

Digital Arts Inc.
(Securities Code: 2326)



Financial Results for
Fiscal Year Ended March 2016
(April 1, 2015 through March 31, 2016)

Supplemental Material
May 11, 2016

Financial Results FY2015

KEY FINANCIAL POINTS

① Increasingly sophisticated targeted attacks

- People rediscovered the importance of proxies and taking appropriate measures against unwanted data disclosure
- Sales expanded by meeting demands to deal with diverse and complex risks and providing immediate measures against targeted attacks through alliance with external solutions

② High interest in information security due to ongoing data leakage incidents and the need to comply with new regulations

- How can we keep sensitive material and client information secure?
- FinalCode Ver 5 : chosen for its shared folder control and auto-encryption features (400% YoY based on order volume)

③ FinalCode, Inc. secures first overseas order Sound accomplishment in global branding

- 14 deals (5 local businesses, 9 Japanese-affiliated companies)
- Significant achievements in marketing effort

Financial Results FY2015

CONSOLIDATED RESULTS HIGHLIGHT

Consolidated Net Sales

¥4,000 million

(YoY +¥597 million/ +17.6%)
(vs. forecast +¥50 million/ +1.3%)

Substantial increase in revenue: i-FILTER grew 17.6%
FinalCode demonstrated strong domestic sales

Operating Income

¥1,006 million

(YoY +¥141 million/ +16.4%)
(vs. forecast +¥6 million/ +0.6%)

Increased turnover absorbed strategic upfront investment for US subsidiary and overseas operations leading to growth in operating income

Ordinary Income

¥994 million

(YoY +¥84 million/ +9.2%)
(vs. forecast -¥8 million/ -0.9%)

Upward trend in revenues, however fell slightly short due to exchange rate fluctuations (FY14 exchange gain ¥41M, FY15 exchange loss ¥20M)

Net Income

Attributable to Owners of Parent

¥545 million

(YoY +¥14 million/ +2.8%)
(vs. forecast -31 million/ -5.5%)

Primary business was strong, however fell slightly short due to tax and other expense related to the upfront investment of US subsidiary

Consolidated Results for FY2015 Ended March 2016

(million yen)

	FY14 ended March 2015	FY15 ended March 2016	YoY Growth	FY15 Forecast※
Net Sales	3,402	4,000	+17.6%	3,950
Gross Profit	2,428	3,074	+26.6%	3,050
Selling, General and Administration Expense	1,562	2,067	+32.3%	2,050
Operating Income	865	1,006	+16.4%	1,000
Ordinary Income	910	994	+9.2%	1,003
Net Income Attributable to Owners of Parent	531	545	+2.8%	577
ROE	13.3%	12.4%	—	—
Dividend per Share	14 yen	15 yen	—	—

※ Based on FY15 forecast announced on October 29, 2015

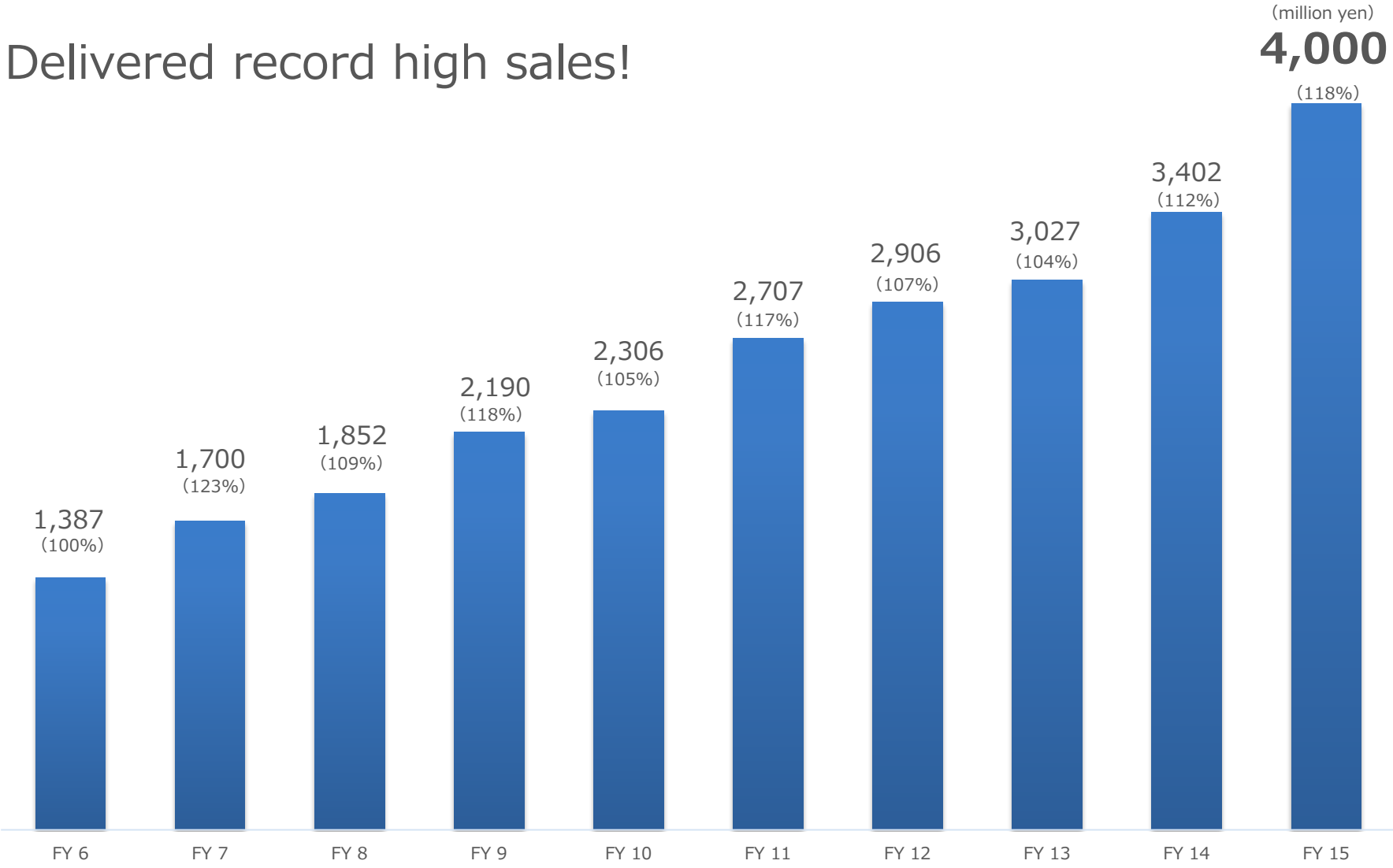
Non-consolidated Results for FY2015 Ended March 2016

(million yen)

	FY14 ended March 2015	FY15 ended March 2016	YoY Growth	FY15 Forecast※
Net Sales	3,395	4,018	+18.3%	3,915
Gross Profit	2,479	3,123	+26.0%	3,093
Selling, General and Administration Expense	1,565	1,788	+14.3%	1,696
Operating Income	913	1,335	+46.1%	1,397
Ordinary Income	926	1,328	+43.5%	1,399
Net Income	573	840	+46.4%	924
ROE	14.0%	18.0%	—	—
Dividend per Share	—	—	—	—

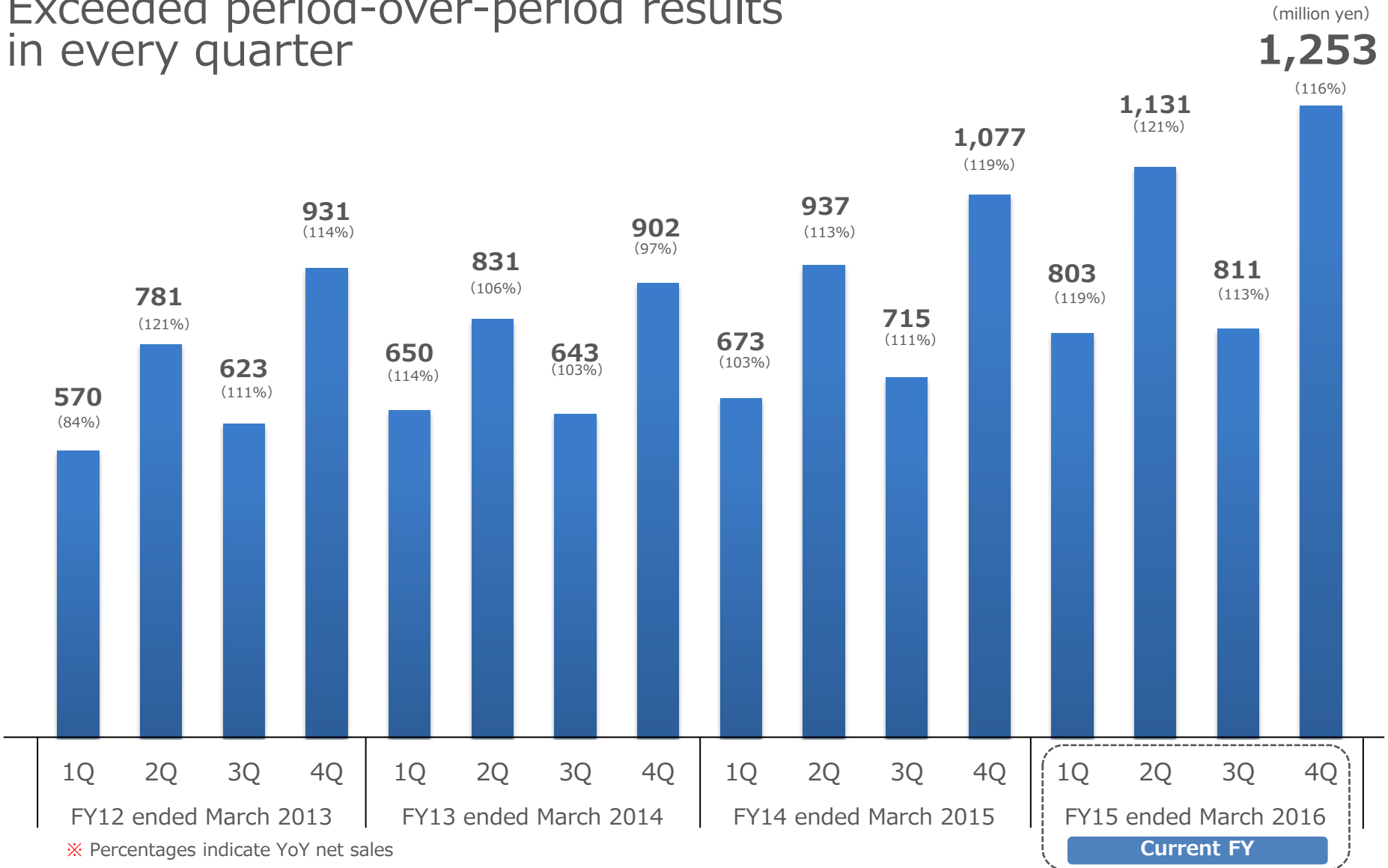
※ Based on FY15 forecast announced on October 29, 2015

Delivered record high sales!



※ Percentages indicate YoY net sales

Exceeded period-over-period results in every quarter



※ Percentages indicate YoY net sales

Current FY

- Depreciation burden and cost of sales declined
- SG&A increased mainly due to overseas operations (notably FinalCode, Inc.) gaining momentum

(million yen)

	FY14 ended March 2015	FY15 ended March 2016	YoY Growth	Key Factors
Cost of Sales	974	926	(48)	
Labor	384	373	(10)	
Depreciation	357	288	(68)	Depreciation associated with past large-scale R&D has been fully depreciated by preceding period
Transfer to other accounts Misc production cost	232	263	+31	
Selling, General and Administrative Expenses	1,562	2,067	+504	
Labor	805	1,115	+309	Includes overseas labor (+191M)
Publicity	158	271	+113	Includes overseas publicity (+61M)
Others	599	680	+81	Includes overseas misc expenses (+43M)

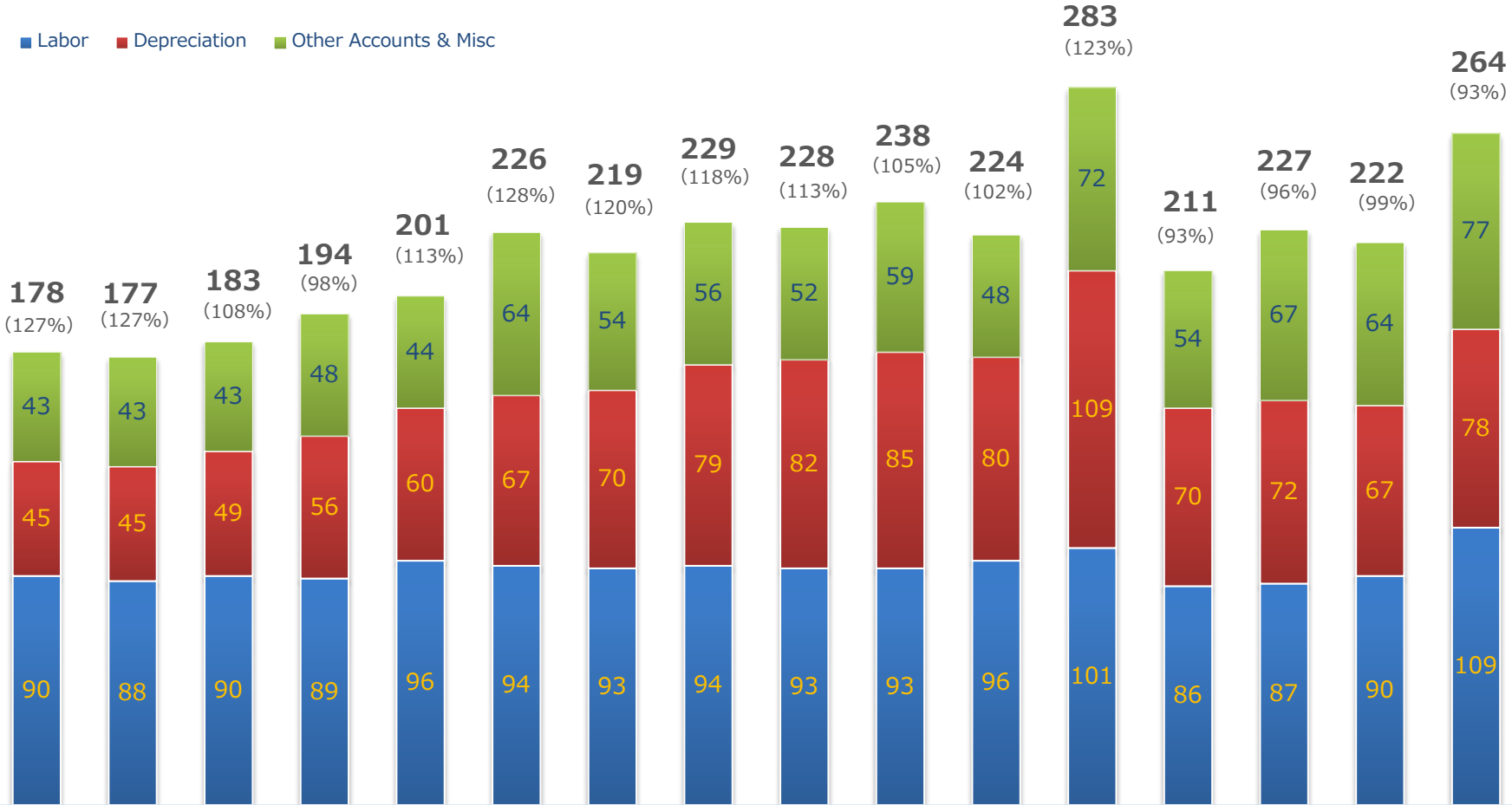
Cost of Sales (by Quarter)



No significant changes in the breakdown of cost of sales

(million yen)

■ Labor ■ Depreciation ■ Other Accounts & Misc



※ Percentages indicate YoY cost of sales

FY15 ended March 2016
Current FY

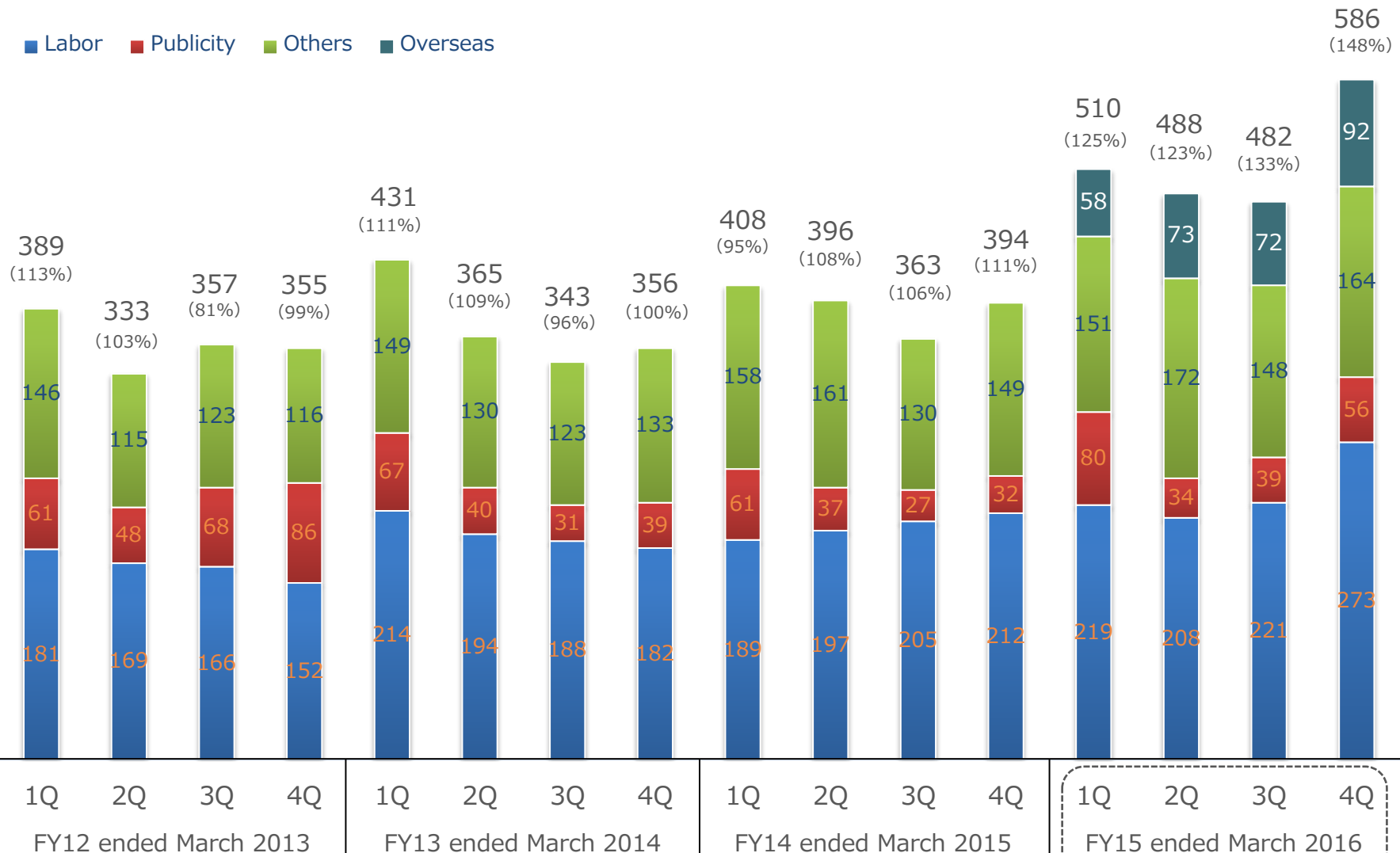
Selling, General and Administrative Expenses (by Quarter)



Increased due to up-front investment in overseas operations

(million yen)

■ Labor ■ Publicity ■ Others ■ Overseas



※ Percentages indicate YoY cost of sales

Current FY

Financial Results FY2015

BY MARKET SEGMENT

- +17.6% growth in consolidated sales
- Accelerated growth in Business/Enterprise Segment +17.9% and Government & Education Segment +24.4%
- Consumer segment held firm despite steep decline in domestic PC shipments

Consolidated Net Sales

Net sales: ¥4,000 million +¥597 million / +17.6% YoY

Enterprise

Net sales: ¥2,240 million +¥340 million / +17.9% YoY

Public

Net sales: ¥1,418 million +¥277 million / +24.4% YoY

Consumer

Net sales: ¥ 342 million - ¥ 20 million / - 5.6% YoY

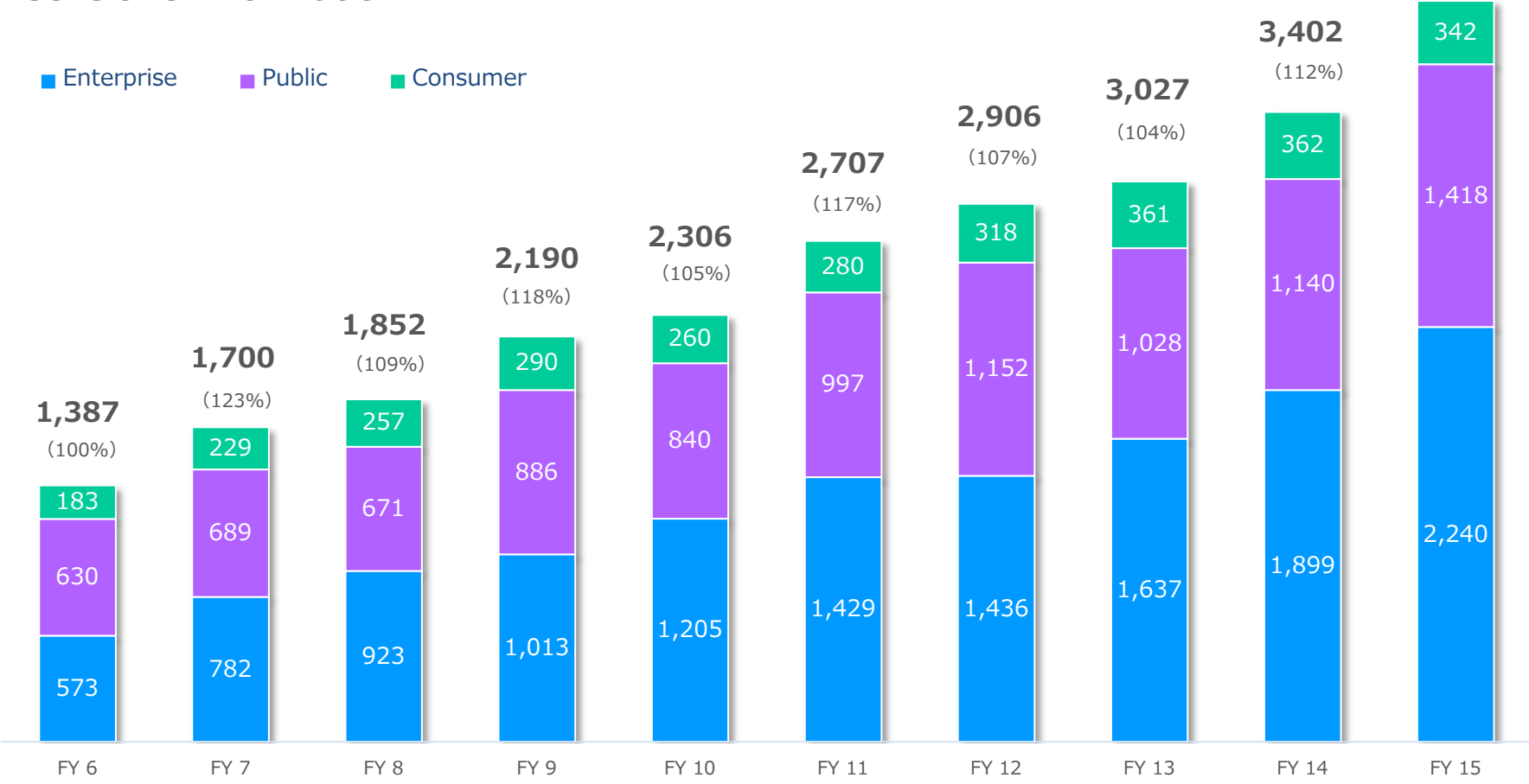
Net Sales by Market Segment



Growth rate exceeded previous periods as a result of heightened concerns by Business/Enterprise and Government & Education Segments seeking effective measures against targeted cyber attacks and unwanted disclosure of sensitive information

(million yen)
4,000
 (118%)

■ Enterprise ■ Public ■ Consumer



※ Percentage indicates YoY net sales

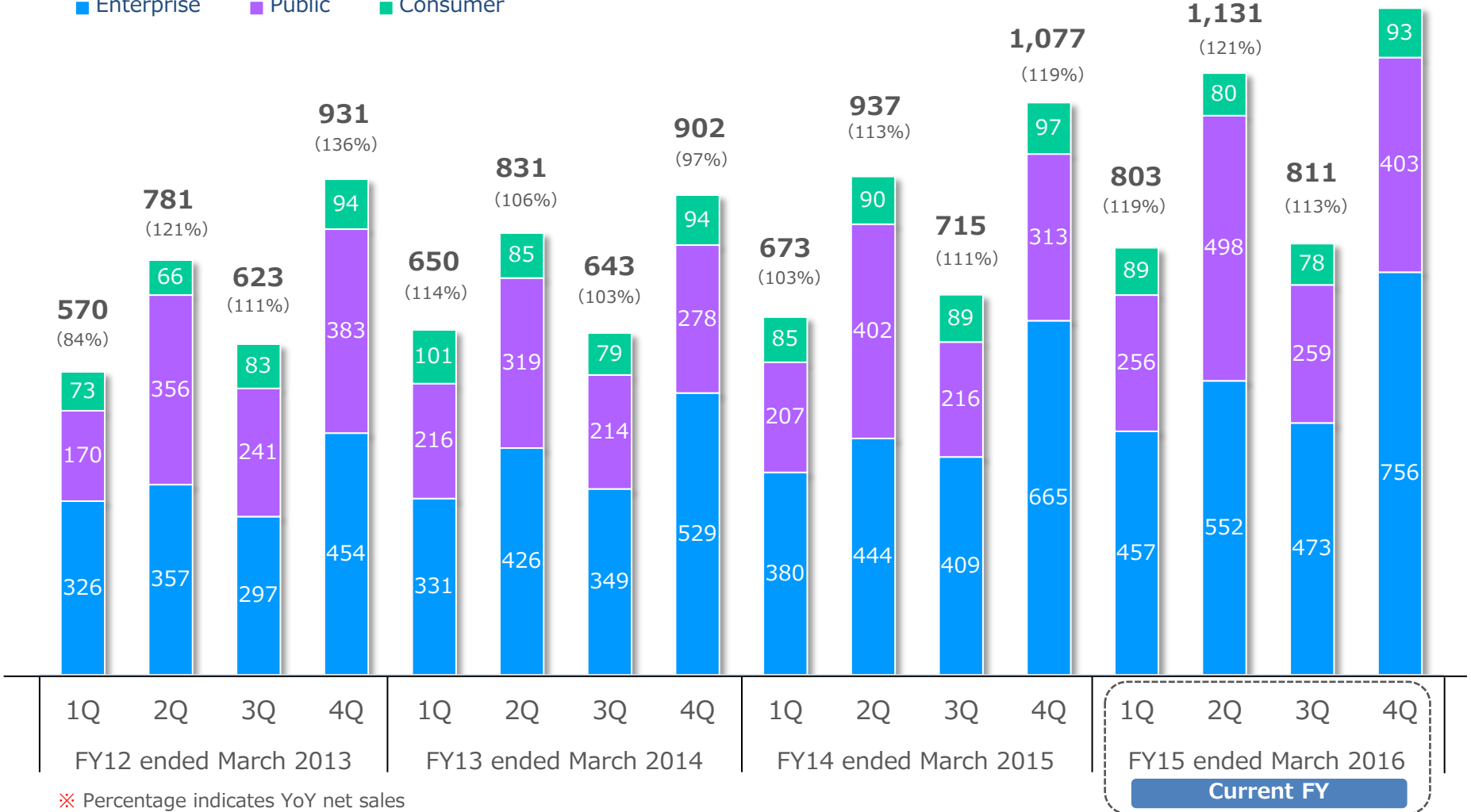
Quarterly Sales by Market Segment



Robust growth in Business/Enterprise and Government & Education Segments in each quarter year-on-year

(million yen)
1,253
(116%)

■ Enterprise ■ Public ■ Consumer



※ Percentage indicates YoY net sales

FY15 ended March 2016
Current FY

Financial Results FY2015

ENTERPRISE SEGMENT

- Mainstay i-FILTER and m-FILTER and strategic product FinalCode demonstrated robust performance
- i-FILTER and m-FILTER alliance with third-party solutions offered effective provisions to combat multi-faceted and advanced risks, and led to acquiring major new deals
- FinalCode was widely installed by companies rushing to enhance security in light of frequent incidents with leaks of important information

i-FILTER + 13.8 %

m-FILTER + 15.0 %

ID-SPA + 39.6 %

FINALCODE + 257.0 %



Financial Results FY2015

PUBLIC SEGMENT

- Flagship product i-FILTER demonstrated solid performance while FinalCode sales continued to expand
- i-FILTER alliance with third-party solutions led to acquiring major new deals seeking advanced security measures
- i-FILTER Browser & Cloud (mobile device edition) was widely installed as a result of a new trend of ICT education utilizing tablet devices in the classrooms

i-FILTER + 22.9 %

m-FILTER + 5.8 %

ID-SPA + 42.8 %

FINALCODE 13.5 folds



Financial Results FY2015

CONSUMER SEGMENT

- i-FILTER sales decreased mainly due to a substantial drop in domestic PC sales
- i-FILTER® for Multi Device (one serial ID to cover multiple OS) demonstrated strong performance
- i-FILTER for New Nintendo 3DS™, Nintendo's handheld game player launched in the preceding consolidated fiscal year, continued to accumulate strong figures

PC

(28.1 %)

Game Console/
TV

+ 29.3 %

Mobile Device

+ 41.6 %

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Financial Results FY2015

OVERSEAS MARKET

- Sales performance for FY15 ended March 2016
 - ✓ Acquired 14 deals (5 local businesses, 9 Japanese-affiliated companies)
- Significant marketing achievement
 - ✓ Sound accomplishment in global marketing, including winning awards given to successful global security vendors



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Financial Results FY2015

FY2016 OUTLOOK

Consolidated Results Forecast for FY16 Ending March 2017

- Domestic market environment in FY15 is anticipated to continue into FY16
- Overseas operations is projected with a conservative outlook although performances are expected to accumulate steadily
- Profit is expected to accelerate as overseas investments will stay within a slight increase

(million yen)

	FY15 ended March 2016 Actual	FY16 ending March 2017 Forecast	Growth Rate
Net sales	4,000	4,600	15.0 %
Gross Profit	3,074	3,652	18.8 %
Selling, General and Administration Expense	2,067	2,252	9.0 %
Operating Income	1,006	1,400	39.1 %
Ordinary Income	994	1,400	40.8 %
Net Income Attributable to Owners of Parent	545	870	59.5 %
Dividends per Share	15 yen	20 yen	—

Non-Consolidated Results Forecast for FY2016 Ending March 2017

- Favorable domestic market environment in FY15 is likely to continue into FY16

(million yen)

	FY15 ended March 2016 Actual	FY16 ending March 2017 Forecast	Growth Rate
Net Sales	4,018	4,598	14.4 %
Gross Profit	3,123	3,555	13.8 %
Selling, General and Administration Expense	1,788	1,843	3.0 %
Operating Income	1,335	1,712	28.3 %
Ordinary Income	1,328	1,712	28.9 %
Net Income	840	1,182	40.7 %

■ Dividend Distribution

Digital Arts plans to return profit to its shareholders as follows:

Projected dividend payout ratio for FY2016 is set at 32.0% of consolidated net income of the current period

The amount of annual dividends for FY2016 ending March 2017 is estimated at 20.00 yen per share

	Dividends per share (in yen)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY15 ended March 2016	7.00	8.00	15.00	38.2%
FY16 ended March 2017 (forecast)	10.00	10.00	20.00	32.0%

All statements herein, other than historical facts, contain forward-looking statements and are based on DA's current plans, strategies and financial forecasts. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, however environmental changes and other important factors could cause actual results to differ materially from those expressed in our forward-looking statements. All statements herein are not intended to express DA's commitment to fulfill any forward-looking statements. Updated information, if applicable, will be disclosed in a timely manner.

All numerical indications in this statement, unless noted, are rounded to the nearest million yen.

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