



Consolidated Financial Results
for the First Half of the Fiscal Year
Ending March 31, 2020
(From April 1, 2019 to September 30, 2019)

Supplementary Material

October 30, 2019

Digital Arts Inc.
(Securities Code: 2326)

**Supplementary Material on Consolidated Financial Results
for the First Half of the Fiscal Year Ending March 31, 2020**

Key Points

(1) In the public sector market, sales of i-FILTER and m-FILTER declined year-on-year.

- Sales declined in reaction to the winning of multiple large projects in the previous fiscal year.

(2) Consolidated operating profit for 1H reached a record high.

- Net sales for the public sector market declined year-on-year, but net sales for the enterprise sector market and the consumer sector market increased.
- Profitability increased due to the effects of the selection and concentration of management resources based on the review of overseas strategies implemented in the previous consolidated fiscal year, and consolidated operating profit secured a record high.

(3) Enhanced the lineup of DigitalArts@Cloud

- FinalCode@Cloud and Chat@Cloud were added to DigitalArts@Cloud lines. Actualizes a virus-free world that allows users to not be conscious of security, even in cloud operations.
- Cloud operation needs increased in terms of enterprise security and net sales increased.

(4) Sales of i-FILTER Browser & Cloud increased

- In the enterprise sector market, work style has diversified and there has been growing opportunities to use terminals provided by companies including tablets or note PCs outside companies.
- In the public sector market, changes are taking place in the field of education due to the progress of ICT, and efforts are underway to establish an environment in which one or a small number of students can use a single tablet. Reflecting this, the number of devices is expected to increase.

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Consolidated Results Highlights

Consolidated
net sales

Net Sales: **2,764** million yen (+0 million yen / +0.0% YoY)

Progress was made in winning projects, mainly for renewals of contracts that had remained outstanding in the previous consolidated fiscal year. Net sales grew slightly due to a decrease in reaction to winning of large projects in the previous fiscal year.

Operating
profit

Operating profit: **1,096** million yen (+60 million yen / +5.9% YoY)

Profitability increased due to the effects of the selection and concentration of management resources based on the review of overseas strategies implemented in the previous consolidated fiscal year.

Ordinary
profit

Ordinary profit: **1,092** million yen (+51 million yen / +5.0% YoY)

As a result of growth in operating profit, ordinary profit also increased.

Profit attributable to
owners of parent

Profit: **745** million yen (-246 million yen / -24.9% YoY)

Profit declined due to a reaction to control the effect of tax expenses associated with the liquidation of the U.S. subsidiary in the previous consolidated period.

Consolidated Results

(In millions of yen)

	FY March 2019 1H	FY March 2020 1H	Change YoY	Full-Year Forecast
Net sales	2,764	2,764	+0.0%	6,800
Gross profit	2,237	2,133	-4.6%	5,450
Selling, general and administrative expenses	1,201	1,036	-13.7%	2,150
Operating profit	1,036	1,096	+5.9%	3,300
Ordinary profit	1,040	1,092	+5.0%	3,300
Profit attributable to owners of parent	992	745	-24.9%	2,277
ROE	15.0%	9.2%	—	—

* The full-year forecast figures reflect the consolidated financial forecast announced on May 9, 2019.

Non-Consolidated Results

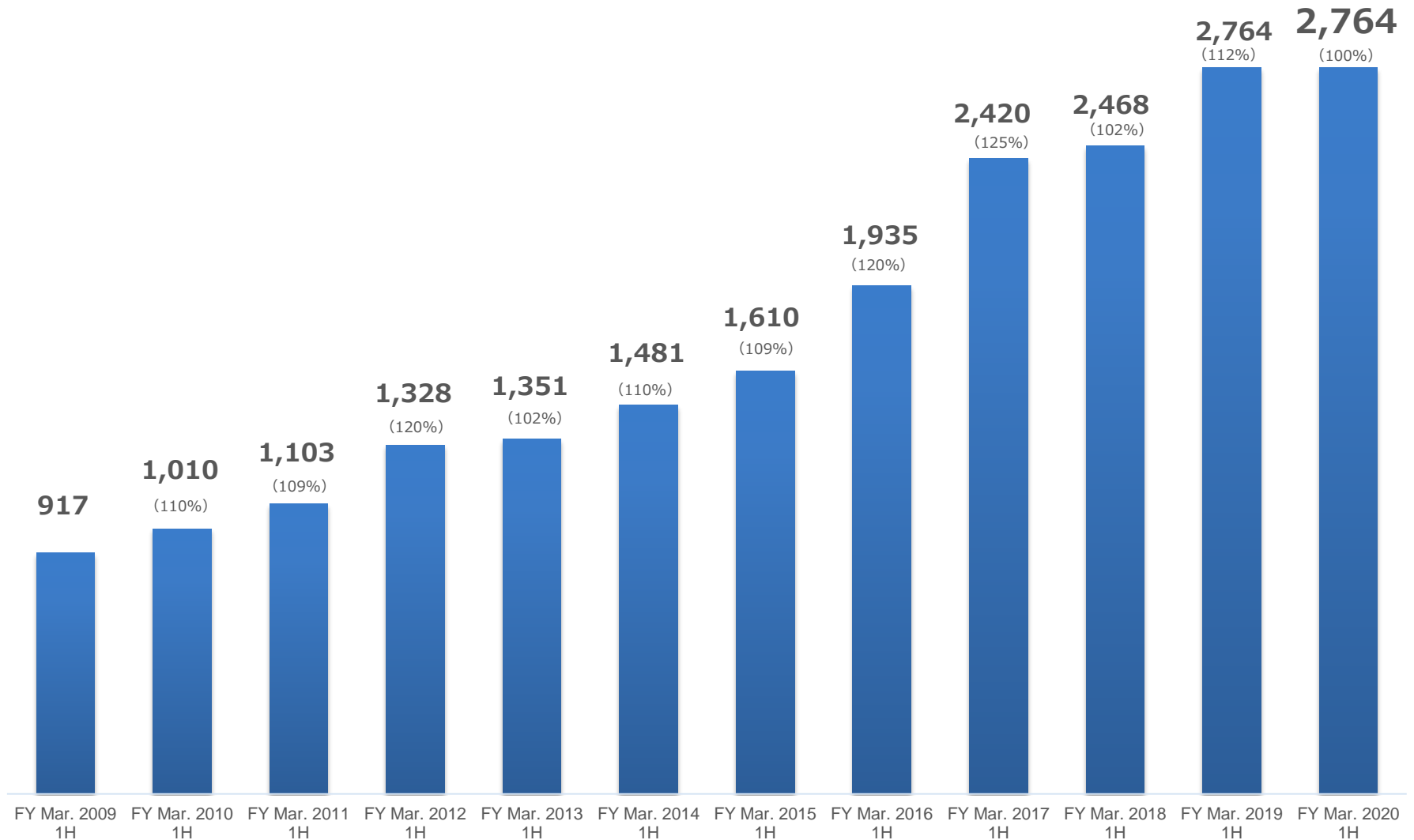
(In millions of yen)

	FY March 2019 1H	FY March 2020 1H	Change YoY	Full-Year Forecast
Net sales	2,739	2,677	-2.3%	6,600
Gross profit	2,233	2,107	-5.6%	5,400
Selling, general and administrative expenses	1,046	986	-5.7%	2,100
Operating profit	1,186	1,120	-5.5%	3,300
Ordinary profit	1,190	1,117	-6.1%	3,300
Profit	818	770	-5.9%	2,290
ROE	12.1%	9.5%	—	—

* The full-year forecast figures reflect the non-consolidated financial forecast announced on May 9, 2019.

Net sales increased slightly year-on-year.

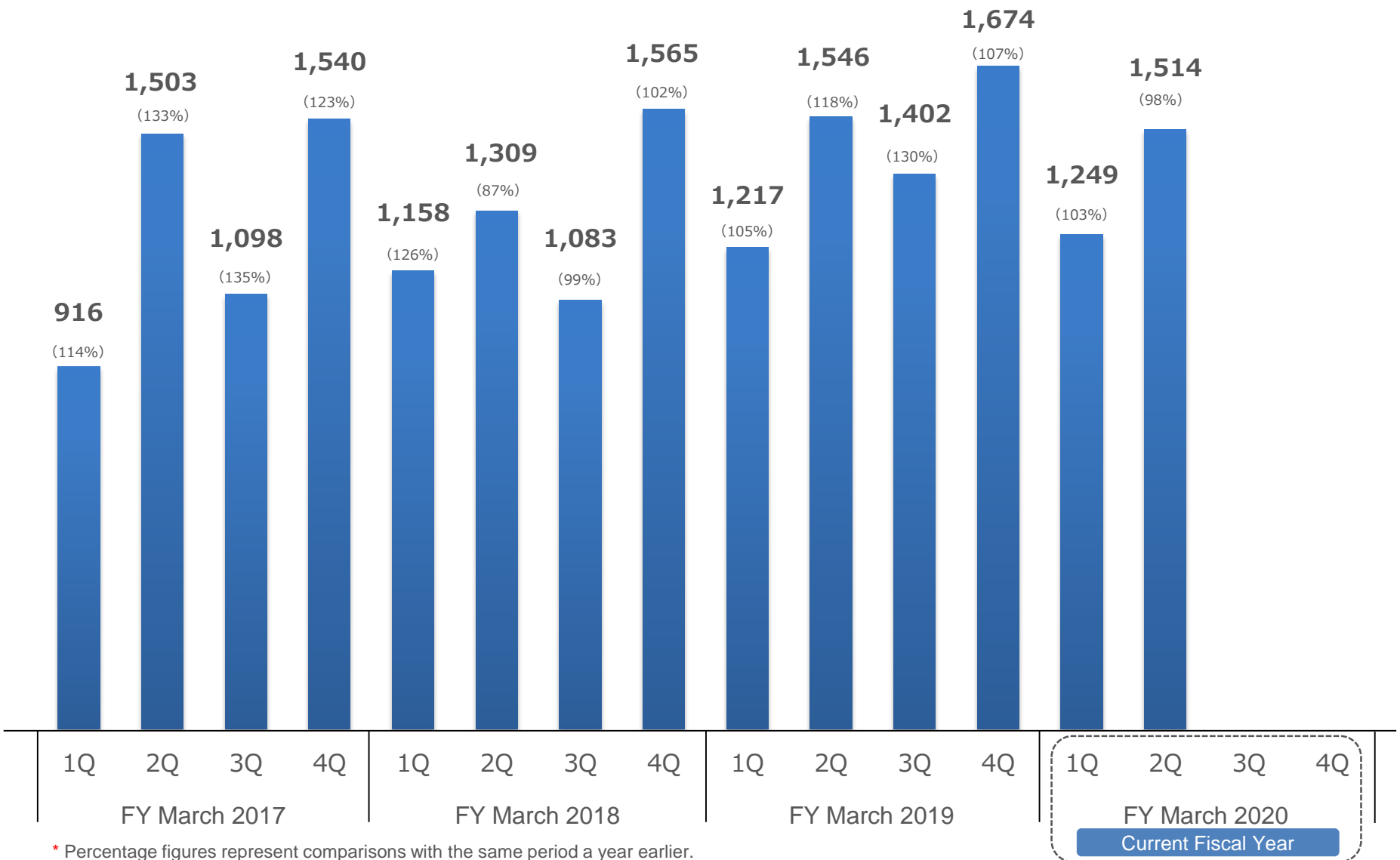
(In millions of yen)



* Percentage figures represent comparisons with the preceding 1H.

Net sales decreased slightly from the same quarter last year.

(In millions of yen)



* Percentage figures represent comparisons with the same period a year earlier.

- Increase in amortization of software based on a new version release, increase in labor cost due to the growth of domestic subsidiaries
- Selling, general and administrative expenses decreased due to the effects of the selection and concentration of management resources as a result of group reorganization based on the review of overseas strategies implemented in the previous consolidated fiscal year.

(In millions of yen)

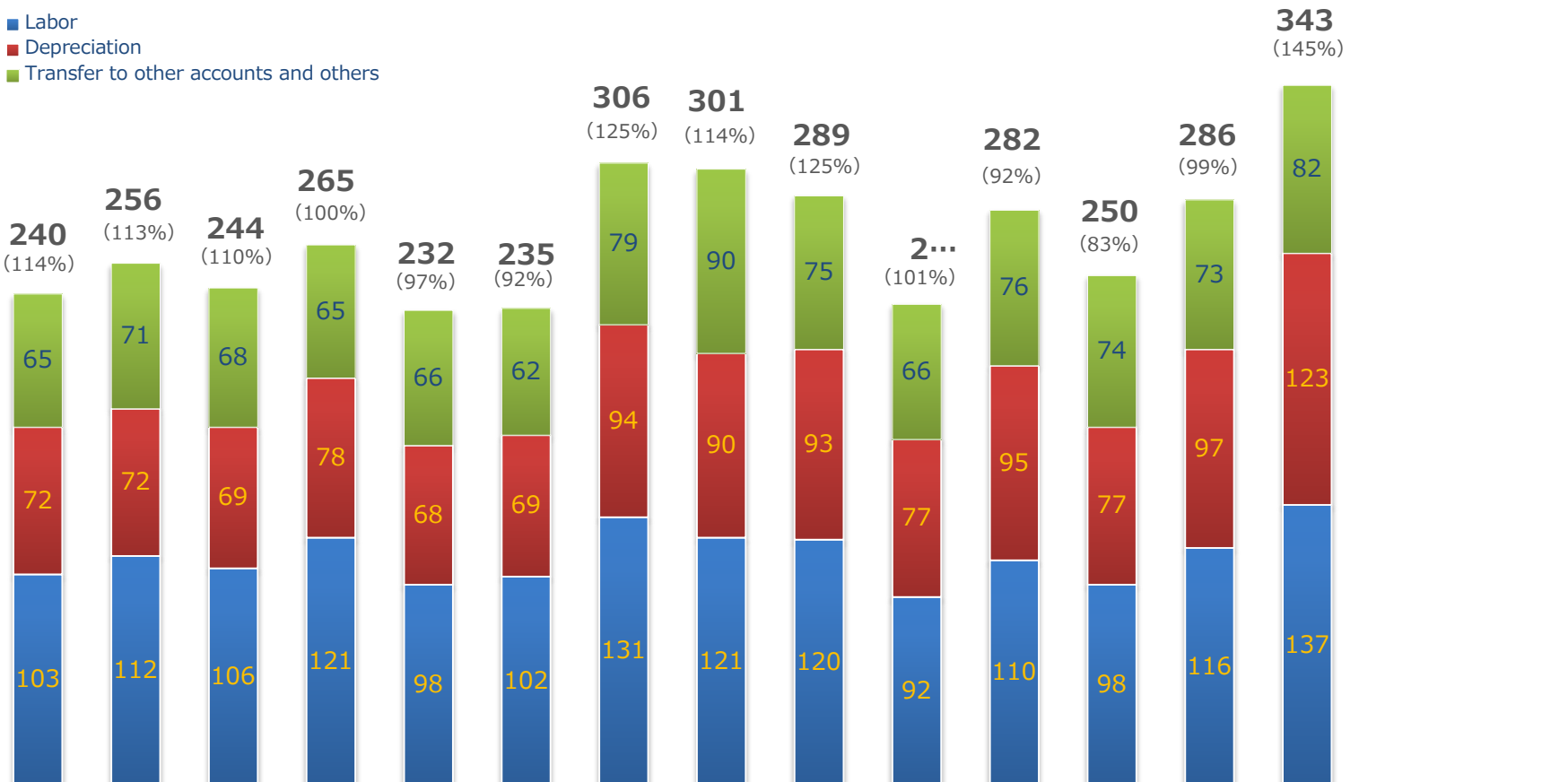
	FY March 2019 1H	FY March 2020 1H	Change YoY	Main Factors for Change
Cost of sales	526	630	+103	
Labor	213	253	+ 40	Increase due to the growth of domestic subsidiaries (consulting business)
Depreciation	170	221	+50	Increase in amortization based on a new version release
Transfer to other accounts Other manufacturing costs	142	155	+ 13	
Selling, general and administrative expenses	1,201	1,036	-164	
Personnel expenses	540	529	-10	
Advertising expenses	183	116	-66	Due to upfront use of advertising expenses strategically in the previous 1H
Other	477	389	-87	Other expenses declined as a result of the liquidation of a US-based subsidiary.

Increase in depreciation based on the completion of the product version upgrade in the current year

Increase in labor cost based on growth of domestic subsidiaries

(In millions of yen)

- Labor
- Depreciation
- Transfer to other accounts and others

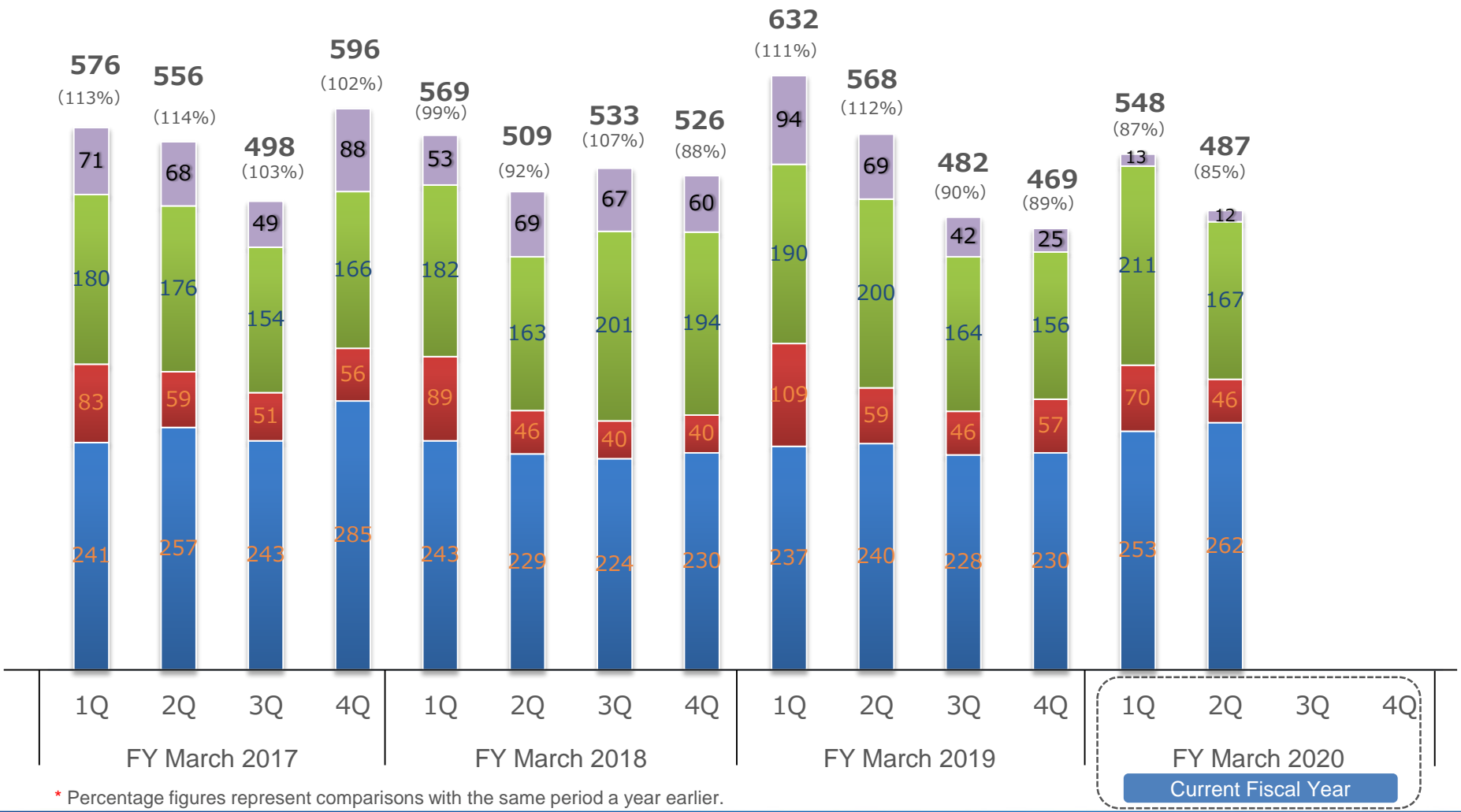


* Percentage figures represent comparisons with the same period a year earlier.

Significant reduction in overseas expenses following revision of Group's overseas strategy in the previous consolidated fiscal year

- Personnel expenses
- Advertising expenses
- Other
- Overseas expenses

(In millions of yen)



* Percentage figures represent comparisons with the same period a year earlier.

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By Market

- Total consolidated sales increased slightly.
- In the enterprise sector market, net sales achieved an increase of +8.4%, reflecting strong sales of i-FILTER Browser & Cloud.
- In the public sector market, net sales decreased 12.5% due to a decline in reaction to winning of large projects in the previous fiscal year.
- In the consumer sector market, net sales recorded a rise of +8.0%, reflecting the progress in the ongoing introduction of filtering for young people.

Consolidated net sales

Net Sales: **2,764** million yen (+0 million yen / +0.0 % YoY)

Enterprise Sector

Net Sales: **1,538** million yen (+119 million yen / +8.4 % YoY)

Public Sector

Net Sales: **970** million yen (-138 million yen / -12.5 % YoY)

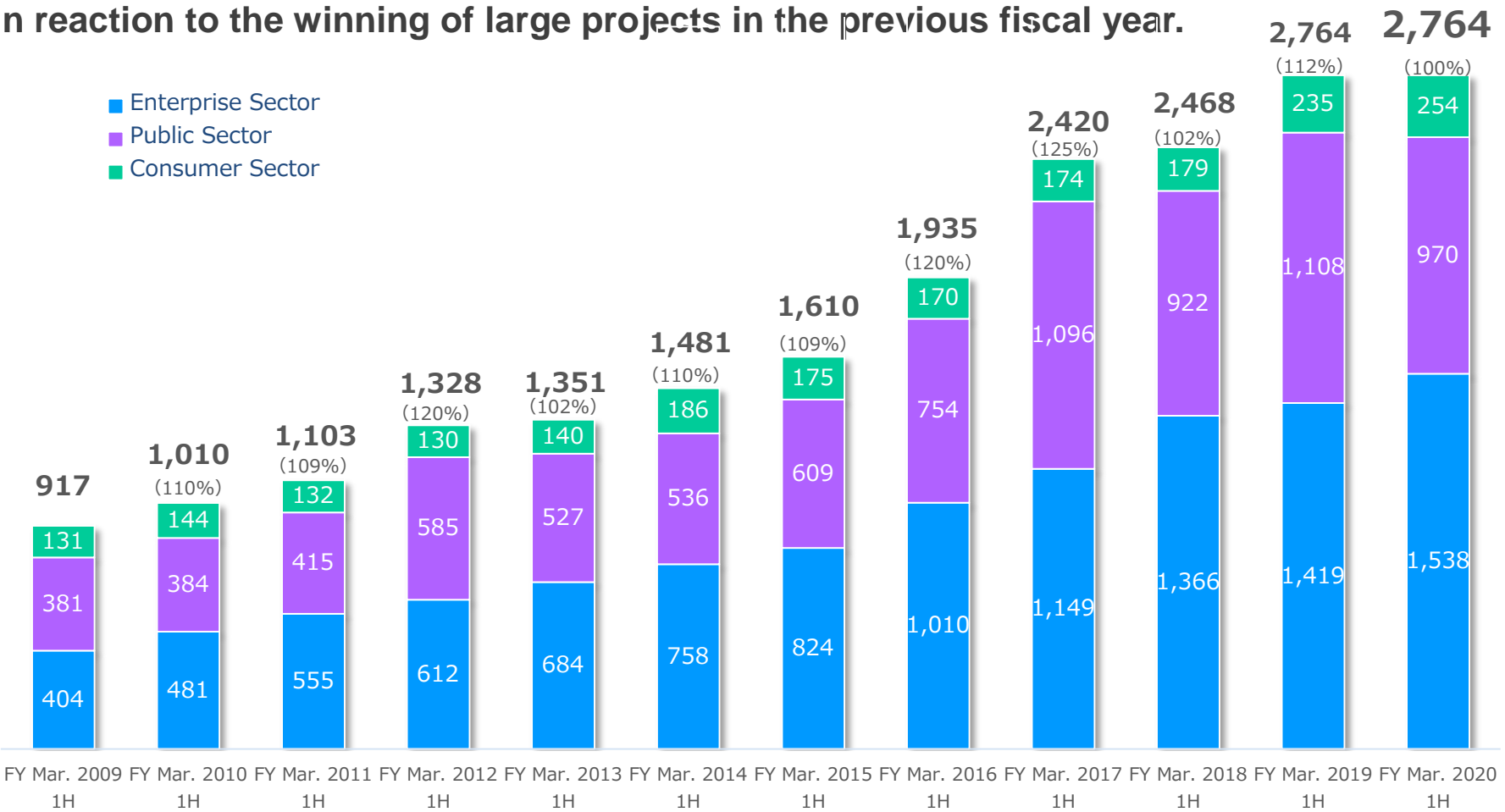
Consumer Sector

Net Sales: **254** million yen (+18 million yen / +8.0 % YoY)

Net sales in the enterprise sector and consumer sector markets remained strong.

(In millions of yen)

Net sales in the public sector market decreased due to the decrease in reaction to the winning of large projects in the previous fiscal year.

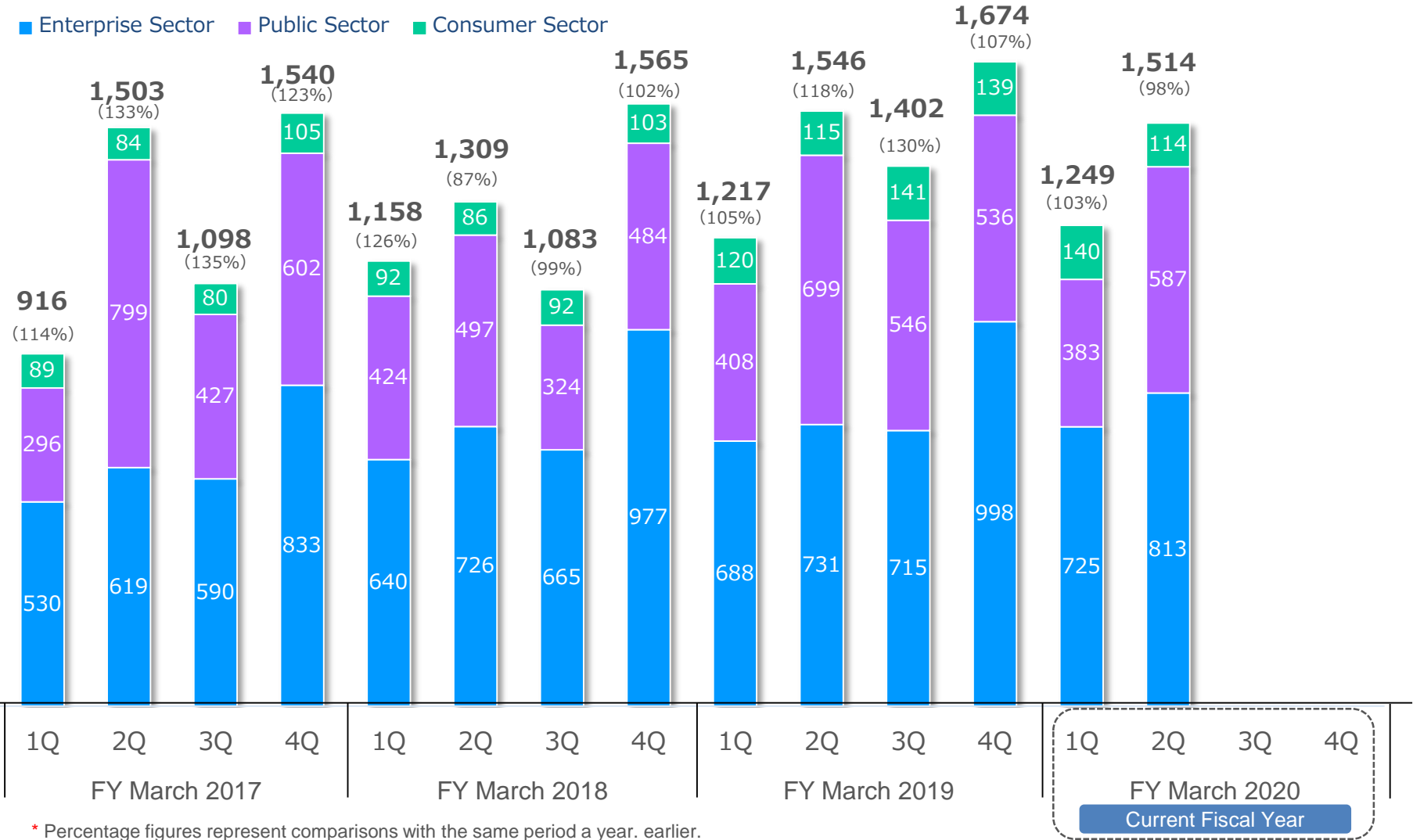


* Percentage figures represent comparisons with the preceding 1H.

Net sales for the enterprise sector market remained steady.

(In millions of yen)

■ Enterprise Sector ■ Public Sector ■ Consumer Sector



* Percentage figures represent comparisons with the same period a year earlier.

**Supplementary Material on Consolidated Financial Results
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Enterprise Sector

- Sales of our mainstay i-FILTER and FinalCode products remained steady as progress was made in winning projects, mainly for renewals of contracts that had remained outstanding in the previous consolidated fiscal year.
- Sales of i-FILTER Browser & Cloud, which enables administrators to control access to websites irrespective of location or situation, continued to expand, reflecting a rise in the number of people who take out company-provided tablets, notebooks or other devices and work on their assignments on the go against the backdrop of diversifying workstyles.
- Sales of m-FILTER declined due to a decrease in reaction to the winning of large projects in the previous fiscal year.

i-FILTER
Series **110.8%** of the year-ago figure.



m-FILTER
Series **95.5%** of the year-ago figure.



FINALCODE **123.1%** of the year-ago figure.



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Public Sector

- Overall sales of the public sector market decreased due to the decrease of orders for projects with large monetary value that contributed to sales in the same period of the previous fiscal year.
- Because of the progress of ICT, changes are taking place in the field of education, and efforts are underway to establish an environment in which one or a small number of students can use one tablet. Reflecting this, sales expanded for i-FILTER Browser and Cloud, which features the capability to implement sophisticated security measures for tablets as well as the addition of a service of providing information that creates the optimal environment for learning.

i-FILTER
Series **96.8%** of the year-ago figure.



m-FILTER
Series **57.1%** of the year-ago figure.



FINALCODE
Series **118.0%** of the year-ago figure.



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Consumer Sector

- The number of minors who use smartphones increased and stricter laws on Internet usage by young people were enacted. As a result, filtering use increased.
- Sales of multi-year package products and i-FILTER® for Multiple Devices that can be used on more than one device remained strong.

For mobile terminals
Other

109.6% of the year-ago figure.

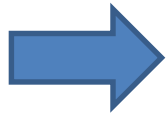
For computers

105.8% of the year-ago figure.

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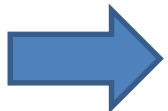
Initiatives for the Second Half

- Termination of Support for Windows7 (Jan. 2020)
- Consumption tax hike (Oct. 2019)



- Partners were pressed to cope with the last-minute demand for PC switchovers, and sales of our products stagnated temporarily.

- Increased demand for low-price secure cloud operation
- *DigitalArts@Cloud* released at high price



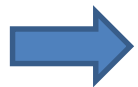
- The Company's brand image has not escaped conventional filtering software.
- Our product value has not reached end users.
- Dramatic growth in the number of new order projects has not been achieved.

(1) *DigitalArts@Cloud* 's price revision/product reinforcement



While reinforcing product lines, review prices and increase the number of licenses/groups.

(2) Help customers introduce large projects



Accurately communicate the product value/brand and actively make approaches to have an advantage in winning large projects.

(3) Reinforce sales personnel

(4) New internal incentive compensation plan



To achieve dramatic growth, make sales capabilities more robust and establish a sales system that is not subject to the external environment.

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Full-Year Financial Forecast for the Fiscal Year Ending March 2020

Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,841 million	¥6,800 million	16.4 %
Gross profit	¥4,781 million	¥5,450 million	14.0 %
Selling, general and administrative expenses	¥2,152 million	¥2,150 million	-0.1 %
Operating profit	¥2,629 million	¥3,300 million	25.5 %
Ordinary profit	¥2,630 million	¥3,300 million	25.4 %
Profit attributable to owners of parent	¥1,961 million	¥2,277 million	16.1 %
Dividend per share	¥48.00	¥50.00	—

Non-Consolidated Financial Forecast for the Fiscal Year Ending March 31, 2020

	Results for FY March 2019	Plan for FY March 2020	% Change
Net sales	¥5,752 million	¥6,600 million	14.7 %
Gross profit	¥4,724 million	¥5,400 million	14.3 %
Selling, general and administrative expenses	¥1,949 million	¥2,100 million	7.7 %
Operating profit	¥2,774 million	¥3,300 million	18.9 %
Ordinary profit	¥2,777 million	¥3,300 million	18.8 %
Profit	¥1,784 million	¥2,290 million	28.3 %

■ Dividends

We are planning to pay dividends as follows to return a portion of our earnings to our shareholders.

Target payout ratio for fiscal year ending March 31, 2020: 30.5% (of consolidated net profit)

Annual dividends of surplus forecasted for fiscal year ending March 31, 2020: **50.00 yen per share**

	Dividend (in yen) per share			Consolidated payout ratio
	Interim	Year-end	Total	
FY March 2019	18.00	30.00	48.00	34.0%
FY March 2020	25.00			
FY March 2020 (forecast)		25.00	50.00	30.5%

Among the descriptions of plans, strategies and financial forecasts in this presentation material, those that are not historical facts are forward-looking statements. They reflect judgments made by the management of Digital Arts Inc. on the basis of information currently available to it. They may be subject to considerable change depending on changes in the environment and other factors, and the Company does not in any way guarantee the achievement of the projections. Digital Arts Inc. will disclose any significant changes that occur in the future as appropriate.

With some exceptions, the basic figures in this presentation are rounded down to the nearest million yen.

- デジタルアーツ, DIGITAL ARTS, i-FILTER, info board, ARS, Active Rating System, ACTIVE RATING, ZBRAIN, D-SPA, SP-Cache, NET FILTER, White Web, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER File Scan, Mail Detox, FinalCode, i-FILTER, DigitalArts@Cloud, Chat@Cloud, D-Alert, D-Content, and logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.
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