

Digital Arts Inc. (2326)



FY03/17 Consolidated Financial Results
For First Quarter Ended June 30, 2016
(April 1, 2016 through June 30, 2016)

Supplemental Material
July 28, 2016

FY03/17 First Quarter Financial Results

KEY FINANCIAL POINTS

① Robust sales for mainstay i-FILTER and m-FILTER

- Serious security incidents, large-scale leak of personal information via targeted attacks
- Increased awareness of the importance of improving information security

② FinalCode continues rapid growth

- FinalCode Ver. 5 provides company-wide advanced file security, meeting the needs of corporations that handles large volumes of customer data
- Robust implementation of FinalCode limited edition for local government, with simple functions that public organizations want (order volume expanded by a sharp 47 times from the previous year)

③ Guidelines on Fundamental Strengthening of Local Government Data Security (Ministry of Internal Affairs and Communication)

- Local governments allocated money for enhancing cyber security-- City, wards, towns and villages actively improving security
- Contracts soared as a result of proposing solutions that meet these guidelines

FY03/17 First Quarter Financial Results

CONSOLIDATED RESULTS HIGHLIGHTS

Consolidated Net Sales

¥ 916 million (YoY +¥113 million/ +14.1%)

Achieved significant growth YoY due to solid sales of mainstay i-FILTER, acquisition of large D-SPA contracts, and robust domestic FinalCode sales

Operating Income

¥ 99 million (YoY +¥17 million/ +21.7%)

Boast of sales increased operating income, despite increasing expenses from hiring more employees in Japan and increase in overseas locations

Ordinary Income

¥ 78 million (YoY -¥6 million/ -8.1%)

Forex losses (¥20million) from the rapid appreciation of the yen

Net Income Attributable to Owners of Parent

¥ 13 million (YoY -¥43 million/ -76.4%)

While domestic sales were robust, net income registered negative growth YoY due to investment in overseas subsidiaries and increased tax burdens (forecast factored in)

Consolidated Results

(million yen)

	FY03/16 First Quarter	FY03/17 First Quarter	YoY Growth	FY03/17 Forecast
Net Sales	803	916	+14.1%	4,600
Gross Profit	592	676	+14.2%	3,652
Selling, General and Administration Expense	510	576	+13.0%	2,252
Operating Income	81	99	+21.7%	1,400
Ordinary Income	85	78	-8.1%	1,400
Net Income Attributable to Owners of Parent	57	13	-76.4%	870
ROE	1.4%	0.3%	—	—

Non-Consolidated Results

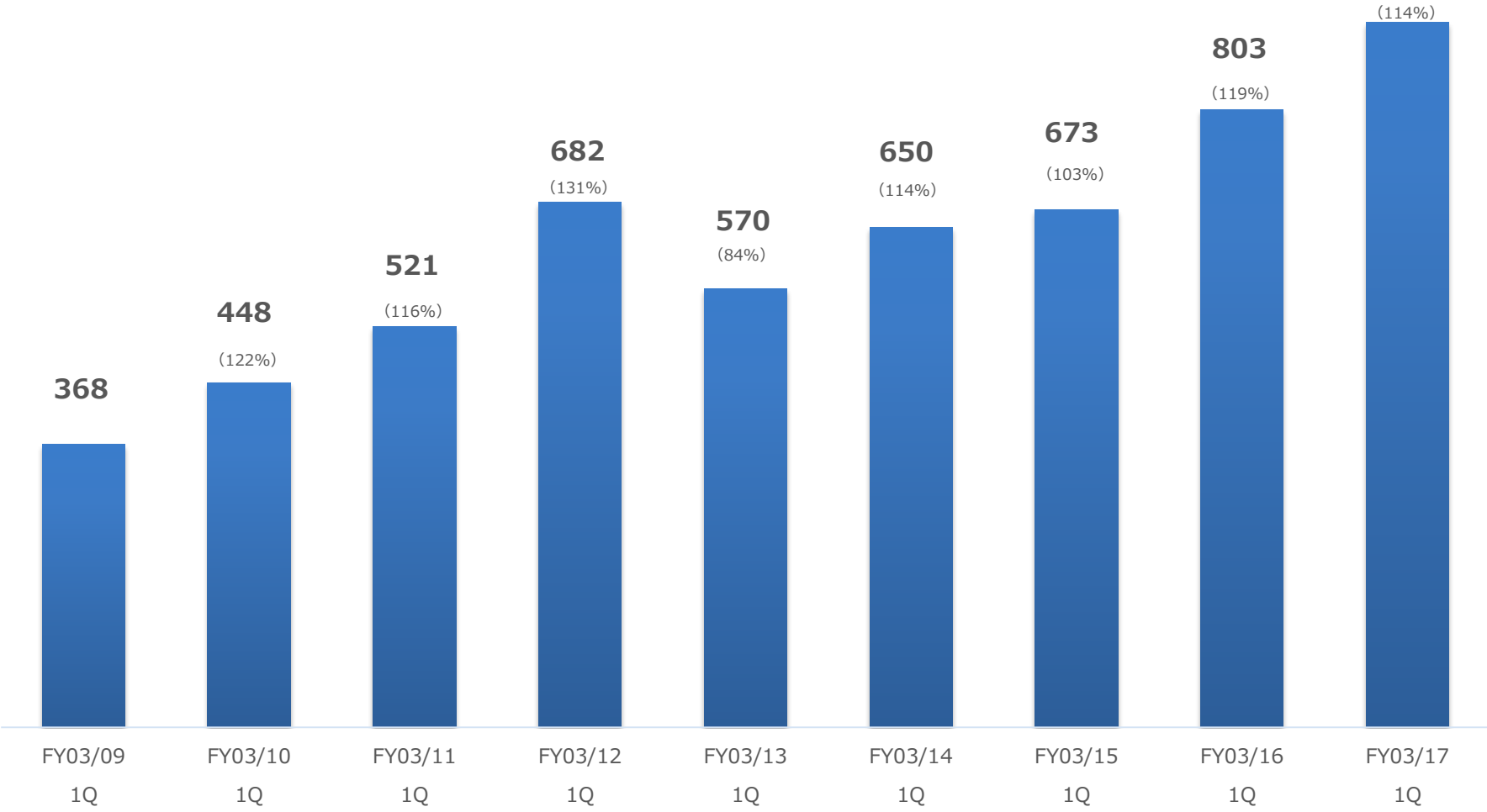
(million yen)

	FY03/16 First Quarter	FY03/17 First Quarter	YoY Growth	FY03/17 Forecast
Net Sales	802	945	+17.8%	4,598
Gross Profit	617	688	+11.4%	3,555
Selling, General and Administration Expense	450	509	+13.1%	1,843
Operating Income	167	178	+6.9%	1,712
Ordinary Income	172	161	-6.2%	1,712
Net Income	117	102	-13.2%	1,182
ROE	2.7%	2.0%	—	—

Consolidated sales were a **RECORD HIGH!**

(million yen)

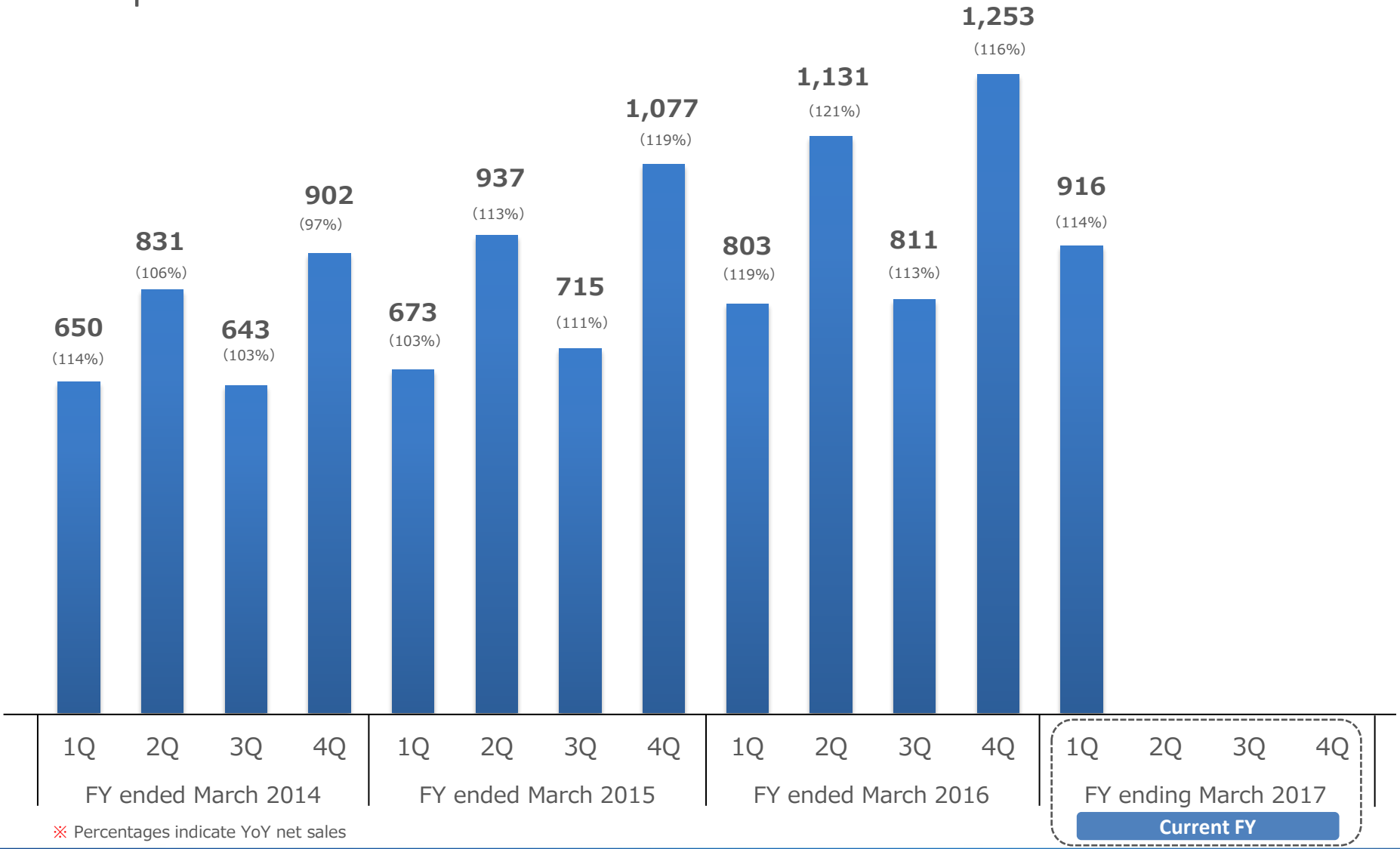
916



※ Percentages indicate YoY net sales

(million yen)

First quarter net sales exceeded forecast



※ Percentages indicate YoY net sales

- COS and SG&A increased slightly due to increased personnel expenses in Japan
However, COS and SG&A trends remain largely according to period start budget

(million yen)

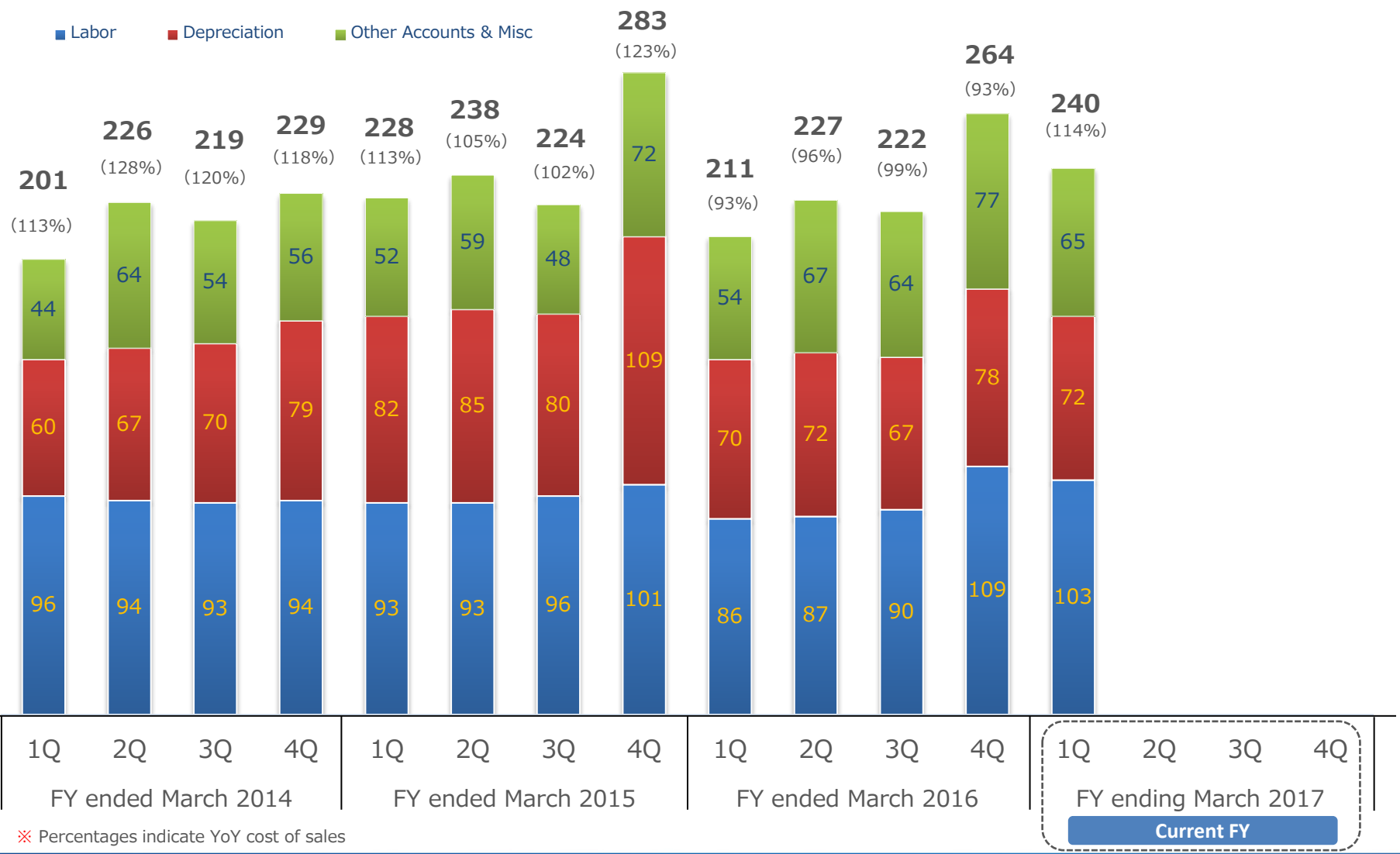
	FY03/16 First Quarter	FY03/17 First Quarter	YoY Growth	Key Factors
Cost of Sales	211	240	+29	
Labor	86	103	+16	
Depreciation	70	72	+1	
Transfer to other accounts Misc production cost	54	65	+11	
Selling, General and Administrative Expenses	510	576	+66	
Labor	250	286	+36	Incl. overseas personnel expenses (+14M)
Publicity	94	101	+7	
Others	165	188	+23	Server replacement Hiring employees in Japan, etc.

Cost of Sales (by Quarter)



No significant changes in the breakdown of cost of sales

(million yen)



※ Percentages indicate YoY cost of sales

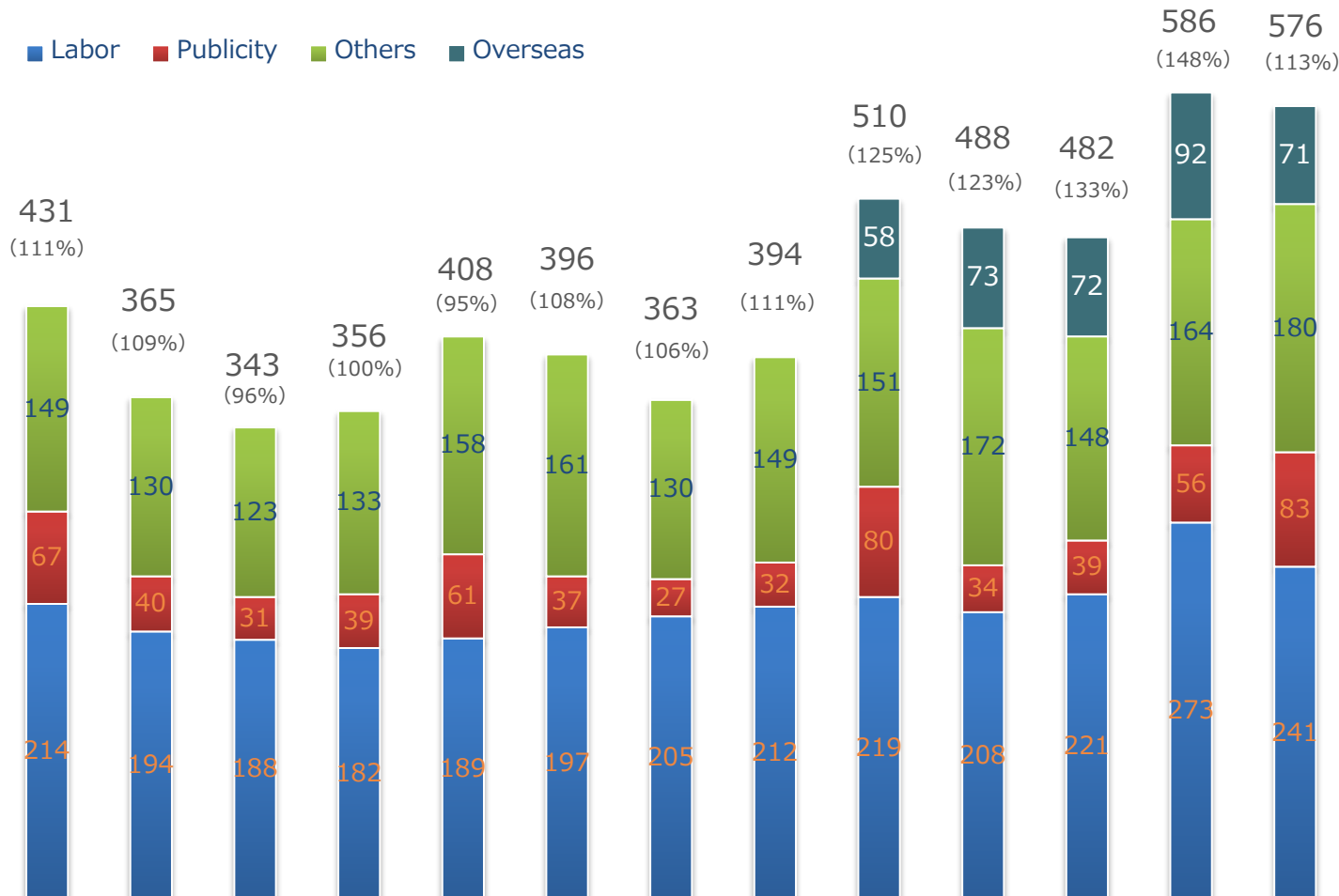
Selling, General and Administrative Expenses (by Quarter)



SG&A increased due to strategic upfront investment on overseas operations

(million yen)

■ Labor ■ Publicity ■ Others ■ Overseas



※ Percentages indicate YoY cost of sales

Current FY

FY03/17 First Quarter Financial Results

BY MARKET

- +14.1% growth in consolidated sales
- Double-digit growth in enterprise +15.9% and public +15.8% sectors
- Consumer market held firm despite steep decline in domestic consumer PC shipments

Consolidated Net Sales

Net sales: ¥ 916 million +¥113 million / +14.1% YoY

Enterprise

Net sales: ¥ 530 million +¥72 million / +15.9% YoY

Public

Net sales: ¥ 296 million +¥40 million / +15.8% YoY

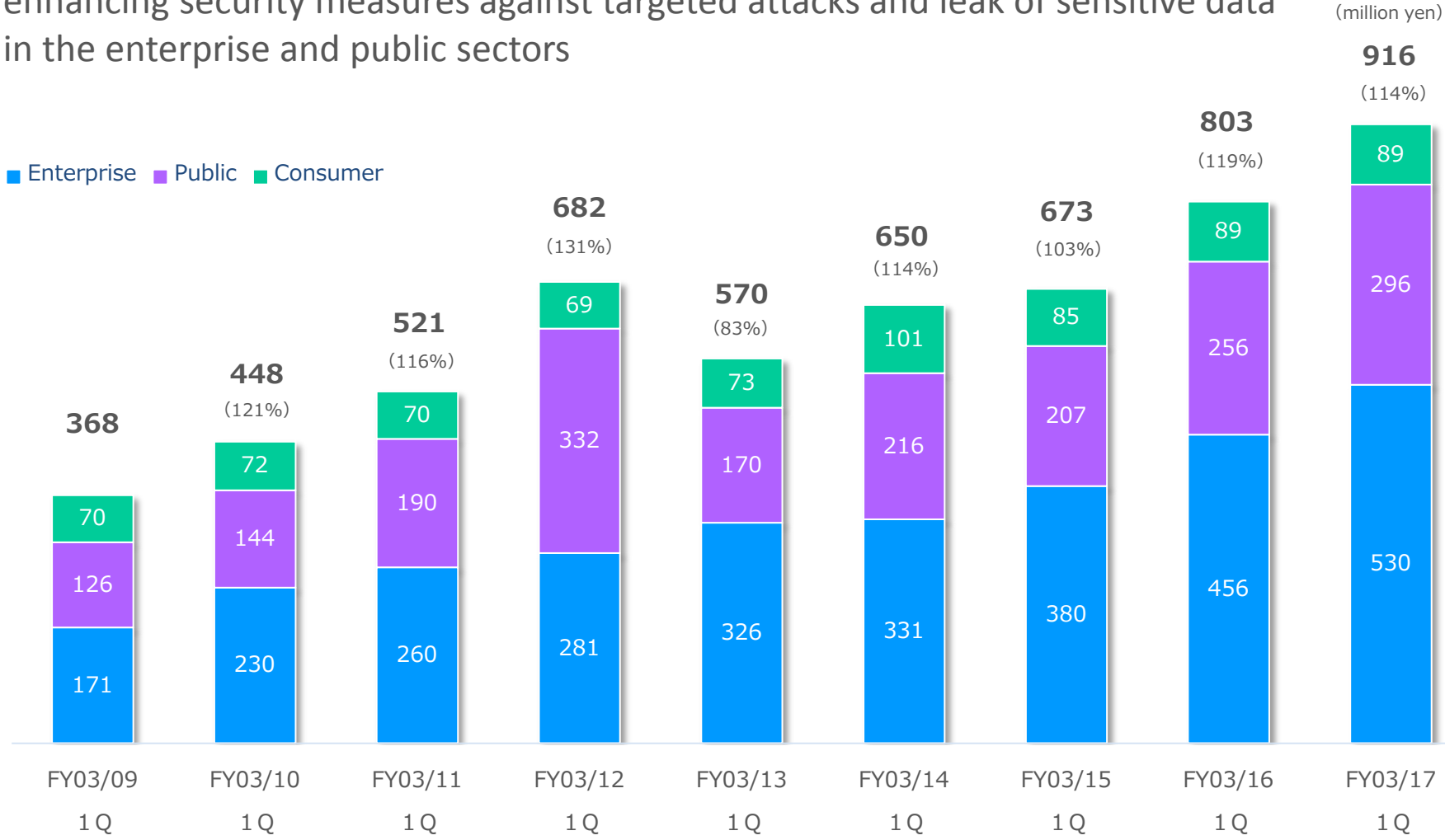
Consumer

Net sales: ¥ 89 million +¥0 million / +0.2% YoY

Sales Trend by Market



Maintained high growth rate due to increased awareness of the importance of enhancing security measures against targeted attacks and leak of sensitive data in the enterprise and public sectors



※ Percentage indicates YoY net sales

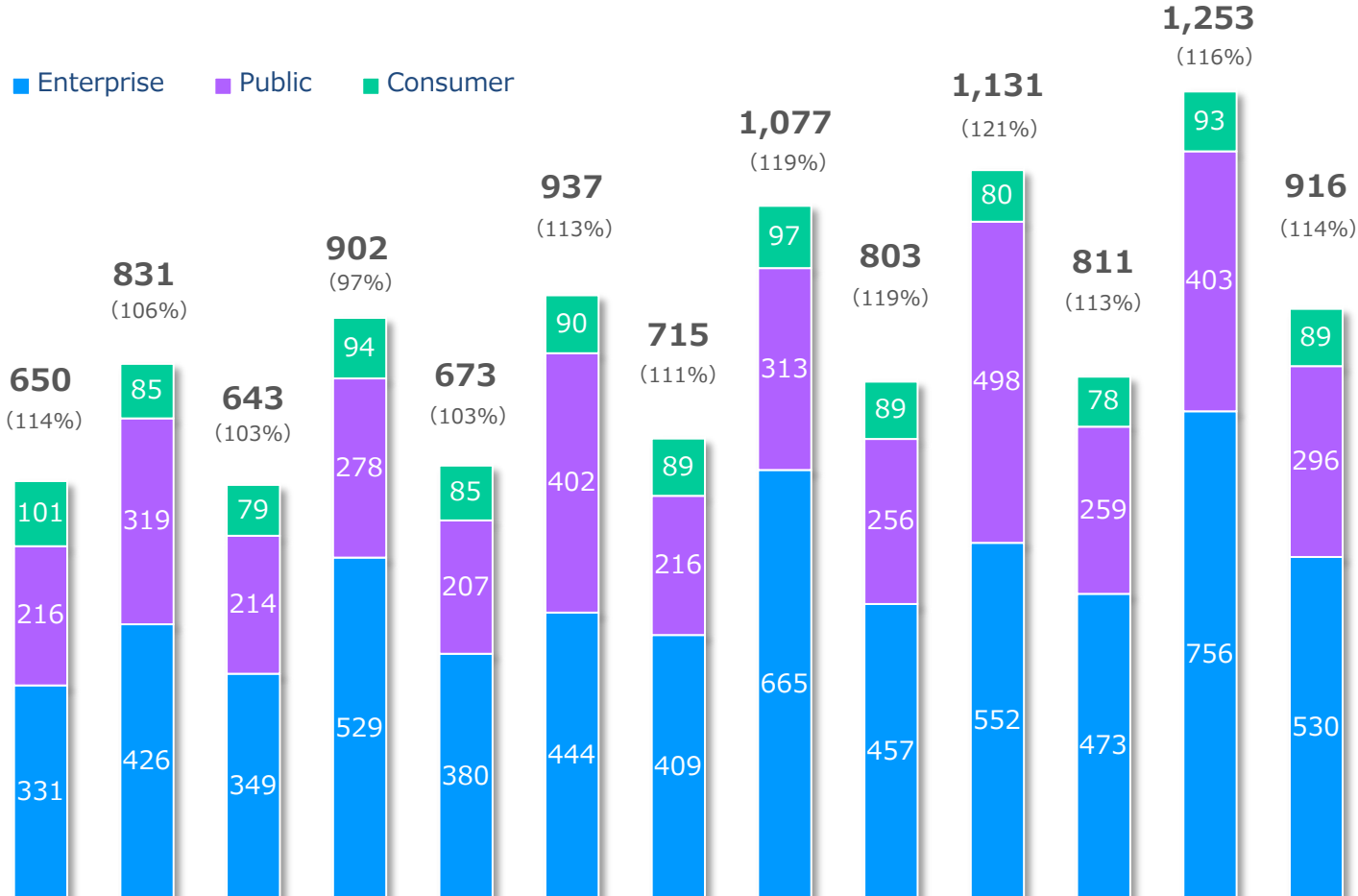
Quarterly Net Sales by Market



Robust growth in enterprise and public sectors in each quarter year-on year

(million yen)

■ Enterprise ■ Public ■ Consumer



※ Percentage indicates YoY net sales

FY ending March 2017

Current FY

FY03/17 First Quarter Financial Results

ENTERPRISE SECTOR

- Robust sales in mainstay i-FILTER and FinalCode
- m-FILTER sales fell YoY (special procurement in the same quarter of the preceding year), however positive outlook for further growth by acquiring abundant prospective contracts
- In an environment where leaks of large volumes of customer information occur often, FinalCode Ver. 5 provided company-wide advanced file security, meeting the needs of corporations handling large volume of customer data, firmly increasing FinalCode sales

i-FILTER + 16.3 %

m-FILTER - 5.6 %

ID-SPA + 29.5 %

FINALCODE + 346.9 %



FY03/17 First Quarter Financial Results

PUBLIC SECTOR

- Firm sales for core products i-FILTER, m-FILTER, and FinalCode
- Acquired key i-FILTER contracts with large organizations looking to strengthen security
- Robust implementation of limited edition local government version of FinalCode, providing simplicity and functions that public organizations want
- Contracts soared under the Ministry of Internal Affairs and Communications' guidelines on fundamental strengthening of local government data security-- will further increase market share by steady acquiring prospective contracts in 2Q onwards

i-FILTER + 2.6 %

m-FILTER + 30.9 %

ID-SPA +232.8 %

FINALCODE 47 folds ✘



✘ Based on orders received (all amount accounted as deferred income in the same quarter of the preceding year)

FY03/17 First Quarter Financial Results

CONSUMER SECTOR

- Firm sales for the PC version due to OEM-driven sales and robust shipments of multi-year packaged products, despite a decline in domestic consumer PC shipments
- Sales expanded thanks to strong sales of i-FILTER Multi-Device, which can be used on multiple operating systems with a single serial ID

PC

-5.7 %

Game Console/ TV

-3.3 %

Mobile Device

+17.5 %

i-FILTER



FY03/17 First Quarter Financial Results

FY03/17 EARNINGS FORECAST

FY03/17 Consolidated Earnings Forecast

- FY03/16 domestic market environment is expected to continue
- Maintain conservative guidance for overseas operations although seeks to acquired prospective contracts
- Expects increase in margins as overseas investment will be limited to a slight increase

(million yen)

	FY03/16 Actual	FY03/17 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	—

FY03/17 Non-Consolidated Earnings Forecast

- Favorable domestic market environment in FY03/16 expected to continue

(million yen)

	FY03/16 Actual	FY03/17 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 FY03/17 is set at 32.0% of consolidated net income of the current period

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

	Dividends per share (in yen)			Consolidated Payout Ratio
	Interim	Fiscal year-end	Annual	
FY03/16	7.00	8.00	15.00	38.2%
FY03/17 (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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