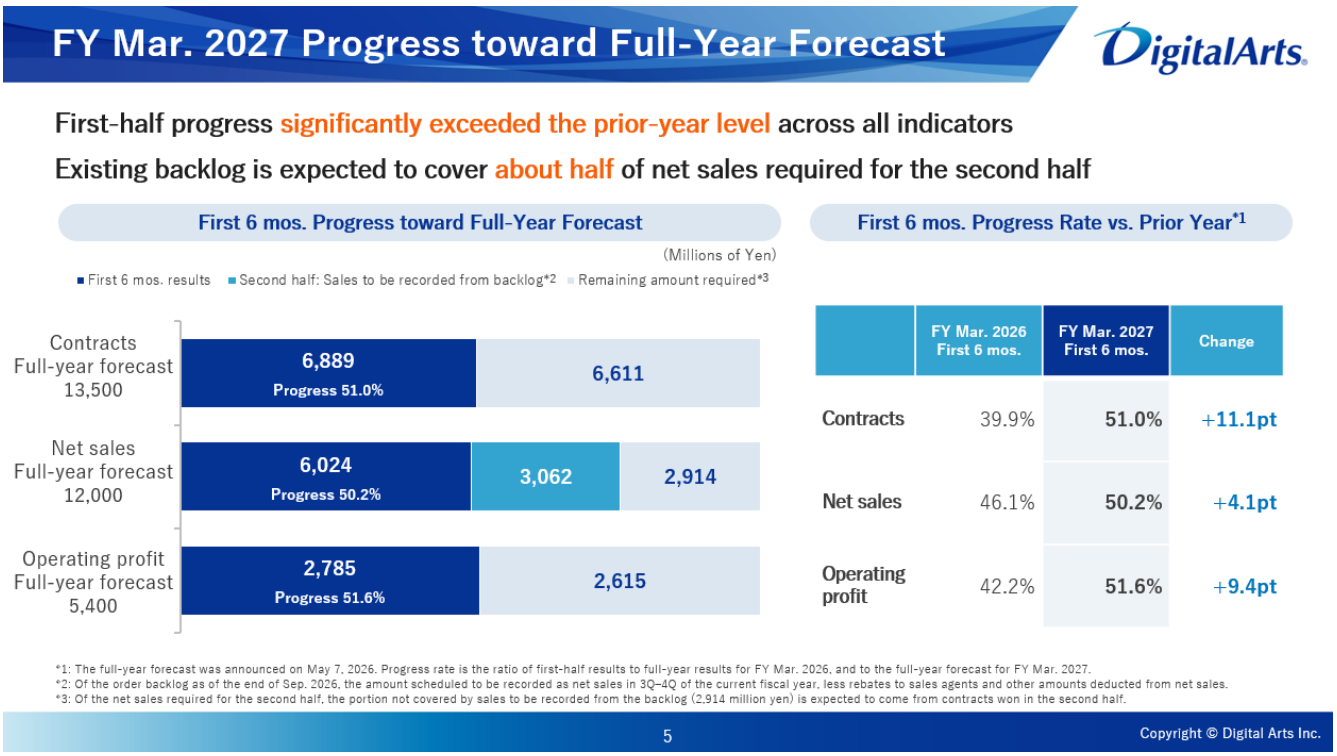


Now for our first-half results. Contracts totaled 6,889 million yen, net sales 6,024 million yen, and operating profit 2,785 million yen, making this an even stronger first half than in previous years. We are also making steady progress toward our annual plan.

In particular, while projects for Phase 2 of the GIGA School Concept decreased year-on-year, orders for other public sector projects grew significantly. Net sales also performed well, due in part to progress in the posting of sales from contracts for cloud service products received in prior fiscal years.

As a result, operating profit also significantly exceeded the company plan for the first half, as the increase in expenses was limited relative to the increase in net sales.

The operating margin was 46.2%, up 5.7 percentage points year-on-year. The main factors were an increase of approximately 690 million yen in net sales from progress in the posting of sales of cloud service products received in prior fiscal years, and an increase of approximately 340 million yen from the posting of sales of on-premises (license sales products) projects, mainly for central government agencies and local governments. Meanwhile, the increase in expenses was limited, so the improvement in the operating margin was driven mainly by the increase in net sales.

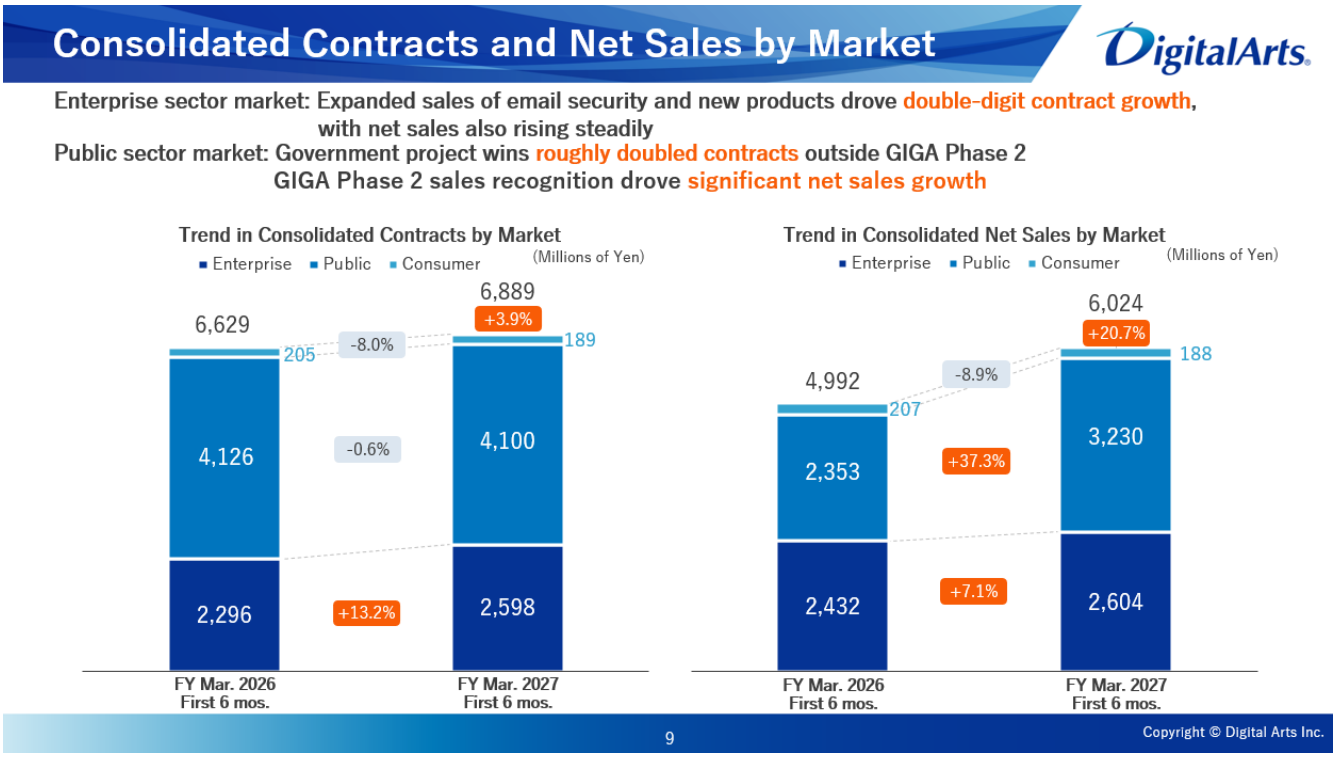


Our full-year net sales plan is 12,000 million yen. Combining first-half net sales with the sales we expect to post in the second half from the existing contract backlog, approximately 9,100 million yen is already in sight.

We have maintained our full-year financial forecast this time, taking into comprehensive account factors such as the timing of orders for public sector projects in the second half. Should a revision become necessary, we will disclose it promptly.

New projects for the second half continue to accumulate, and at this point we have not identified any impact of the unauthorized access on our second-half performance.

Status by Market, Cloud Service Products, and Contract Backlog

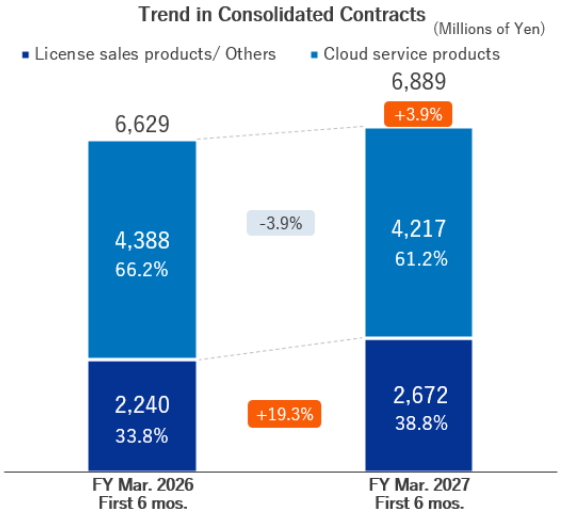


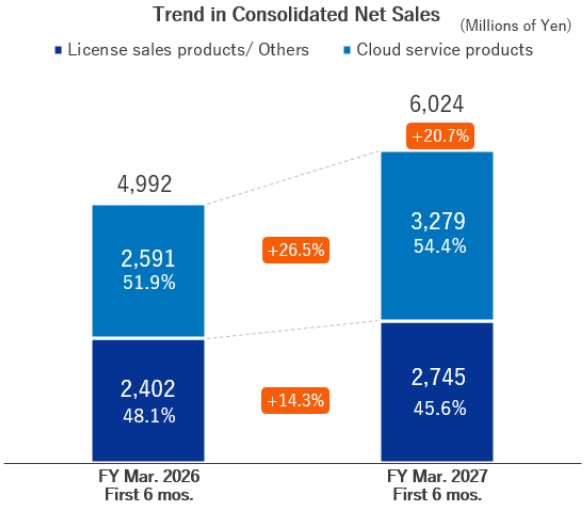
Next, I will explain the situation by market. For Phase 2 of the GIGA School Concept, about 50% of device replacements were carried out in the previous fiscal year, and the number of projects has decreased this fiscal year as a rebound effect. On the other hand, orders for central government and local government projects outside Phase 2 of the GIGA School Concept were strong, and public sector contracts excluding Phase 2 of the GIGA School Concept were approximately double those of the same period of the previous year.

Net sales in the public sector market as a whole were also strong, driven by progress in the posting of sales from cloud contracts for Phase 2 of the GIGA School Concept received in prior fiscal years, as well as contributions from on-premises (license sales products) projects for central government agencies and local governments.

Provision Type Ratio in Consolidated Contracts and Consolidated Net Sales

Cloud service product contracts decreased year on year due to lower GIGA Phase 2 orders, while net sales grew significantly, supported by the posting of sales from contracts acquired in previous fiscal years
The cloud service product ratio in consolidated net sales rose to 54.4%



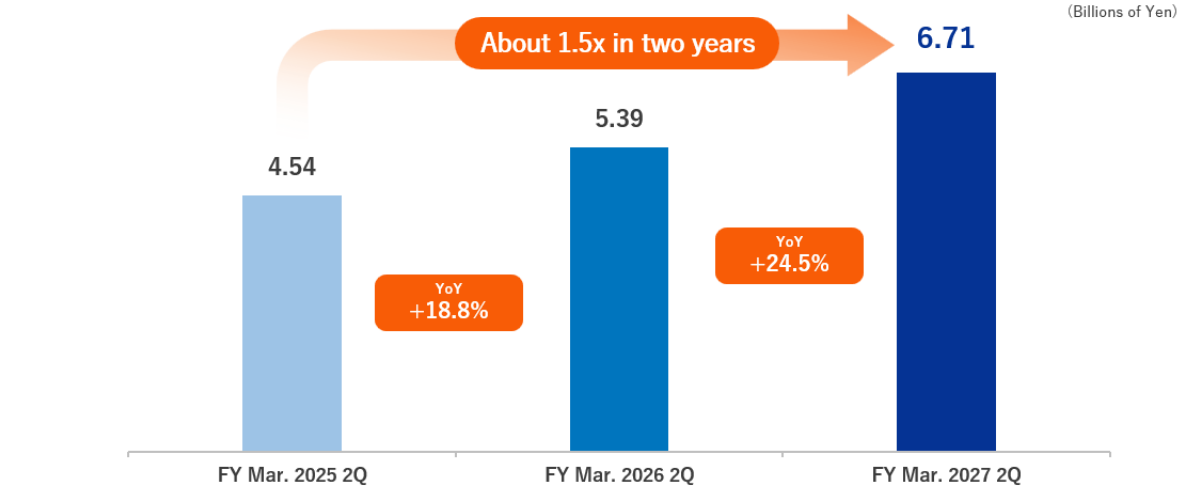


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Next, I will explain the composition of cloud service products and license sales products. Contracts for cloud service products decreased 3.9% year-on-year, and their share fell from 66.2% to 61.2%, mainly because projects for Phase 2 of the GIGA School Concept decreased year-on-year. Meanwhile, sales continue to be posted from contracts for cloud service products acquired in prior fiscal years (mainly projects for Phase 2 of the GIGA School Concept), and net sales of cloud service products are steadily building up.

Trend in Annualized Sales of Cloud Service Products (2Q)

Sales of cloud service products reached a record high, expanding to about 6.7 billion yen on an annualized basis
About 1.5 times the level of two years earlier, with YoY growth accelerating to +24.5%



* Annualized sales = 2Q sales of cloud service products for each fiscal year × 4. YoY growth compares 2Q net sales.

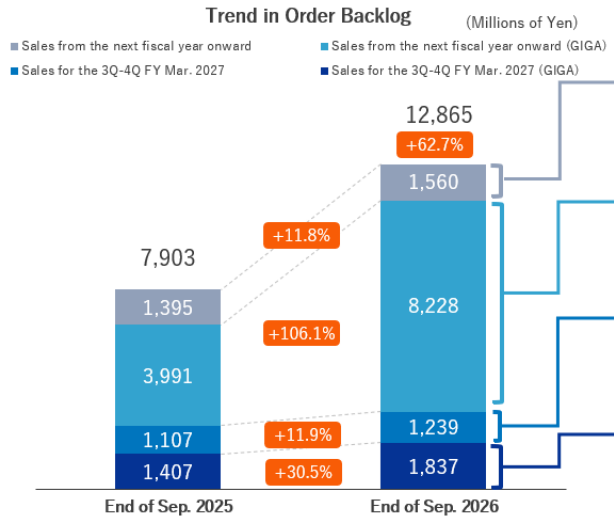
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Net sales of cloud service products have been increasing as contracts from prior fiscal years accumulate, growing approximately 1.5 times over about two years.

Trend in Order Backlog

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Continued GIGA Phase 2 orders drove a significant increase in order backlog



Sales from the next fiscal year onward

- The order backlog increased as new multi-year contracts, including central government projects, outpaced sales posted from prior-year orders.

Sales from the next fiscal year onward (GIGA)

- The order backlog increased significantly due to continued orders for Phase 2 of the GIGA School Concept.

Sales for the 3Q-4Q FY Mar. 2027

- Sales to be posted for 3Q-4Q of the current fiscal year increased due to orders for enterprise cloud service projects and Next-Generation School Affairs DX projects, among others.

Sales for the 3Q-4Q FY Mar. 2027 (GIGA)

- Sales to be posted for 3Q-4Q of the current fiscal year increased due to continued orders for Phase 2 of the GIGA School Concept.

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Next, I will explain the trend in the contract backlog. The contract backlog for Phase 2 of the GIGA School Concept has roughly doubled year-on-year. A certain volume of projects is being implemented this fiscal year as well, and the contract backlog continues to build. Because this increase in the contract backlog, centered on public sector projects, will be posted as sales over the respective contract periods, we believe it will lead to continued growth in net sales.

Expenses and Financial Condition

Consolidated Cost of Sales and SG&A Expenses

Cost of sales rose with cloud user growth and new releases, but grew more slowly than net sales. SG&A expenses fell, mainly as prior-year 30th anniversary costs did not recur.

(Millions of Yen)

	FY Mar. 2026 First 6 mos.	FY Mar. 2027 First 6 mos.	Change YoY	Main Factors for Change
Cost of sales	1,559	1,864	+305	
Labor	606	605	-1	
Depreciation	419	503	+84	Increased due to higher software amortization from new product releases
Communication expenses	780	1,030	+249	Increased due to an increase in the number of cloud service product users
Others	273	325	+51	Increased due to higher usage fees for AI tools, etc.
Transfer to other accounts	-520	-600	-79	
Selling, general and administrative expenses	1,411	1,373	-37	
Personnel expenses	770	711	-59	
Advertising expenses	119	169	+49	Increased due to exhibiting at events for the education sector
Others	521	493	-28	Decreased due to reduced recruitment expenses

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We are sometimes asked whether the significant increase in the operating margin was due to headcount reductions or restraint on salaries, but we have not taken any such measures. The rise in the operating margin reflects the absence this fiscal year of expenses related to our 30th anniversary, which were incurred in the previous fiscal year, as well as the significant increase in net sales.

On the other hand, communication expenses increased by approximately 30% year-on-year due to the growing number of users of cloud service products.

Consolidated Balance Sheet

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Advances received rose sharply on contract growth, expanding the base for future sales
Equity ratio fell mainly as advances received expanded total assets

(Millions of Yen)

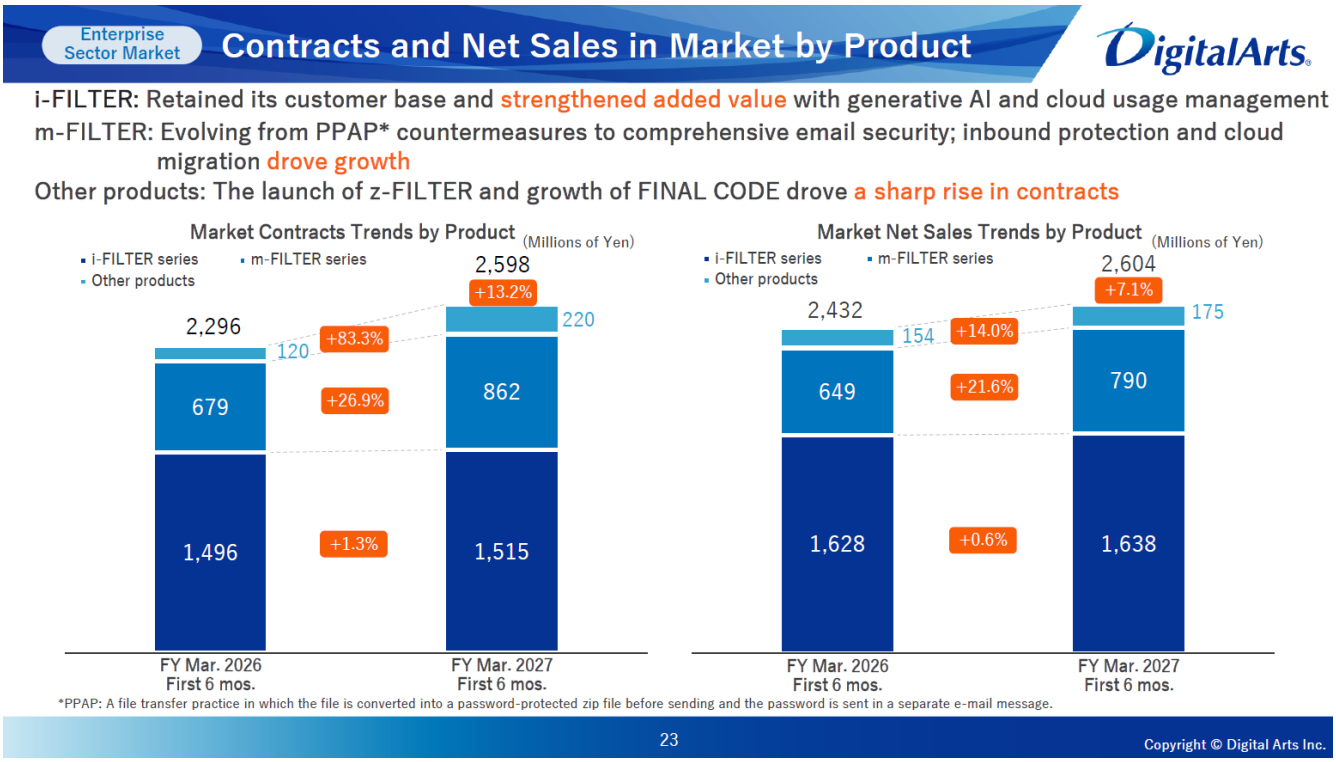
	As of end of 2Q FY Mar. 2026	As of end of FY Mar. 2026	As of end of 2Q FY Mar. 2027	Change from end of FY Mar. 2026	Main Factors for Changes
Current assets	21,274	25,080	29,288	+16.8%	Increase in cash and deposit (+4,405M)
(Cash and deposit)	19,638	23,083	27,488	+19.1%	Increased due to growth in orders
Non-current assets	2,587	2,784	2,884	+3.6%	Software (-172M), Software in progress (+232M)
Total assets	23,862	27,865	32,173	+15.5%	
Current liabilities	6,177	9,358	12,778	+36.5%	Advances received (+3,357M), Income taxes payable (+135M)
(Advances received)	4,865	7,800	11,157	+43.0%	Increased significantly due to the accumulation of contracts
Non-current liabilities	52	52	52	-0.6%	
Equity capital	17,603	18,425	19,322	+4.9%	Profit (+1,924M), Dividends paid (-672M), Treasury share buy-back (-665M), Exercise of stock options (+286M)
Net assets	17,632	18,454	19,342	+4.8%	
Equity ratio	73.8%	66.1%	60.1%	-	Decreased due to higher advances received driven by contract growth
ROE	8.1%	19.2%	10.2%	-	ROE and ROA for the interim period are calculated by dividing profit attributable to owners of parent for the six-month period by equity capital (ROE) or total assets (ROA), each averaged between the beginning of the period and the end of the interim period. Figures are not annualized.
ROA	6.1%	13.6%	6.4%	-	

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Regarding the balance sheet, I would like to draw your attention in particular to advances received. For both the public and enterprise sectors, we in principle receive contract payments in advance, and advances received increased by approximately 43% from the end of the previous fiscal year. While the increase in advances received pushes down our equity ratio, it shows that sales to be posted in the future are steadily building up.

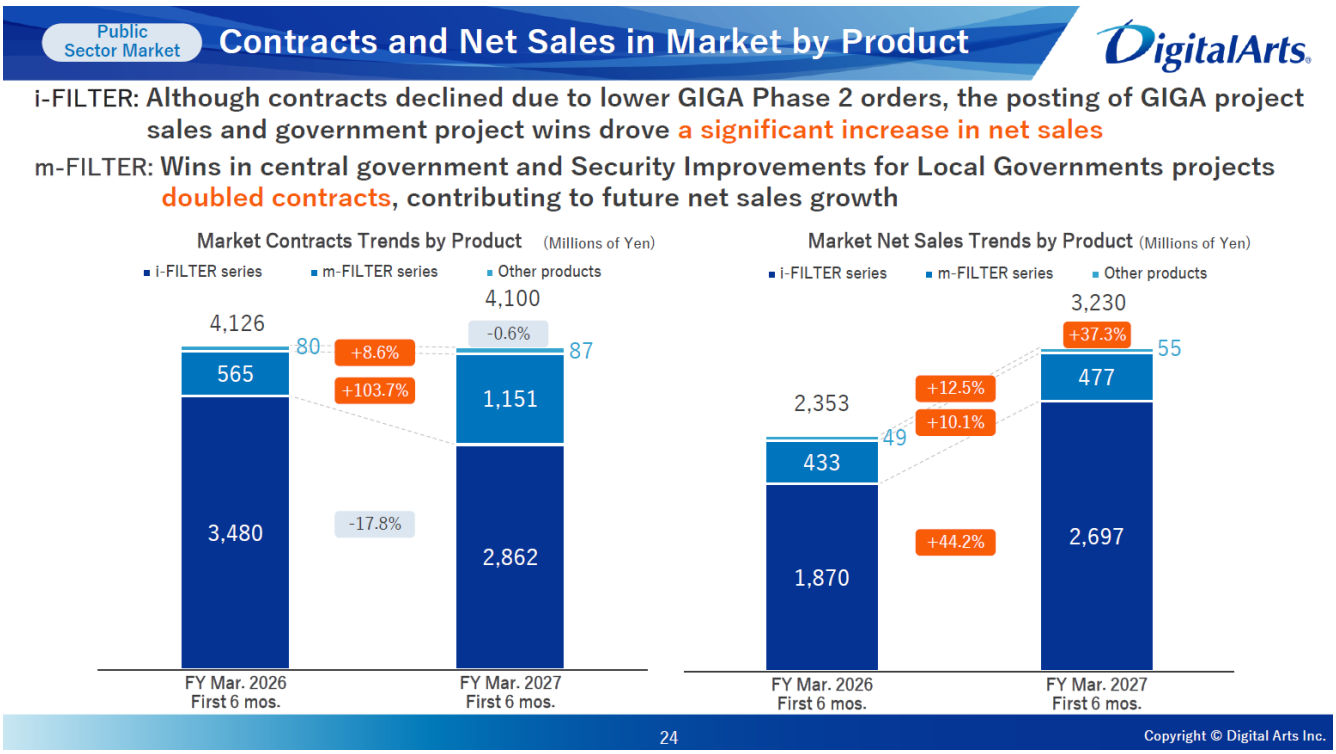
Product Trends in the Enterprise and Public Sector Markets



These are contracts and net sales in the enterprise sector market. m-FILTER in particular grew significantly, with contracts increasing by approximately 27% year-on-year, driven by demand for inbound email security, measures to replace PPAP, prevention of misdirected emails, and migration to cloud services.

Meanwhile, growth of i-FILTER was limited, partly because a growing number of customers are considering migrating to z-FILTER, which offers a broader range of security features. For z-FILTER, we announced a partnership with NEC Corporation, and we also expect demand for security measures to grow in the public sector market, so we are confident in its future growth. In addition, the number of z-FILTER projects increased significantly over the past six months. Sales through the partnership with NEC are still in the start-up phase, and these projects were generated mainly through our high-touch sales and other efforts.

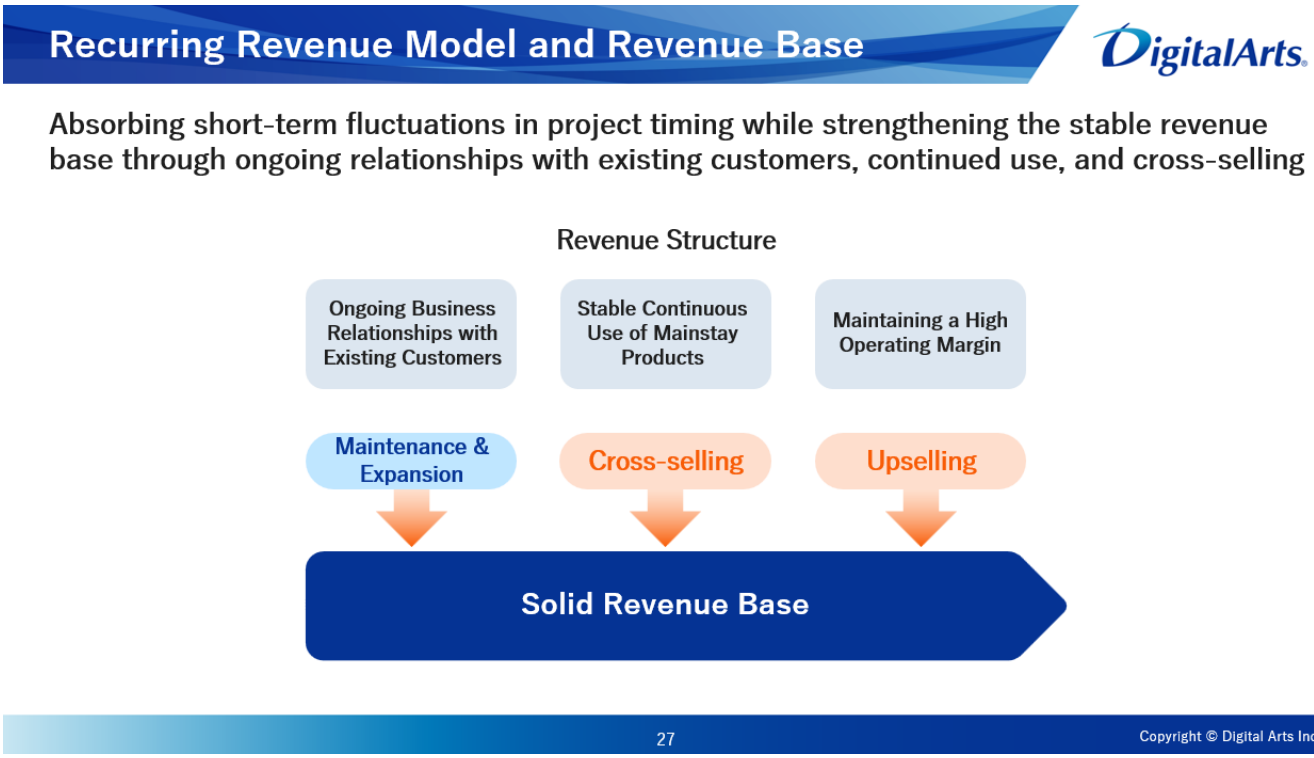
In the second half, we will continue to expand sales of new products, collaborate with partner companies, and strengthen high-touch sales.



These are contracts and net sales in the public sector market. Contracts for i-FILTER decreased. We had anticipated this as a rebound effect, since device replacements under Phase 2 of the GIGA School Concept peaked at about 50% of the total in the previous fiscal year and are expected to be about 28% this fiscal year. However, thanks to progress in winning central government and local government projects outside Phase 2 of the GIGA School Concept, the decrease was limited to 17.8%. Contracts for m-FILTER roughly doubled year-on-year, driven by email security projects for central government agencies and local governments.

Net sales of i-FILTER increased by 44.2% year-on-year. This was due to progress in the posting of sales from cloud contracts for Phase 2 of the GIGA School Concept received in prior fiscal years, as well as contributions from on-premises projects for central government agencies and local governments.

Growth Initiatives, White Operation, and Threats in the AI Era



Until now, our business has centered on partner-based business, but starting this fiscal year, we have launched a high-touch sales model in which our sales representatives visit end users directly. In addition to building ongoing direct relationships with customers, we are working on cross-selling new products to existing users and upselling after orders are received.

Because z-FILTER has a higher unit price than i-FILTER, these initiatives will strengthen the foundation of our recurring revenue model.

White Operation
-our unique model for security measures

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Conventional security measures mainly take a "detection and response" approach that finds and blocks malicious communications and threats
As cyberattacks grow more sophisticated, companies are also expected to "eliminate attacks before they occur" by allowing only trusted communications and behavior

Point of Comparison	Conventional approaches other than White Operation	The Company's White Operation
Approach	Identify and block "malicious communications"	Allow only "trusted communications"
Defense Characteristics	Multi-layered detection and defense against known and unknown threats	In principle, block all communications that are not permitted
Learning Data	Build detection models based on attack logs	Created by the Company based on reliable sources of information
Operation	Operations required to assess and respond to threats	The Company distributes the allowlist database, reducing users' operational burden
Basis for Judgment	Judgment based on threat intelligence and communication behavior	Allowlist database created by the Company based on reliable sources of information

* The unauthorized access announced on October 21, 2026 resulted from a third party illicitly obtaining authentication credentials used to operate the Company's cloud services, and was not an intrusion exploiting vulnerabilities in the security functions of the Company's products themselves. We have also confirmed that the allowlist database has not been tampered with. For details, please refer to "Q&A for Investors and Shareholders Regarding Unauthorized Access" released on October 23, 2026 (available in Japanese only).

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The number of White Operation users reached 15.16 million as of the end of September 2026.

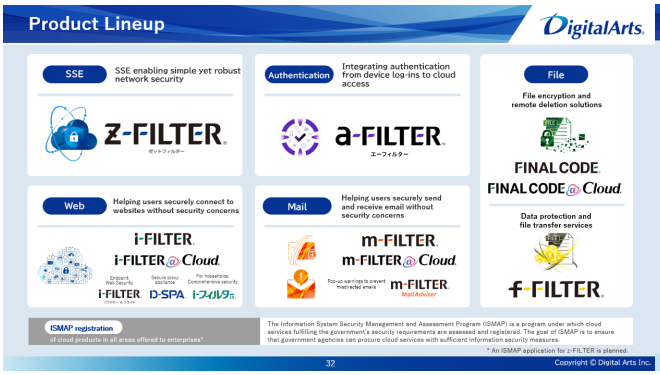
To recap, White Operation is a mechanism based on our proprietary database and technologies that, rather than identifying and blocking threatening communications one by one, allows only communications that have been verified as safe. The idea is to limit web and email access to what has been determined to be safe. The unauthorized access has had no impact on the effectiveness of White Operation, and we have also confirmed that the allowlist database has not been tampered with.

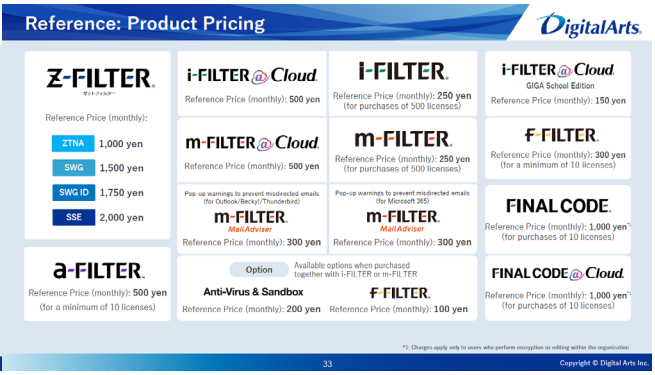
With the increase in AI-driven attacks, it is becoming difficult to defend against threats by judging only from the information displayed on websites and in emails. In such an environment, we believe the White Operation approach will become increasingly important. We will continue to provide an environment in which customers can use the web and email with peace of mind, without having to worry about the safety of individual sites.

AI can now do things close to what humans can do, and there are cases where AI-based verification uncovers problems that no one had previously noticed. Through this incident, I have once again realized that in an era when attackers use AI, it is important for defenders to make full use of AI as well, conducting verification with dedicated AI rather than relying solely on conventional manual checks.

Building on this experience, we intend to develop new products focused primarily on countermeasures against AI-driven attacks. We are also filing patent applications from a variety of perspectives, at a pace of roughly several per month, and we hope to offer these as actual services and software going forward. We aim to provide environments and solutions that protect companies and users even in the face of human error or sophisticated AI-driven attacks.

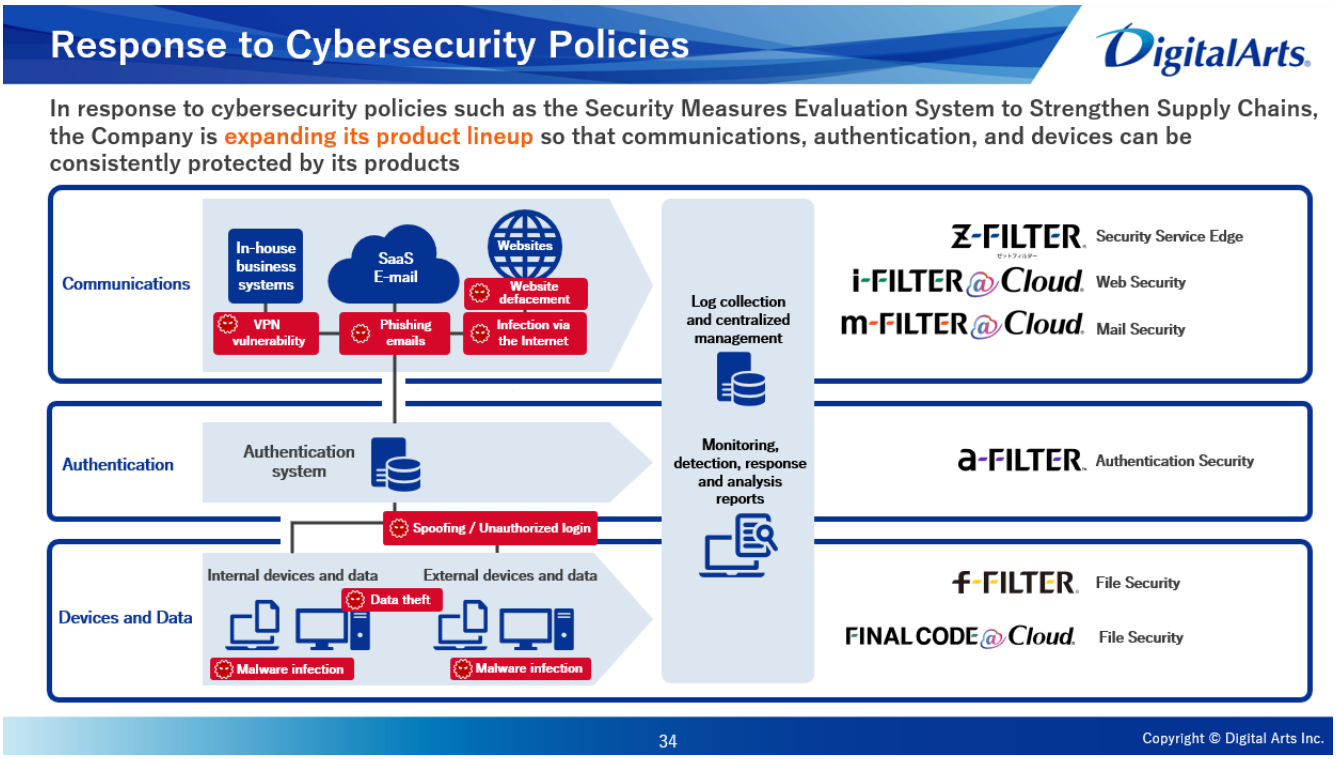
Expanding Product Areas and Internal Use of AI





Our current product lineup and prices are as shown in the materials. Going forward, we will accelerate the expansion of our product lineup so that our products can consistently protect customers' internet environments across communications, authentication, and devices.

Our current strength lies in filtering communications from inside an organization to the outside, as well as information arriving from outside. Going forward, we want to further expand the areas we protect and build a framework in which our products provide comprehensive protection.





Our internal operations are now largely based on AI. Not only in development but also in our administrative and support departments, we are making full use of AI to streamline internal operations, support the training of each employee, and improve productivity.

Financial Forecast and Shareholder Returns

Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2027 (Consolidated)

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In the first half, both net sales and profit exceeded the company plan
Taking into account the timing of public sector orders scheduled for the second half and the overall business environment, the full-year forecast remains unchanged

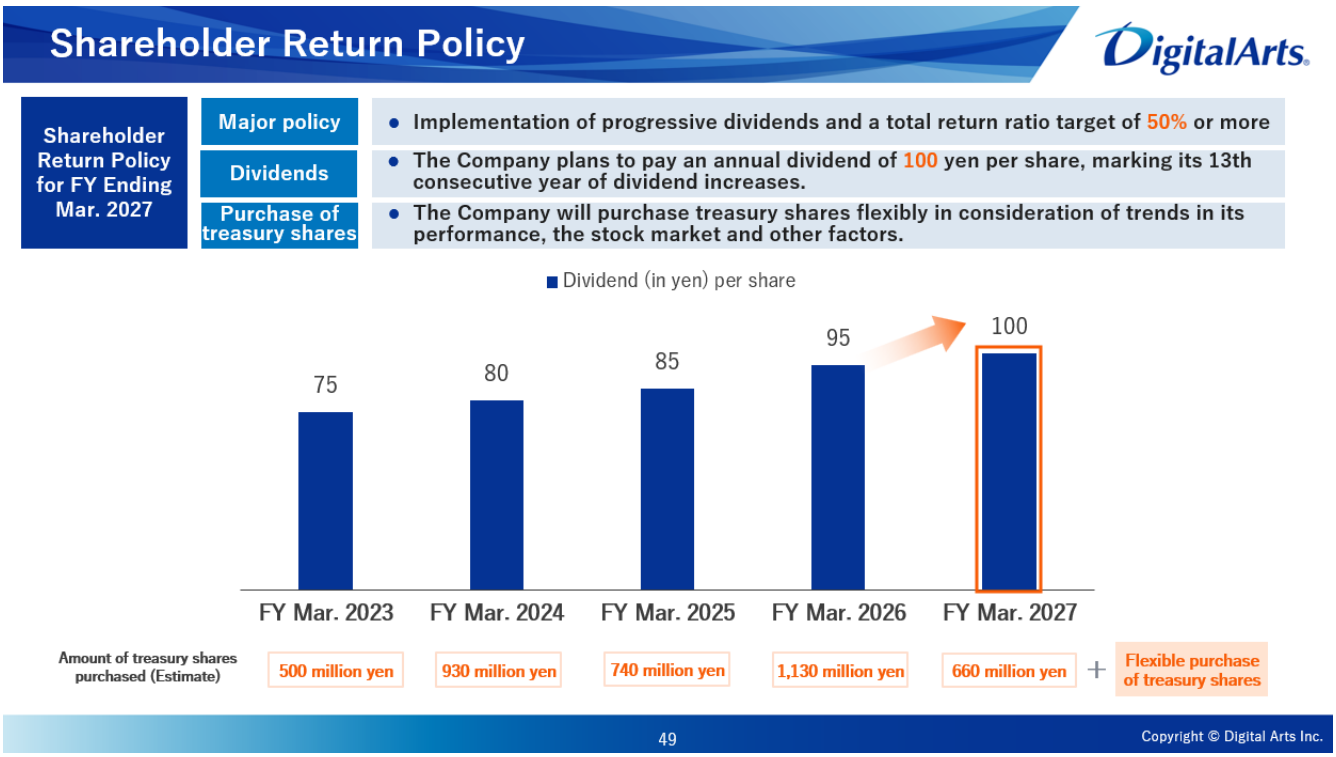
(Millions of Yen)

	FY Mar. 2026 Full-Year Results	FY Mar. 2027 Full-Year Forecast	Change	% Change	Note
Contracts	16,604	13,500	-3,104	-18.7%	Net sales are forecast to increase as a result of the accumulation of existing contracts, the expansion of sales of new and related products and the progress in the posting of sales from cloud service-related projects obtained in and before FY Mar. 2026, although contracts are expected to decrease as the acquisition of projects for Phase 2 of the GIGA School Concept has already peaked.
Net sales	10,835	12,000	+1,164	+10.8%	
Cost of sales	3,334	3,823	+488	+14.6%	Depreciation is expected to increase due to greater investment in development personnel, product enhancements, and internal DX, while communication expenses are expected to rise as the number of cloud service product users grows.
Gross profit	7,500	8,176	+676	+9.0%	
Gross profit margin	69.2%	68.1%	-	-	
Selling, general and administrative expenses	2,708	2,776	+67	+2.5%	Personnel expenses are expected to increase due to investment in human resources, including base pay increases, recruitment, and training.
Operating profit	4,791	5,400	+609	+12.7%	
Operating margin	44.2%	45.0%	-	-	
Ordinary profit	4,840	5,505	+664	+13.7%	
Profit attributable to owners of parent	3,427	3,770	+342	+10.0%	

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We have not revised our financial forecast this time. This fiscal year is the final year of our three-year Medium-Term Management Plan, and for both contracts and net sales, we aim first to achieve our targets and then to go beyond them.



Regarding shareholder returns, our dividend is as announced. In addition, we are considering the purchase of treasury shares and other measures as options. We also do not rule out M&A as an option. We will continue to strive for further growth of the Company.

This concludes my presentation. Thank you for your attention.

[Q&A]

Q1. You mentioned that the first half exceeded the company plan. Could you explain why you have maintained your financial forecast?

A1. The first half progressed very well, exceeding the company plan. However, with the second half still to come, we judged that now is not the time to revise our financial forecast. We intend to announce a revision promptly once our outlook becomes more certain based on the progress of projects going forward and we determine that a revision is necessary.

Q2. You said there is no impact from the unauthorized access at present, but is there a possibility that it could have a negative impact on customer acquisition in the future?

A2. At present, our major partners have told us that they will continue to sell our products.

While we cannot say definitively what the future impact will be, as far as we can confirm at present, we recognize that no specific negative impact on our order acquisition activities has occurred.

We will continue to make every effort to thoroughly implement measures to prevent recurrence and to restore the trust of our customers and partners.

Q3. Specifically, what measures are you taking to prevent recurrence?

A3. Internally, in addition to reviewing our entire network environment, we are strengthening credential management, tightening access control, and enhancing monitoring. For the services we provide to customers, we are also strengthening security measures by conducting inspections and verifications from new perspectives using AI. We will make every effort to prevent recurrence and restore trust so that a similar incident does not occur again. Details of the specific measures are also provided in the notices we have published, so please refer to them as well.

[Reference Materials]
Notice and Apology Regarding Unauthorized Access to Our Systems
https://www.daj.jp/en/ir/pdf/FY0327_3q_1.pdf

Q&A for Investors and Shareholders Regarding Unauthorized Access (Japanese only)
https://www.daj.jp/shared/php/downloadset/c/parts.php?page=dl&filename=daj2326_unauthorized-access_faq.pdf

Q4. I am concerned that the unauthorized access may affect sales activities by your partner for z-FILTER. Could you tell us about the specific situation?

A4. We have shared information about this incident with our partner and are continuously communicating with them about our response and our measures to prevent recurrence. As for sales through the partnership, since it was launched only recently, we expect it to ramp up gradually going forward.

We will also thoroughly implement measures to prevent recurrence and make every effort to restore trust.