



**Consolidated Financial Results
of the Fiscal Year Ended March 31, 2024**

(From April 1, 2023 to March 31, 2024)

Financial Results Briefing Materials

May 8, 2024

Digital Arts Inc.
(Securities Code: 2326)

Company Profile

Company name	Digital Arts Inc.
Date of establishment	June 1995 Listed on September 2002
Service	Planning, development and sale of internet security software
Head office	14F Otemachi First Square West Tower, 1-5-1 Otemachi, Chiyoda-ku, Tokyo
Net sales	11,512 million yen (fiscal year ended March 2024)
Operating profit	4,427 million yen (fiscal year ended March 2024)
Stock market	Tokyo Stock Exchange Prime Market (Securities Code: 2326)
Number of employees	Consolidated: 292 (as of March 31, 2024)
Sales office	Hokkaido Sales Office/ Tohoku Sales Office / Chubu Sales Office/ Kansai Sales Office/ Chushikoku Sales Office/ Kyushu Sales Office



- For internet convenience, safety and security-

Domestic
manufacturers

1,262
million
active
users*

High
profitability



* The number of users of i-FILTER Ver. 10, m-FILTER Ver. 5, i-FILTER@Cloud and m-FILTER@Cloud as of March 2024 (internal research)

Web

Enabling users to securely connect to websites without security concerns



i-FILTER.
i-FILTER@Cloud™

Endpoint Web security

i-FILTER.
ブラウザ & クラウド

Secure proxy appliance

D-SPA.

Malicious website-filtering software for home use

イフィルター.

E-mail

Enabling users to securely send and receive email without security concerns



m-FILTER.
m-FILTER@Cloud™

Measures to provide pop-ups for email misdelivery



m-FILTER.
MailAdviser **NEW**

[For email software] [For Microsoft365 software]

file

File encryption solution

Automatically protecting files from the moment of creation and allowing users to delete them after transfer



FINALCODE.
FINALCODE@Cloud™

File transfer solution

Supporting secure file transfers without leaking critical information

NEW



f-FILTER.

IDaaS

Equipped with multi-factor authentication to ensure the secure management of IDs for cloud services

NEW



StartIn.

Communication

Providing workplaces and places for education with secure and comfortable communication spaces

NEW



Chat and online conferencing

Desk.

Video conferencing tool

DeskEvent.

Net sales grew as planned in the fiscal year under review, reflecting increasing demand for security measures. Operating profit increased slightly year on year with the release of new products and increased expenses caused by expansion of DAC's businesses.

01

In the enterprise section market, both software and consulting net sales rose significantly, reflecting increasing demand for security measures.

02

In the public sector market, net sales decreased, with sales for Security Improvements for Local Governments projects and those for GIGA School Concept projects more than offset by the absence of sales from special demand-related projects and large projects recorded in the previous fiscal year.

03

The year-on-year increase in operating profit was slight, reflecting an increase in inspection expenses at DA due to the release of the unprecedentedly large number of new products and a rise in labor costs linked to DAC's business expansion, among other factors.

- 01 Consolidated Results Highlights**
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- 05 Policy for Initiatives for the Fiscal Year Ending March 2025**
- 06 Full-Year financial Forecast for the Fiscal Year Ending March 2025**
- 07 Return to Shareholders for the Fiscal Year Ending March 31, 2025**

**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

01 Consolidated Results Highlights

Contracts

10,838million yen

(up +648million yen or +6.4% YoY)

- In the enterprise section market, growth accelerated due to the winning of projects aimed to facilitate the transition to cloud security and those from clients switching from competitors' products, and the achievement of strong option sales, as well as a significant increase in the number of new customers gained at DAC.
- In the public sector market, negative growth was recorded due to the reactionary slowdown of special demand-related projects such as Security Improvements for Local Governments projects and the first phase of GIGA School Concept projects, as well as the impact of the closing of computer classes.

Net sales

11,512million yen

(up +1,075million yen or +10.3% YoY)

- Net sales grew in the enterprise sector market, reflecting sales of cloud service products, for which orders were strong, license sales products and sales at DAC.
- In the public sector market, net sales declined slightly, with net sales for Security Improvement for Local Governments projects and GIGA School Concept projects more than offset by the absence of sales from special demand-related projects and large public agency projects recorded in the previous fiscal year.

Operating profit

4,427million yen

(up +13million yen or +0.3% YoY)

- In terms of the cost of sales, there were greater-than-planned increases in inspection expenses and labor costs/purchase expenses, the former due to the release of the unprecedentedly large number of new products and the latter reflecting the expansion of businesses, which led to putting downward pressure to operating profit.
- SG&A expenses were in line with the plan, although they rose chiefly due to an increase in personnel expenses at DAJ and DAC.

Consolidated Statement of Income



Net sales grew according to the plan, while expenses rose with the release of new products and increased expenses caused by the expansion of DAC's business.

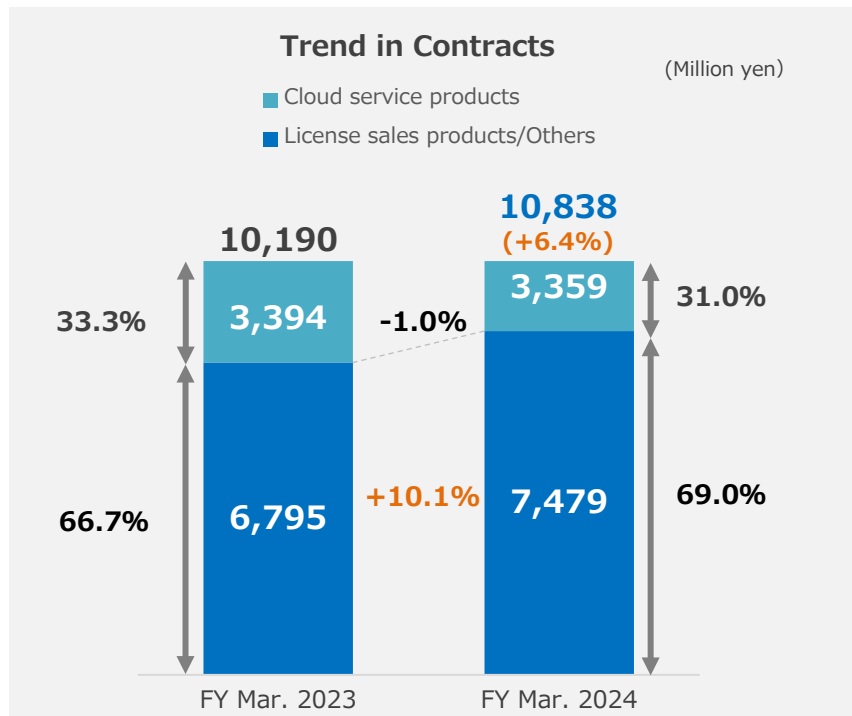
(Million yen)

	FY March 2023	FY March 2024	Change YoY	FY March 2024 Full-Year Forecast
Contracts	10,190	10,838	+6.4%	-
Net sales	10,436	11,512	+10.3%	11,500
Cost of sales	3,666	4,583	+25.0%	3,850
Gross profit	6,769	6,928	+2.3%	7,650
Selling, general and administrative expenses	2,356	2,500	+6.1%	2,500
Operating profit	4,413	4,427	+0.3%	5,150
Operating margin	42.3%	38.5%	-	44.8%
Ordinary profit	4,429	4,443	+0.3%	5,150
Profit attributable to owners of parent	3,062	4,377	+43.0%	4,880
EBITDA	5,388	5,429	+0.8%	-

* Financial Forecast is the consolidated financial forecast announced on February 14, 2024.

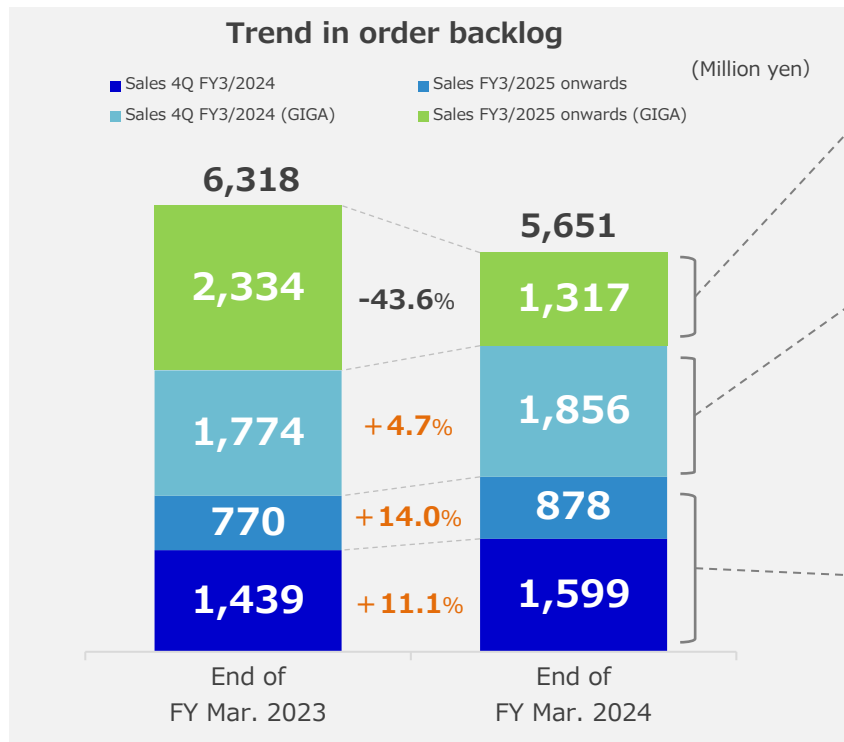
* EBITDA = Operating profit + Depreciation + Tax expenses included in operating expenses

Consolidated contracts totaled **10,838 million yen**, up **+6.4%** year on year.



- **In contracts for cloud service products**, the Group steadily won new contracts as a result of the inclusion of additional functions and release of options to address demand for a shift to cloud security. However, in the public sector market, with the second phase of GIGA Concept School coming up in the next fiscal year, new orders for the first phase declined from the level of the previous year, leading to a decrease in overall contracts of 1.0%.
- **In the license sales products and other category**, contracts increased 10.1%, reflecting the acquisition of projects from customers who switched from competitors' on-premises products, upselling due to the additional offering of options and significant growth in contracts at DAC.

The backlog of orders excluding those for GIGA School Concept projects increased, despite a reduction of contracts overall.



Sales FY3/2025 onwards (GIGA)

Many GIGA School Concept projects are five-year contracts. Over time, more sales are posted. The amount of sales to be recorded will drop in FY March 2025 and later.

Sales 4Q FY3/2024 (GIGA)

Sales to be recorded in the 4Q period of the fiscal year under review rose because the Group had been continuously winning contracts related to the first phase of GIGA School Concept projects.

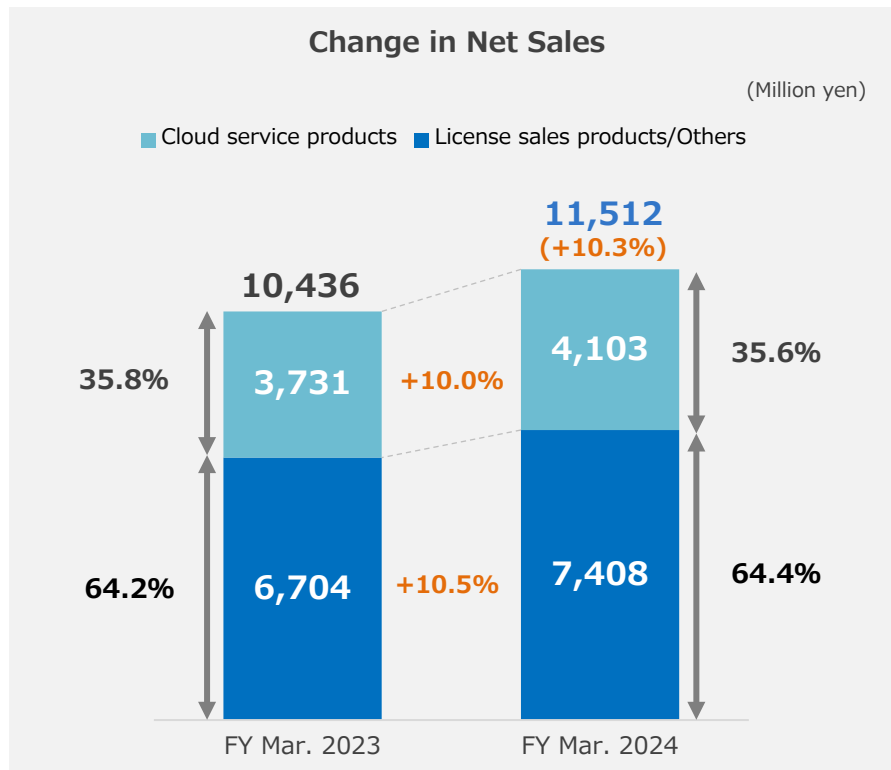
Contracts are expected to rally sharply again in the fiscal year ending March 31, 2025, reflecting an increase in projects related to the second phase of the GIGA School Concept.

Sales FY3/2025 onwards

Sales 4Q FY3/2024

The order backlog is steadily increasing, reflecting the gradually growing percentage of enterprise contracts that are for cloud service products. Many of these are one-year contracts.

Consolidated net sales grew **10.3%** year on year, to **11,512 million yen**.

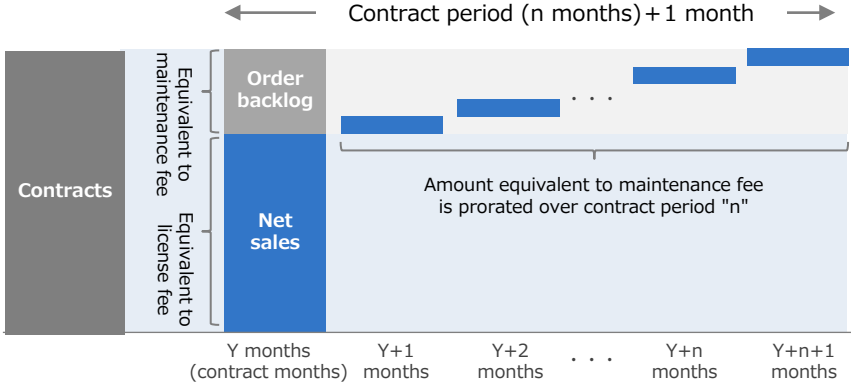


- **Net sales of cloud service products** increased 10.0% year on year, reflecting steady growth in sales in the enterprise sector market, as well as sales recorded for the first phase of the GIGA School Concept projects for which orders were received up to the previous fiscal year and in the current fiscal year.
- **In the license sales products and other category,** net sales increased 10.5%, reflecting significant growth at DAC, coupled with growth in sales in the enterprise sector market.

Supplement) Method of recording sales by product



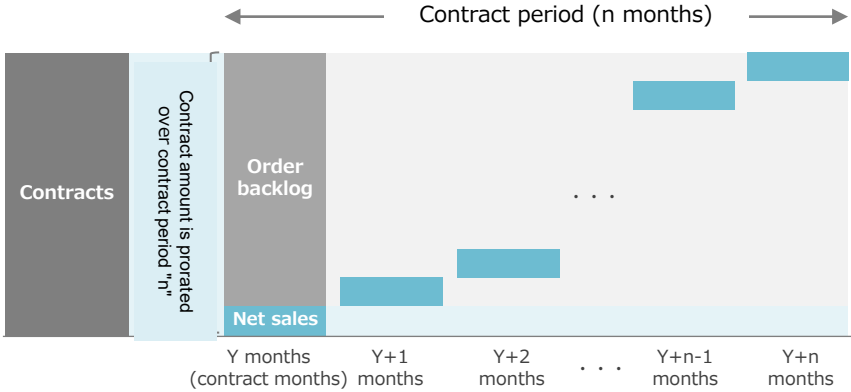
License sales products



License fees make up a large proportion of the contract amount. This portion is recorded in a lump sum as sales in the month when the contract is obtained.

Amount equivalent to maintenance fee is recorded on a pro rata basis over the contract period.

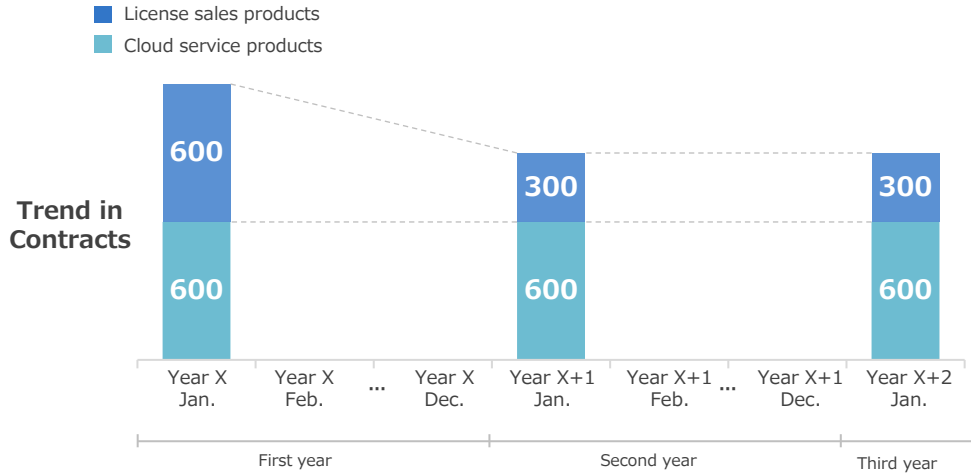
Cloud service products



Contract amount is recorded as sales on a pro rata basis over the contract period (split into equal monthly amounts).

As the contract amount of cloud service products rises, the contract amount that is deferred (order backlog) increases.

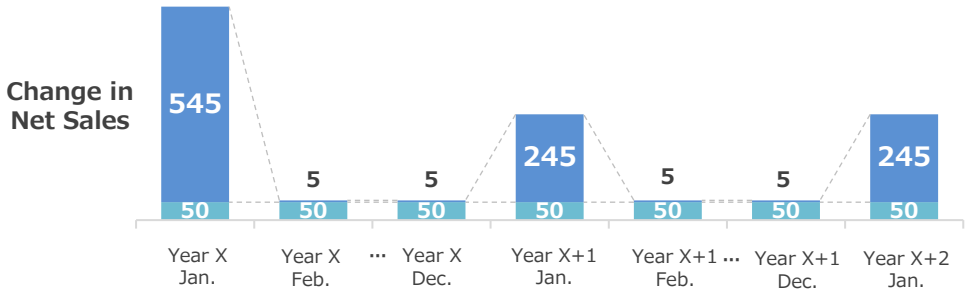
Supplement) Relationship between contract amount and sales by product (one-year contracts)



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.

Contracts

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.



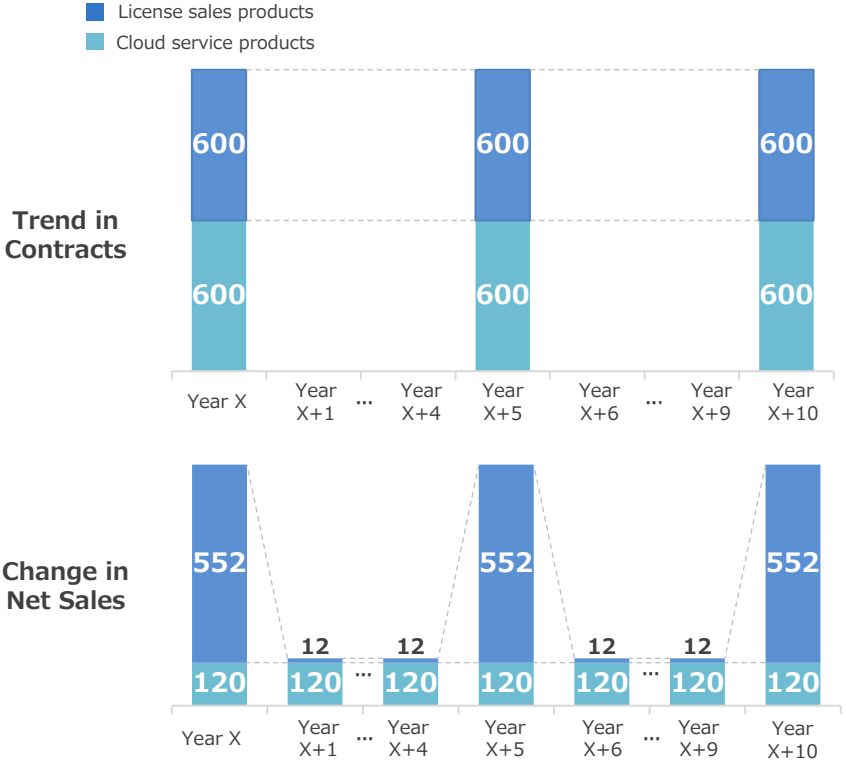
Net sales

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.

Supplement) 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.

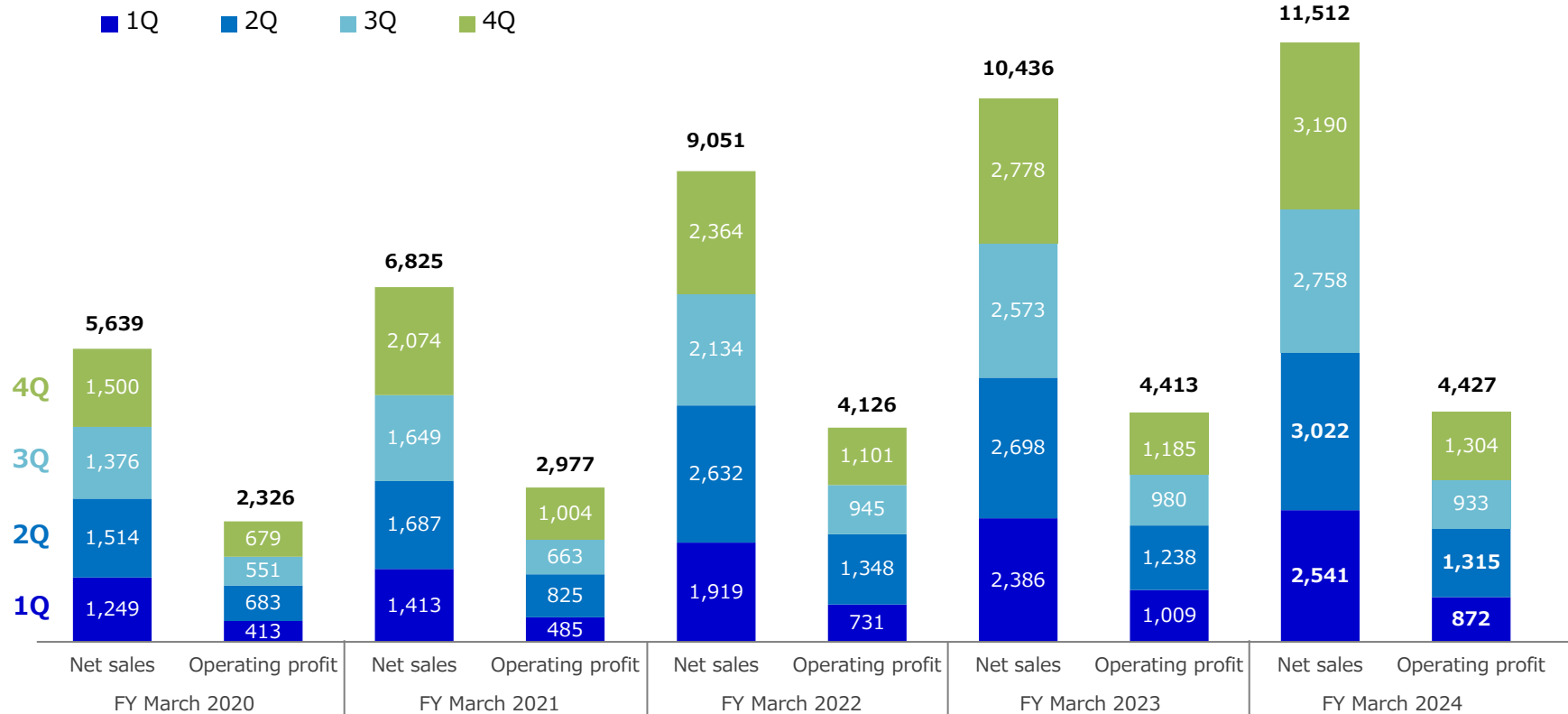
Contracts
 For both license sales products and cloud service products, contract amounts are unchanged at the time of renewal.

Net sales
 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).

Quarterly Trend in Net sales, Operating profit



(Million yen)



Consolidated Cost of Sales and Selling, General and Administrative Expenses



(Million yen)

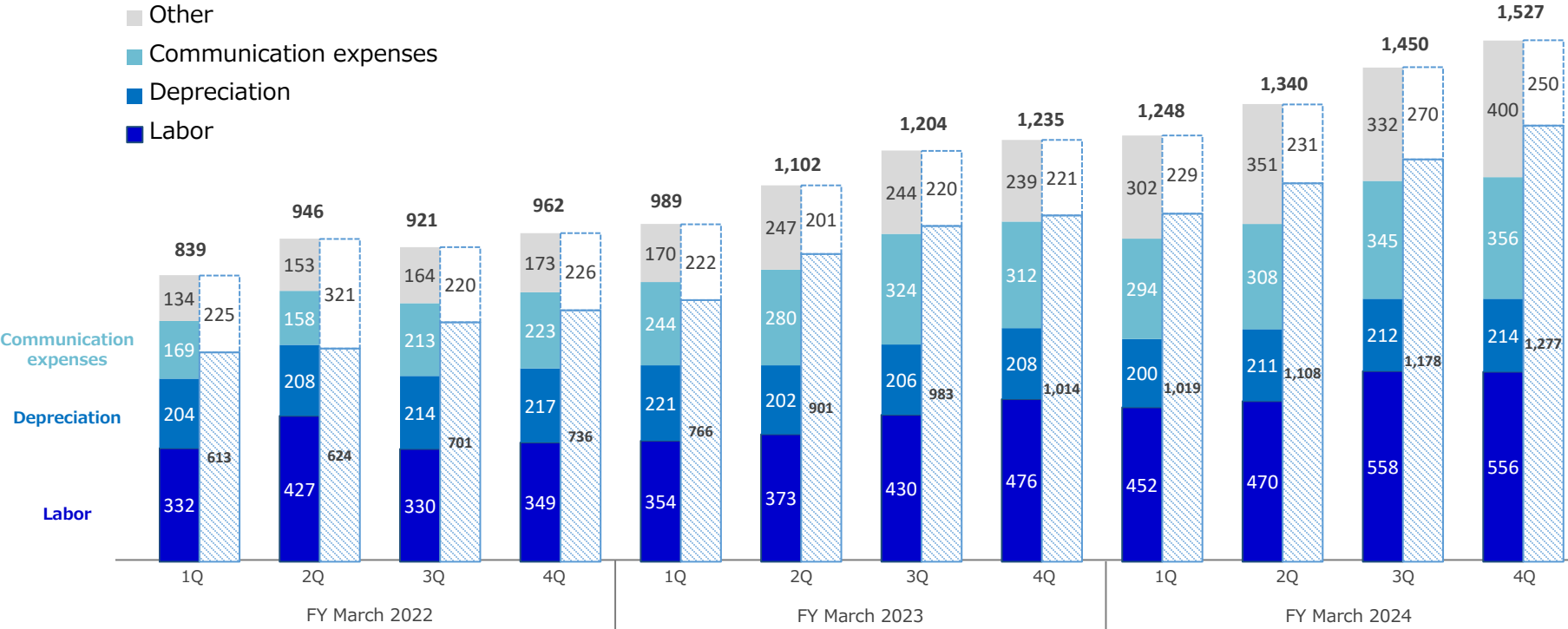
	FY March 2023	FY March 2024	Change YoY	Main Factors for Change
Cost of sales	3,666	4,583	+917	
Labor	1,634	2,038	+403	Increase due to the enhancement of DA's*1 development workforce (+79M) It rose with the strengthening of DAC*2 consultants (+323M)
Depreciation	838	839	+0	
Communication expenses	1,162	1,304	+141	Cloud server expenses rose as a result of an increase in licenses for cloud service products and foreign exchange fluctuations (+141M)
Other	895	1,384	+488	Increase due to the development of new DA products (+154M) Increase due to the expansion of DAC's business (+236M)
Transfer to other accounts	-865	-982	-117	
Selling, general and administrative expenses	2,356	2,500	+144	
Personnel expenses	1,193	1,275	+81	Increase in the number of personnel in DA (+57M) Increase in the number of personnel in DAC (+24M)
Advertising expenses	297	313	+16	Addition of sales promotions through events and seminars, etc.
Other	865	911	+46	Increase in the size-based business tax due to the transfer of shares in DAC (+24M) Increase in expenses for business trips for sales (+26M)

Quarterly Trend in Consolidated Cost of Sales



(Million yen)

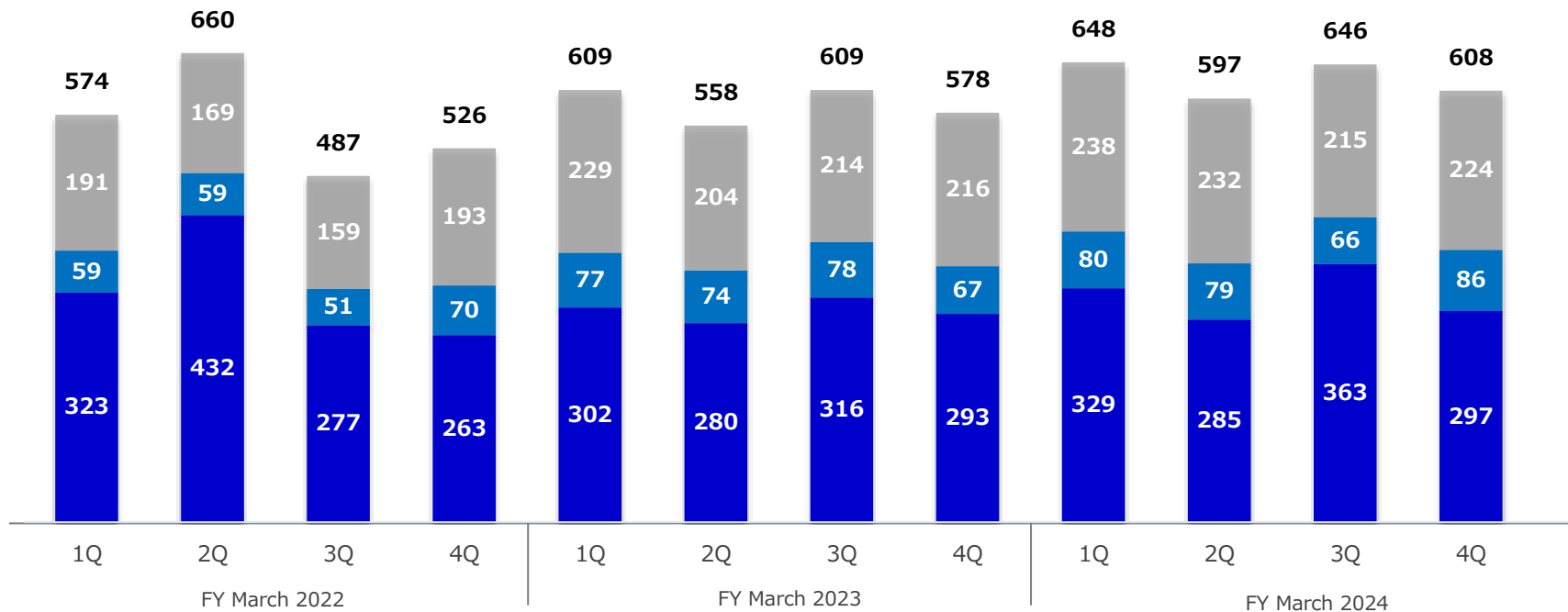
- ▨ Transfer to other accounts
- ▨ Cost of sales
- Other
- Communication expenses
- Depreciation
- Labor



Quarterly Trend in Consolidated Selling, General and Administrative Expenses

- Personnel expenses
- Advertising expenses
- other

(Million yen)



Consolidated Balance Sheet



Cash and deposits rose due to the transfer of shares in DAC. The equity ratio, ROE and ROA also rose.

(Million yen)

	As of end of FY March 2023	As of end of FY March 2024	Change from end of FY March 2023	Main Factors for Change
Current assets	18,925	20,183	+6.6%	Cash and deposits (+1,320M)
(Cash and deposits)	17,018	18,339	+7.8%	Cash and deposits (+1,320M)
Non-current assets	2,223	2,334	+5.0%	
Total assets	21,149	22,518	+6.5%	
Current liabilities	6,924	6,467	-6.6%	
(Advanced received)	5,187	4,418	-14.8%	Decreased linked to the progress in the recording of sales.
Non-current liabilities	50	52	+2.7%	
Equity capital	14,141	15,986	+13.1%	Treasury share buy-back (-1,422M), Dividends paid (-1,116M), Profit (+ 4,383M)
Net assets	14,173	15,998	+12.9%	
Equity ratio	66.9%	71.0%	-	
ROE	23.3%	29.1%	-	
ROA	15.1%	20.1%	-	

**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

02 Non-consolidated Results Highlights

Summary of Non-consolidated Results



With an increase in the cost of sales not offset by the weaker-than-planned sales growth, both operating profit and ordinary profit decreased. On the other hand, profit increased significantly year on year, reflecting the recording of extraordinary income due to the transfer of shares in DAC.

(Million yen)

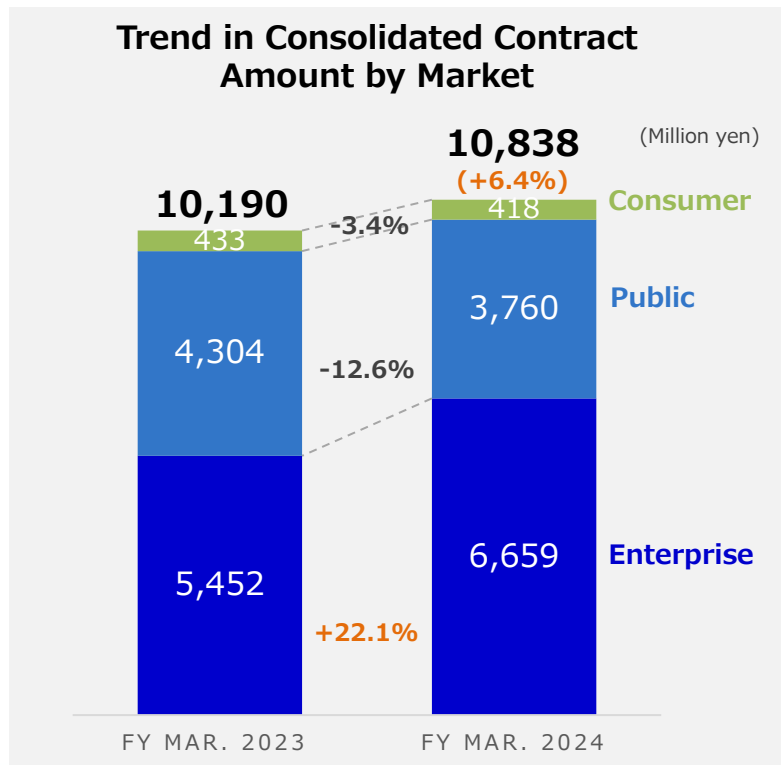
	FY March 2023	FY March 2024	Change YoY	FY March 2024 Full-Year Forecast
Contracts	8,738	8,630	-1.2%	-
Net sales	8,984	9,304	+3.6%	10,000
Cost of sales	2,425	2,664	+9.9%	2,650
Gross profit	6,559	6,639	+1.2%	7,350
Selling, general and administrative expenses	2,163	2,309	+6.8%	2,350
Operating profit	4,395	4,330	-1.5%	5,000
Operating margin	48.9%	46.5%	-	50.0%
Ordinary profit	4,407	4,348	-1.3%	5,000
Profit	3,048	4,536	+48.8%	4,930

* Financial Forecast is the non-consolidated financial forecast announced on February 14, 2024.

**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

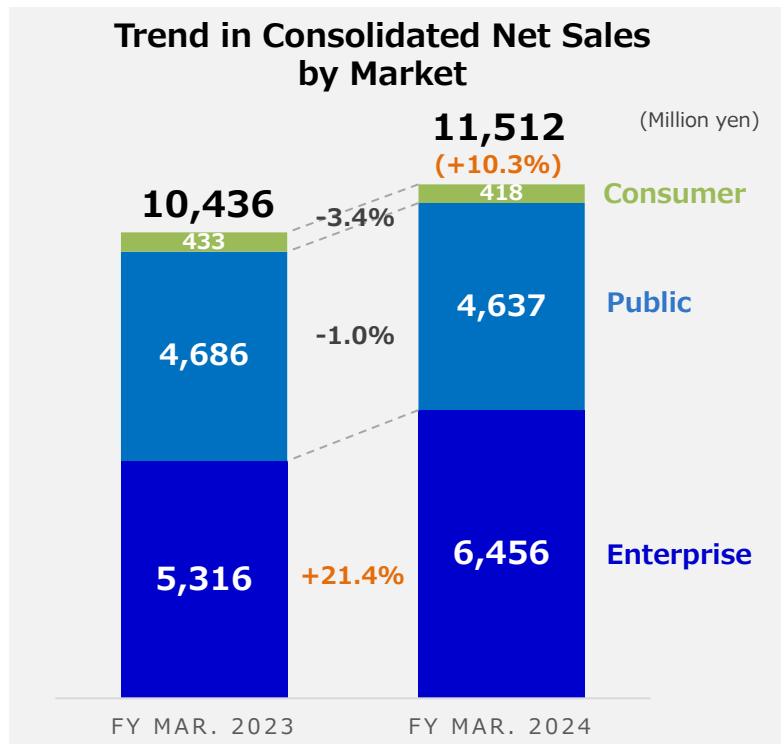
03 Net Sales by Market

The contract amount expanded in the enterprise sector market while it contracted in the public sector market.



- **In the enterprise section** market, net sales increased by 1,207 million yen (+22.1%), attributable to winning projects aimed at facilitating the transition to cloud security through the launch of new products, the inclusion of new functions and the release of options. Other factors included projects for clients switching from competitors' on-premises products, as well as the strong results of new customer acquisition at DAC.
- **In the public sector market**, contracts decreased by 543 million yen (-12.6%) due to a decline in the total recorded orders for Security Improvements for Local Governments projects and the first phase of GIGA School Concept projects, as well as the closing of some computer classes installed in schools.

The contract amount expanded in the enterprise sector market while it slightly contracted in the public sector market.



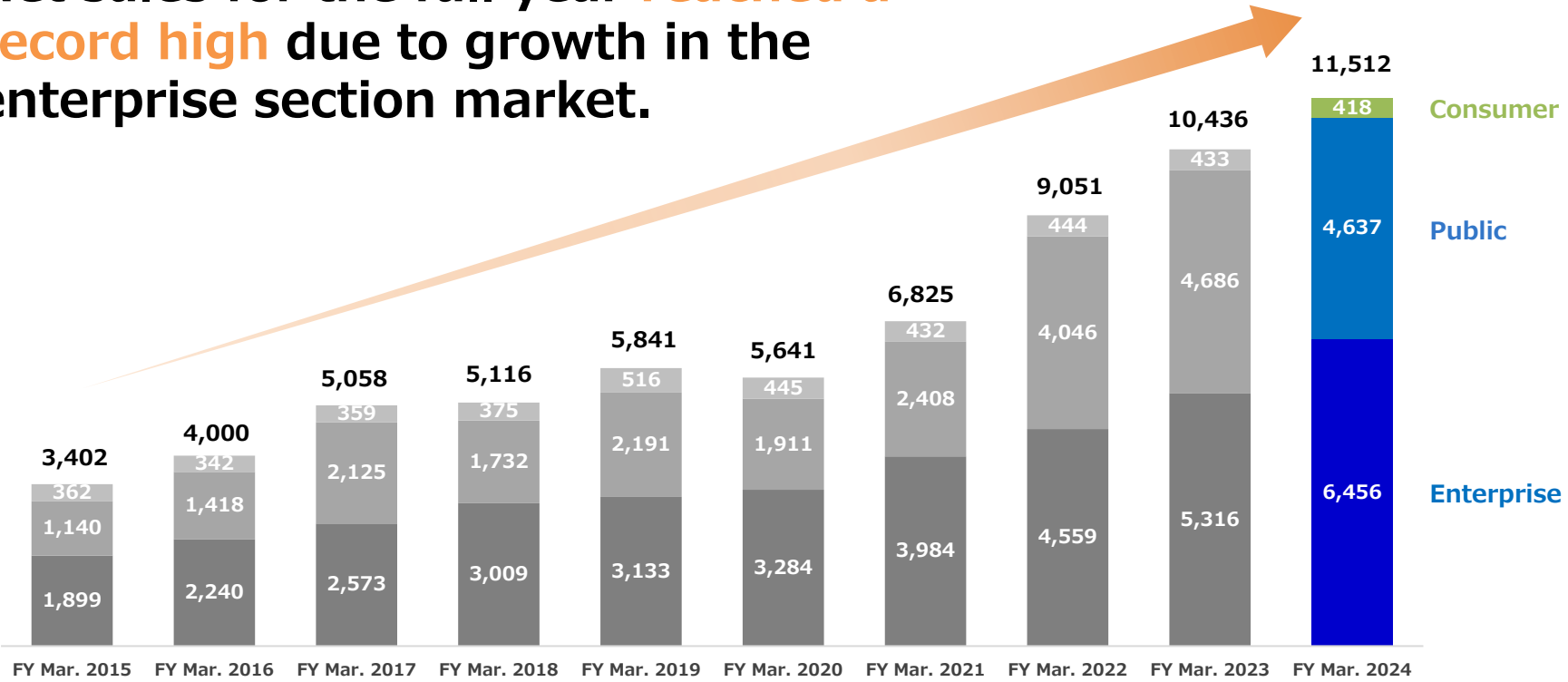
- **In the enterprise section market**, similar to the trend in contracts, net sales increased by 1,139 million yen (+21.4%) due to the winning of projects aimed to facilitate the transition to cloud security through the launch of new products, the inclusion of new functions and the release of options. Other factors included projects for clients switching from competitors' on-premises products, as well as the strong results of new customer acquisition at DAC.
- **In the public sector market**, net sales decreased slightly 49 million yen (-1.0%), reflecting negative growth in contracts, despite the posting of sales for the first phase of GIGA School Concept projects, for which orders were received in or before the previous fiscal year and in the current fiscal year.

Trend in Consolidated Net Sales by Market



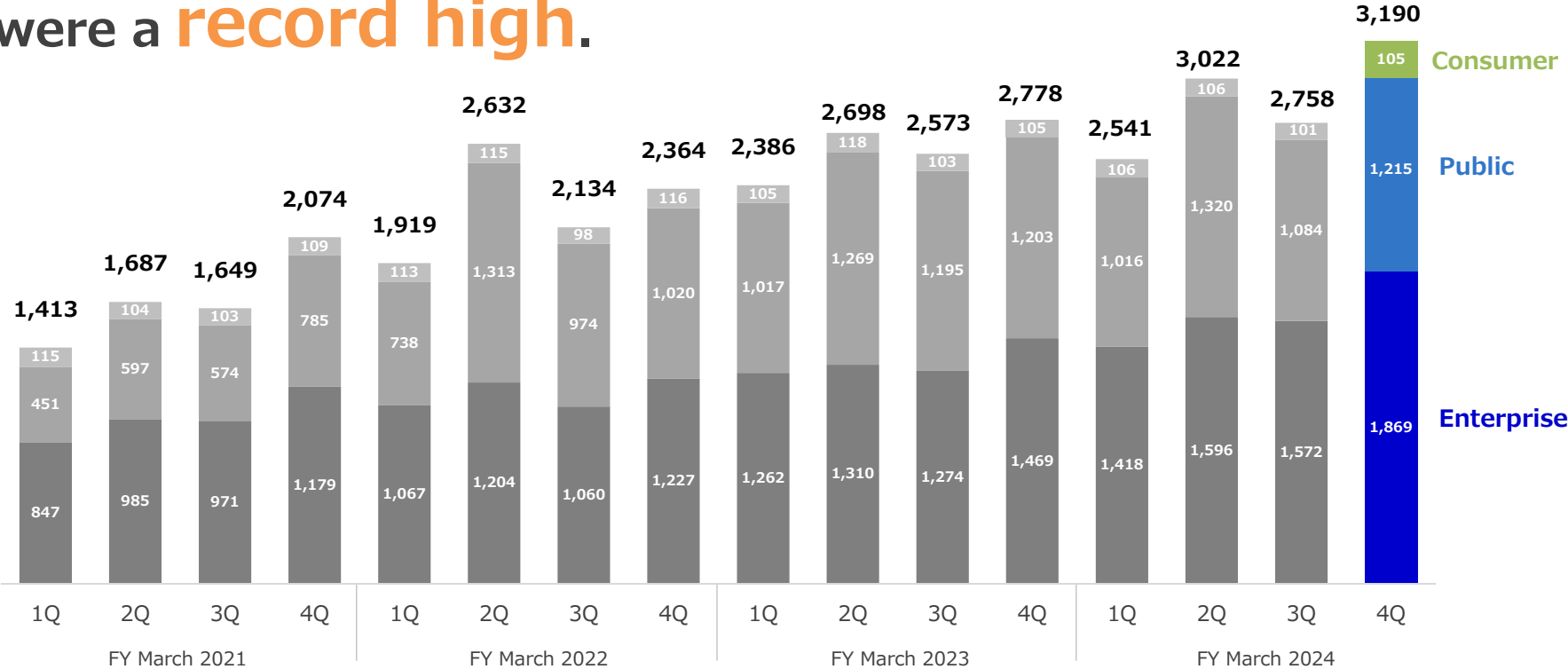
Net sales for the full year **reached a record high** due to growth in the enterprise section market.

(Million yen)



Net sales for the four quarter were a **record high**.

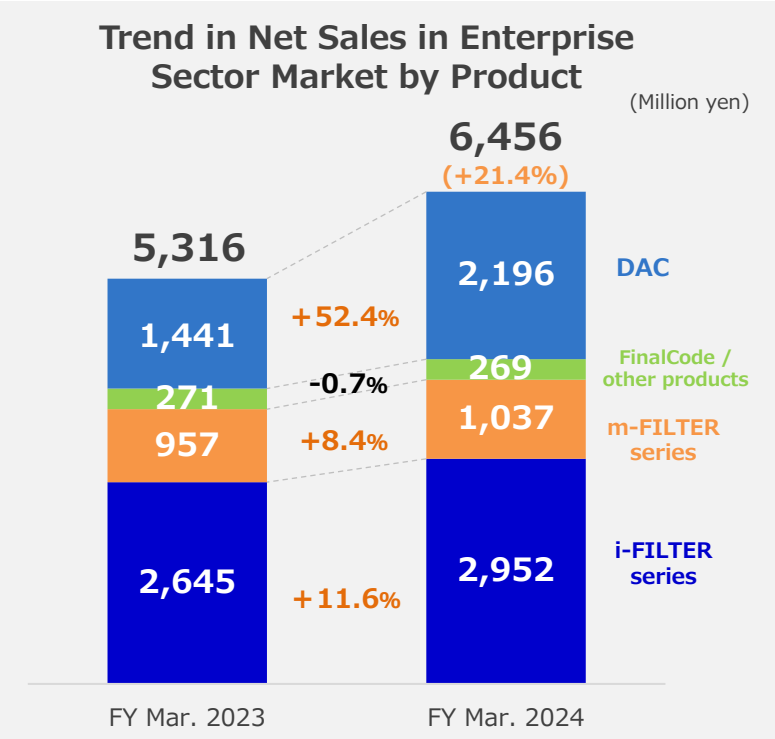
(Million yen)



03 Net Sales by Market

Enterprise Sector

Growth in net sales accelerated with the winning of projects aimed at facilitating the transition to cloud security and those from clients switching from competitors' products. Additional factors were the achievement of strong option sales, as well as a significant increase in the number of new customers gained at DAC.



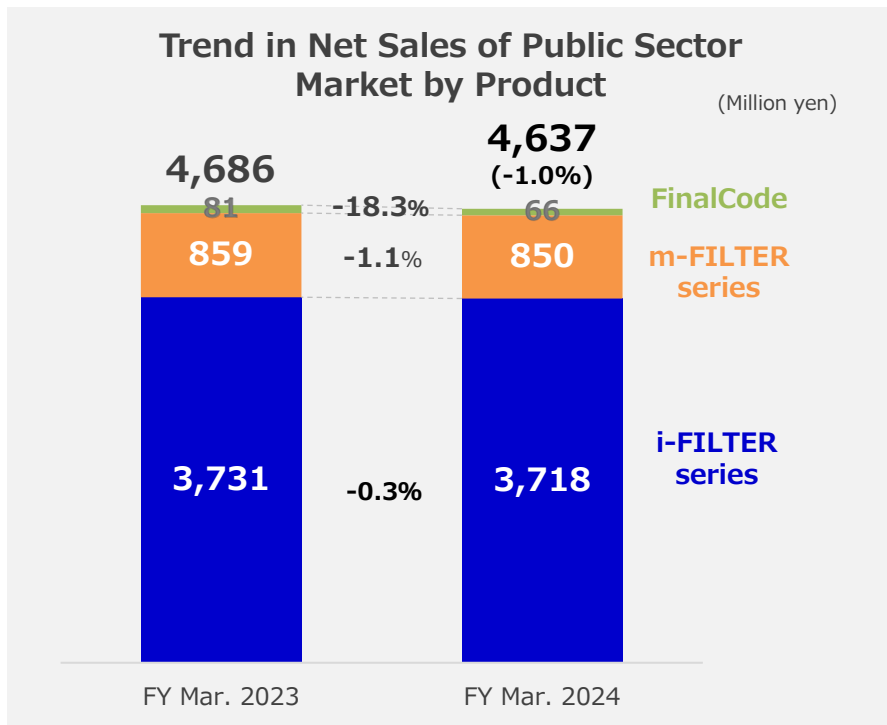
- The i-FILTER series grew sharply, reflecting successful efforts to capture demand for a shift to cloud security and demand from clients switching from competitors' products, as well as strong sales of the Anti-Virus & Sandbox option. (+306 million yen/+11.6%).
- The m-FILTER series achieved growth, reflecting successful efforts to tap into demand for countermeasures applicable to address malware when receiving emails, and demand for countermeasures, namely PPAP-based transmission and erroneous transmission prevention, applicable when sending emails, as well as strong sales of options featuring the collaboration of the Anti-Virus & Sandbox option and f-FILTER, or a new product released in the current fiscal year (+80 million yen/+8.4%).
- Sales of the FinalCode series recorded negative growth, partly due to the plateauing of demand for countermeasures to address revisions to the Act on the Protection of Personal Information last year. However, the negative growth was partly offset by new orders for f-FILTER, a new product. (-1 million yen/-0.7%)
- substantial sales growth, reflecting advancing DX and growing demand for security measures among enterprises. (+754 million yen/+52.4%)

03 Net Sales by Market

Public Sector

Net Sales of Public Sector Market by Product

The Group continued to win new Security Improvements for Local Governments projects and the first phase of GIGA School Concept projects. However, orders slowed compared to the previous fiscal year due to the progress in the implementation of countermeasures at respective local governments. In addition, the closing of computer classes occurred, which was a factor that created a situation that is the opposite to special demand.

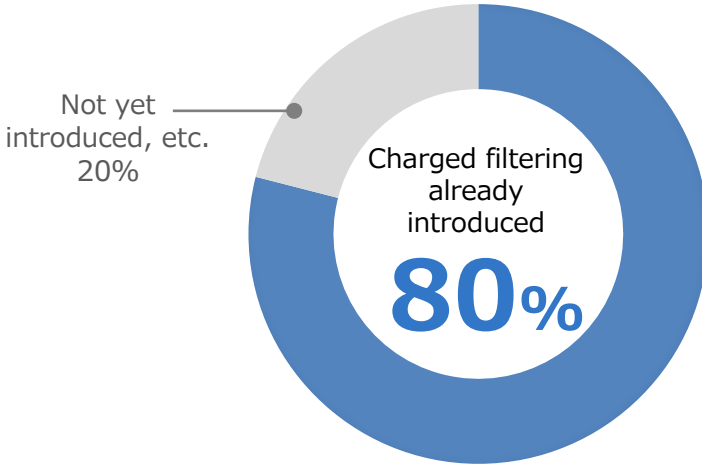


- The Group continued to win new Security Improvements for Local Governments projects and the first phase of GIGA School Concept projects. However, orders slowed compared to the previous fiscal year due to the progress in the implementation of countermeasures at respective local governments. In addition, the closing of computer classes occurred※, which was a factor that created a situation that is the opposite to special demand. (-12 million yen/-0.3%)
- Procurement related to Security Improvement for Local Governments projects continued in the fiscal year under review. However, since it was less active than the level in the previous fiscal year, sales of the m-FILTER series recorded slightly negative growth. (-9 million yen/-1.1%)
- New orders worth approx. 9 million yen were received for f-FILTER, the new product, in the public sector market as the product captured demand for Network DLP.

※The idea that if each student had a GIGA terminal, computer classes would be closed because students would not have to travel to the computer classroom to use the computer for learning.

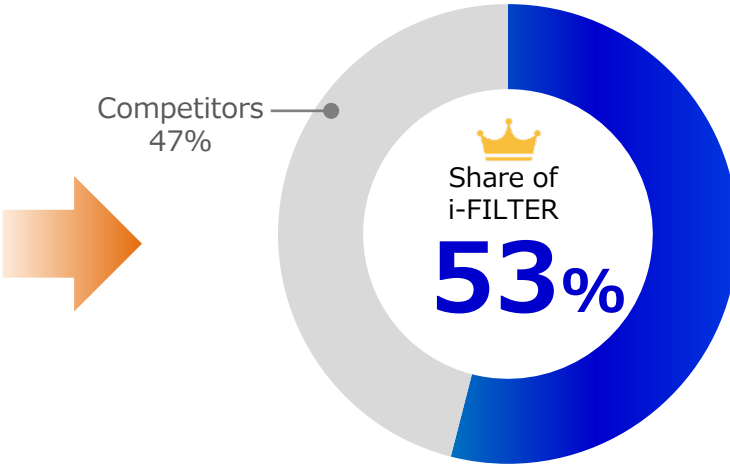
Introduction of filtering under the GIGA School Concept*1

Introduction of pay filtering by Boards of Education



The percentage of boards of education that have adopted pay filtering reached **80%**.

Share of charged filtering introduced



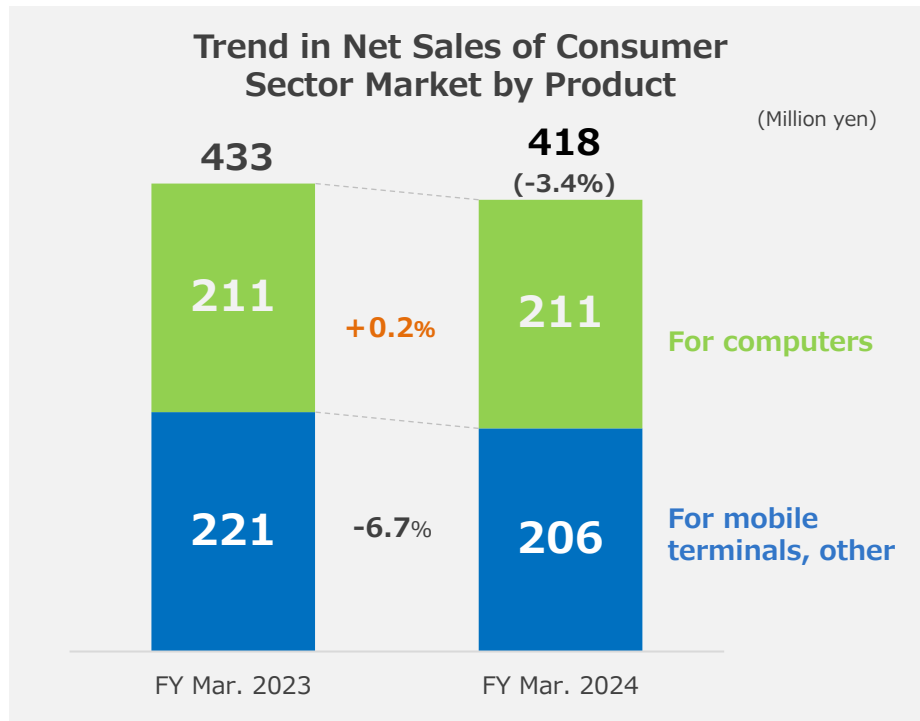
Of the boards of education that have introduced charged filtering, **53%** have implemented i-FILTER.

*1 : According to our survey of 1,741boards of education (Mar. 2024)

03 Net Sales by Market

Consumer Sector

In the consumer sector market, net sales did not increase as expected due to the sense of plateauing with respect to demand for filtering measures. The Group will facilitate the strengthening of products and expand target customers, aiming to tap into new demand.



- In products for computers, net sales remained flat despite the promotions of multiple-year package products and initiatives for products for Internet cafes. (+0 million yen/+0.2%)
- With regard to products for mobile phones and other terminals, revenue from contract development of products for mobile terminals for carriers increased, while new contracts declined, leading to a decrease in net sales. (-14 million yen/-6.7%)
- 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.

**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

04 Results of Measures for the Fiscal Year Ended March 2024

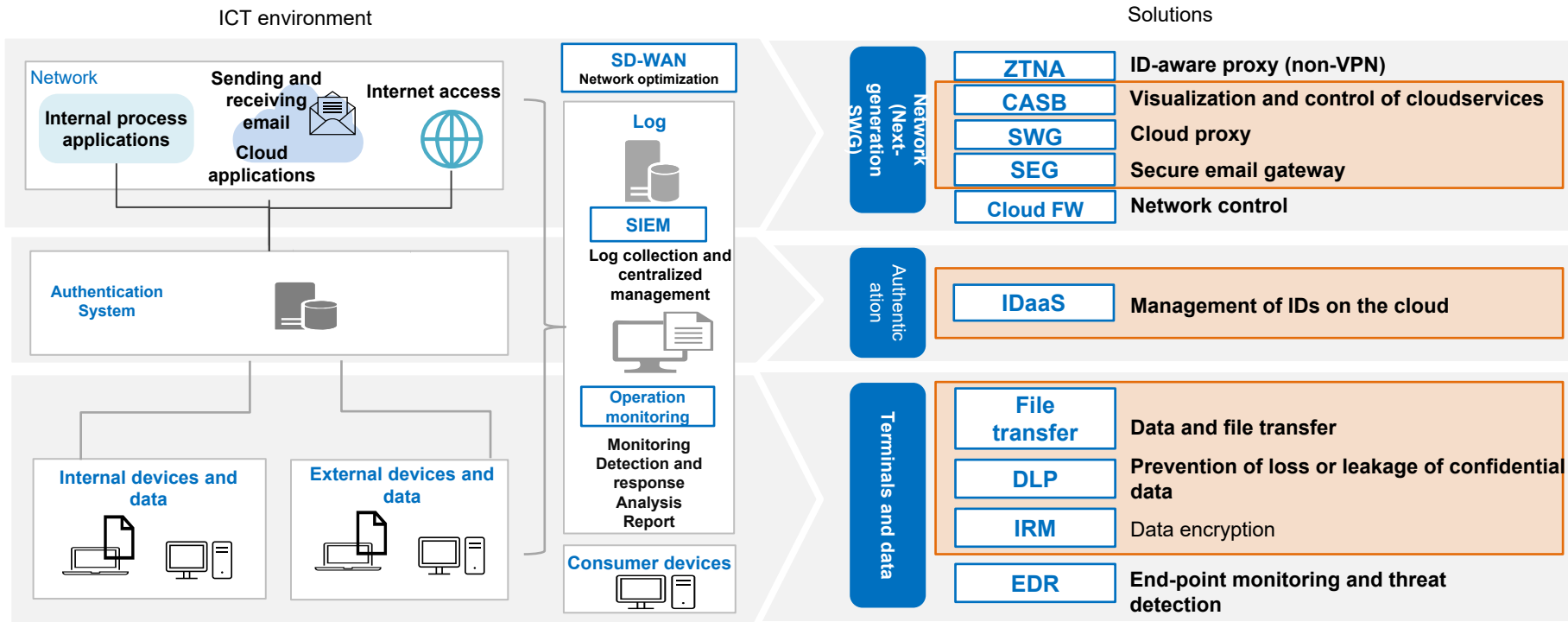
Response to Needs for Comprehensive Security

Areas of Focus

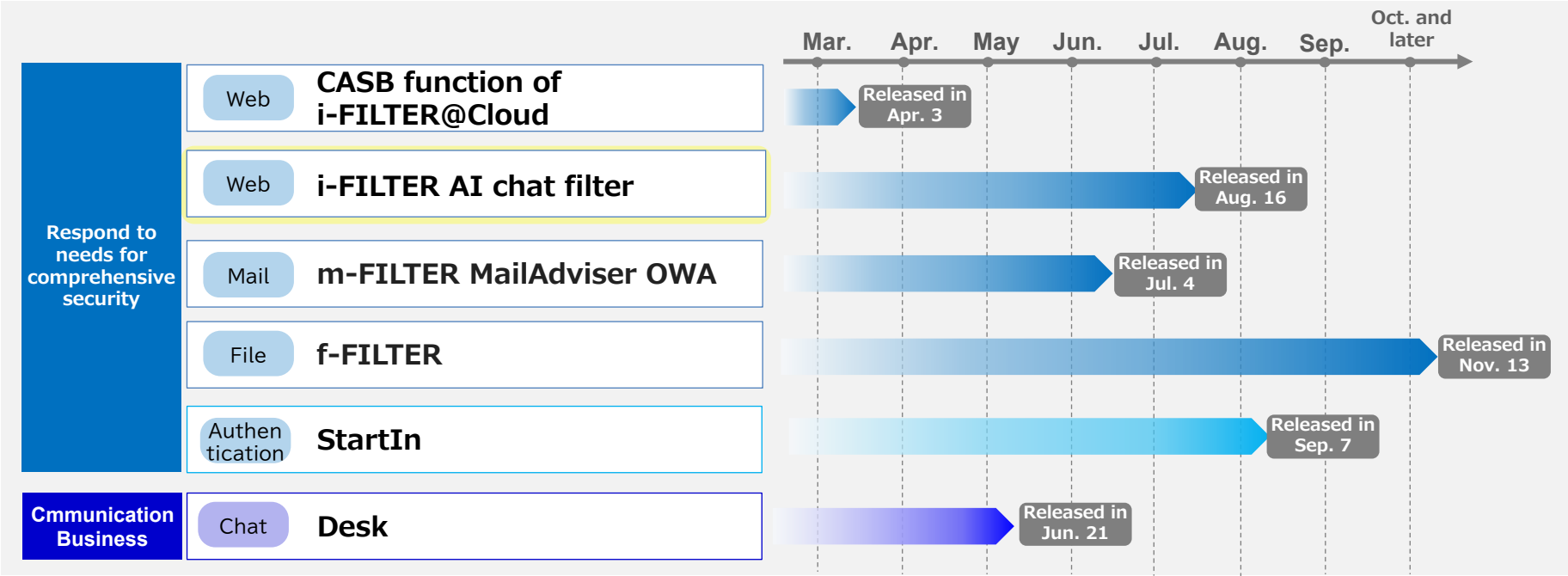


Focus on networks, authentication and terminals/data to respond to needs for comprehensive security in the ICT environment

: Areas of focus

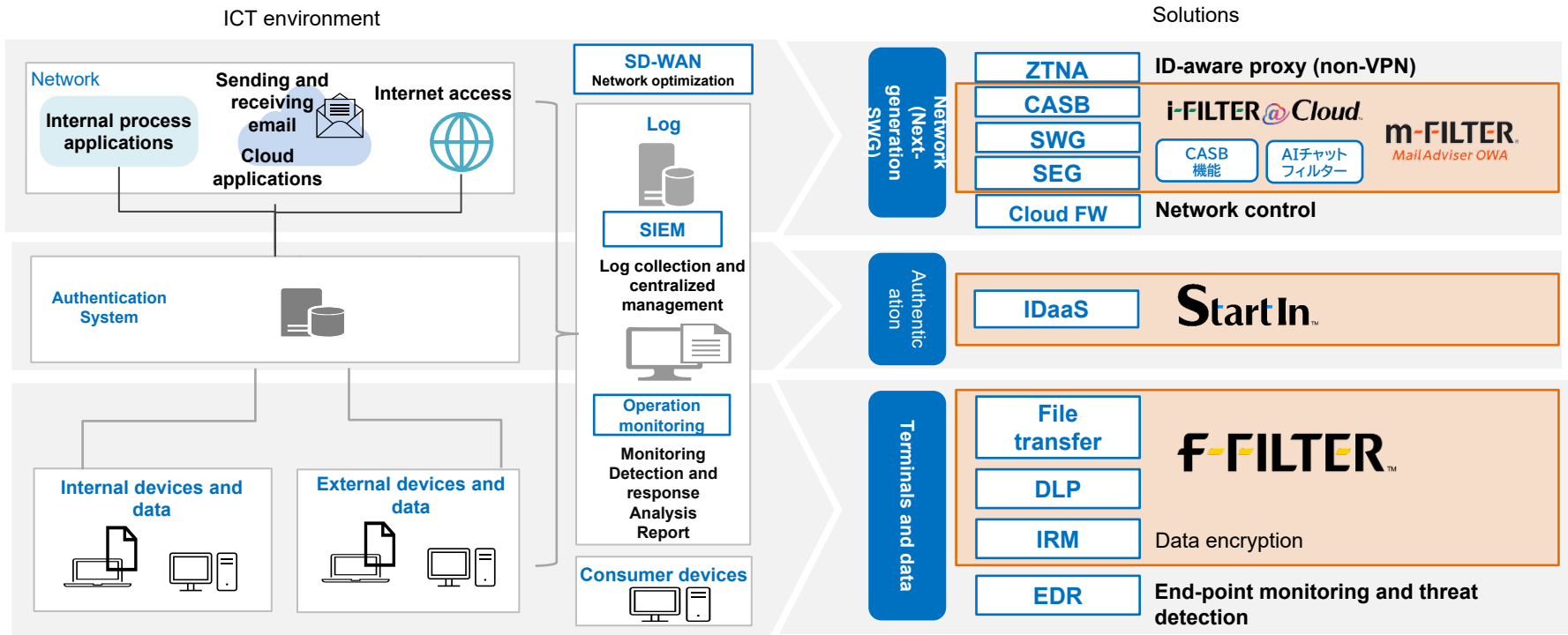


Planned functional upgrades to address demand for comprehensive security and new product releases were completed. Sales activities and continuous functional upgrades are underway after the releases.



Released solutions to address risks related to networks, authentication and terminals/data.

: Results of release



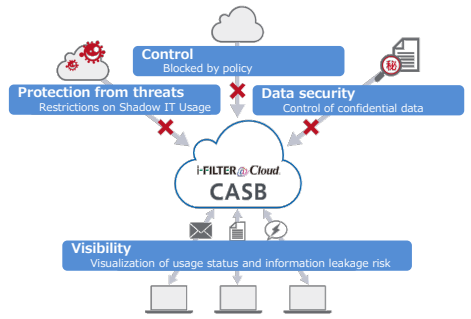
Network Security

Add the CASB function, to be one of the main functions in the next-generation SWG plan, and a new function for visualizing/controlling the status of use of generative AI increasingly in demand, to i-FILTER as standard features.

New features

i-FILTER@Cloud™

CASB function



- Visualize and control the status of use of cloud services
- Enabling flexible and robust countermeasures against information leakage

AI chat filter

No.	システム / AIチャットフィルター / AIチャットログ	グループ	日時	サービス	検出	検出単語
1	1302 168 0.2	営業部	2023/07/13 13:48:44	OpenAI (ChatGPT)		
2	1302 168 0.2	営業部	2023/07/13 15:40:13	OpenAI (ChatGPT)	ブロック	検出単語
3	1302 168 0.2	営業部	2023/07/13 18:47:27	OpenAI (ChatGPT)	ブロック	検出単語
4	1302 168 0.2	営業部	2023/07/13 18:44:41	Ring AI	ブロック	検出単語

Support for confirmation of users who made a post, their group and time of posting/support for highlighting of detected words/reasons for detection

Support for confirmation of target generative AI

Support for confirmation of detected words and word category

Supporting flexible management/control of access to generative AI by service and by account

POINT

- ✓ Only in nine months after the release, orders worth approx. 40 million yen were received for the CASB function.
- ✓ The AI chat filter is a new function designed for companies and organizations willing to proactively use generative AI, which is a trendy tool.
- ✓ Aim at creating further projects and increasing user satisfaction, mainly targeting small and medium enterprises who cannot afford the high-priced products of foreign affiliates due to their limited budgets since both the functions are provided as standard features.

Network Security

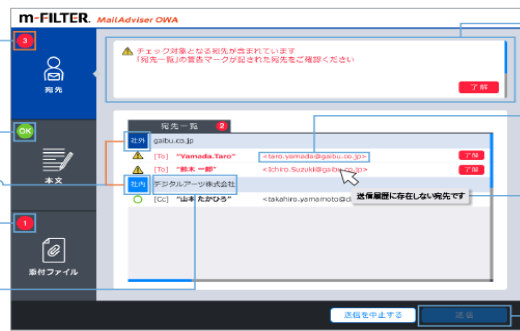
- A product to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA) environment
- Equipped with the original function to solve PPAP issues, meeting a wide range of needs for security measures in email delivery

Strengthening the brand of products aimed to prevent email misdelivery

m-FILTER[®] MailAdviser OWA

Recipients tab shows a list of all email addresses in To, Cc and Bcc fields

- Indicating the number of problems in the Recipients, Text and Attached File tabs.
- The categories displayed at the beginning of each domain are "external," "mobile," and "internal".
* In addition to the above categories, External, "Outside the unit" and "Within the unit" can be added.
- The receiver can instantly be identified.
Automatically obtain information on each user's organization and convert the domain into the organization information so that erroneous addresses can be spotted right away.



- Displaying the risks of erroneous sending at once
- Click on the destination address itself to confirm
- Pointing out what needs to be confirmed when a cursor is pointed at the address
- The mail cannot be sent if any item is left unconfirmed
The mail cannot be sent unless all the tabs, "Recipients," "Text" and "Attached Files," are confirmed.

POINT

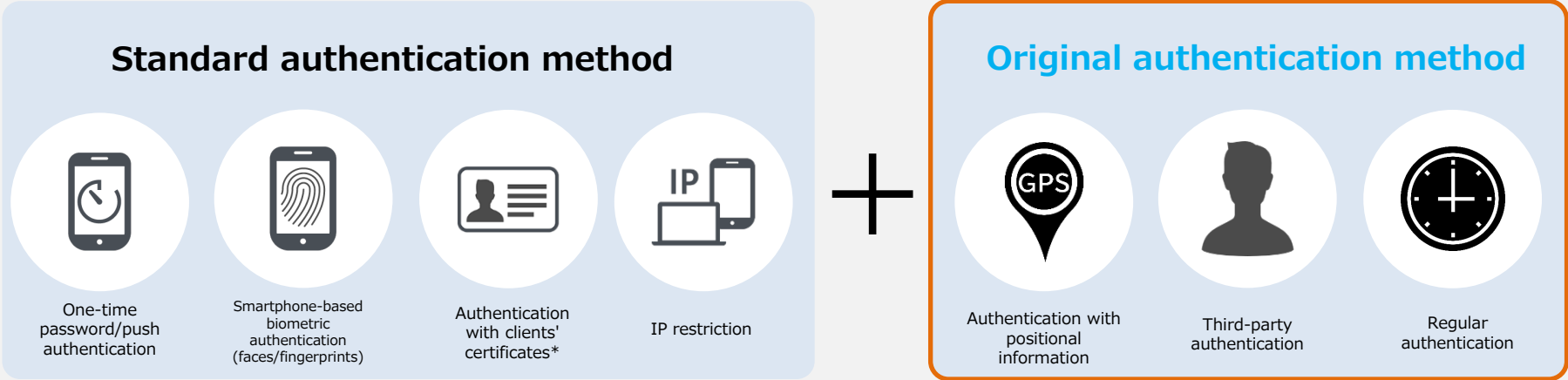
- ✓ More users choose the Microsoft 365's OWA environment as an environment to send and receive emails since it works in any terminal
- ✓ Providing the original function to solve PPAP issues in addition to the function to prevent email misdelivery and allowing easy introduction
- ✓ Unify the name of m-FILTER MailAdviser OWA with the brand m-FILTER MailAdviser (for email software) to accelerate project creation.

- Measures to provide pop-ups for email misdelivery supporting the Outlook Web Access (OWA)
- Robust measures to prevent email misdelivery and solve PPAP issues

Authentication security

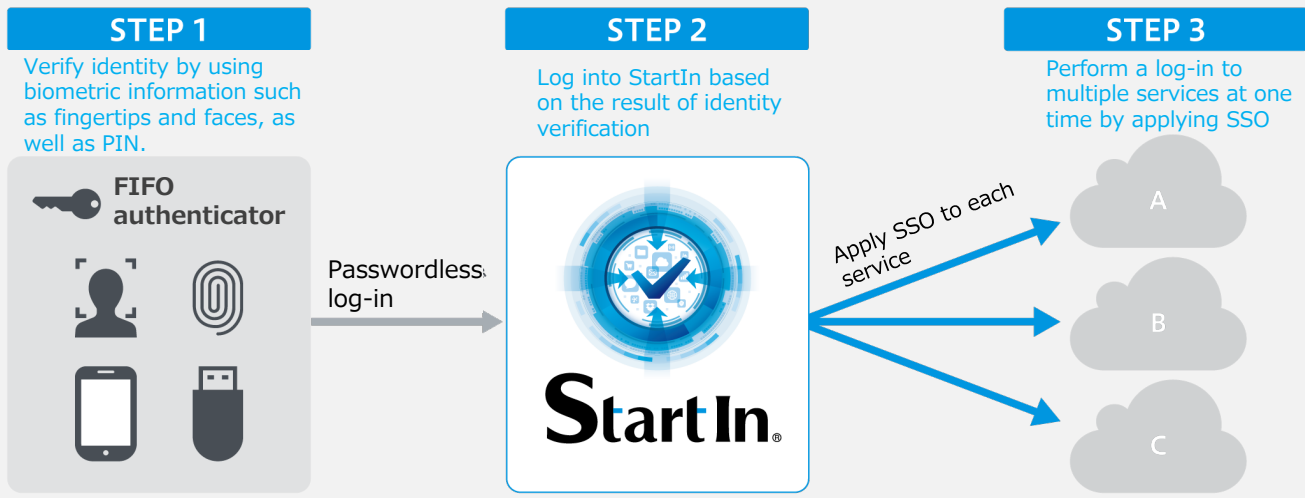
The Group has released StartIn, a new product featuring various types of original multifactor authentication methods, in addition to ID management, log management and ID provisioning, to offer secure authentication when SaaS is used.

Strengthening internet access points by offering various types of multi-factor authentication functions



The product realizes the improvement of useability and enhancement of security through passkeys-based authentication without the need for passwords.

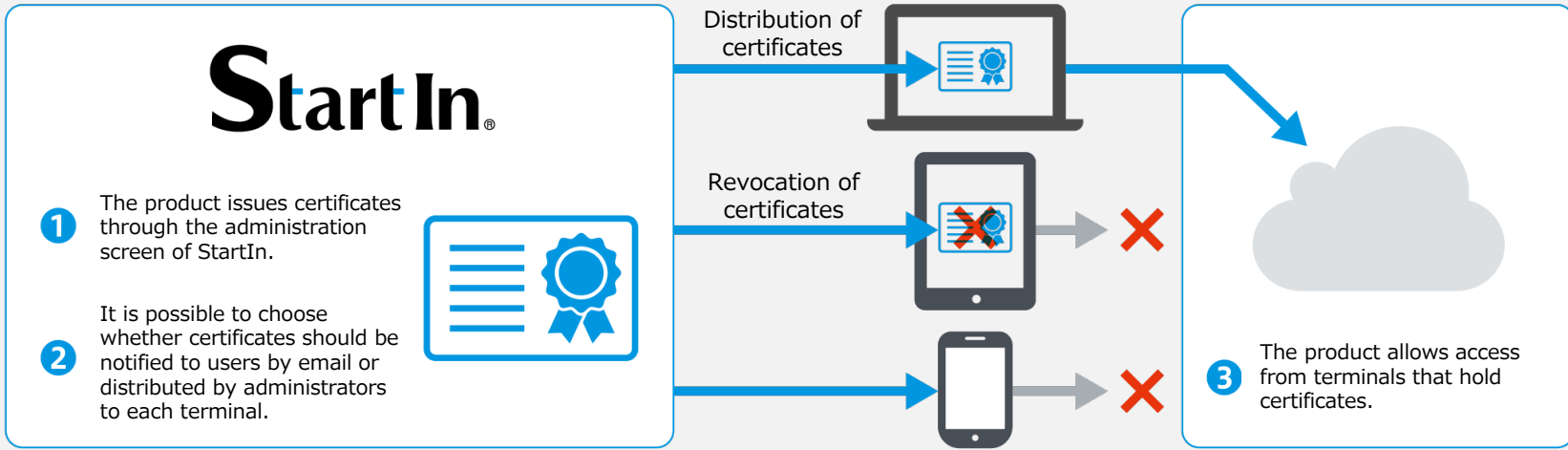
It is possible to reduce the risk of unauthorized password-aided use of credentials by third parties.



*It is possible to set passwordless-based authentication and depending the operation thereof, change the setting to use such authentication as the second factor authentication after the ID/Password process.

It is possible to issue and revoke certificates from StartIn. This allows access only to terminals that hold certificates while also preventing access from terminals that don't hold the certificates.

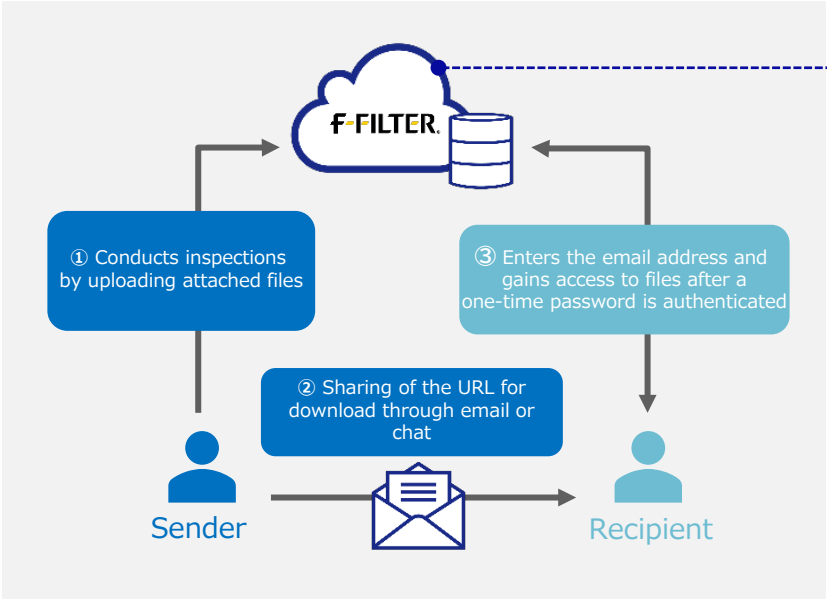
By installing certificates in terminals in advance, the product checks whether terminals to which StartIn has accessed hold certificates.



*The specifications are those planned as of March 2024 and may subject to change for implementation.

Data security

The product enables only appropriate receivers to gain access to files by conducting checks through the original file checking function. Secure file transfer service through storages.



f-FILTER's information leak prevention scheme

- DLP (information leak prevention)** Visualizing important information based on originally established definitions
- File judgment** Scoring whether files can be provided externally
- Workflow** Approved by superiors through workflow and **checked by human eyes**
- Antivirus** Checking malware in files that are sent and received
- File viewing authority management** It is possible to specify users who can view files.

Data security

The product offers measures to address total security demand through collaboration with m-FILTER and i-FILTER which are the Company's mainstay solutions.

f-FILTER 

E-mail

Collaboration between email DLP measures/PPAP-based countermeasures and m-FILTER

Identifies and detects important data and confidential information and prevents external leaks through email

f-FILTER 

Web

Collaboration between network DLP measures and i-FILTER

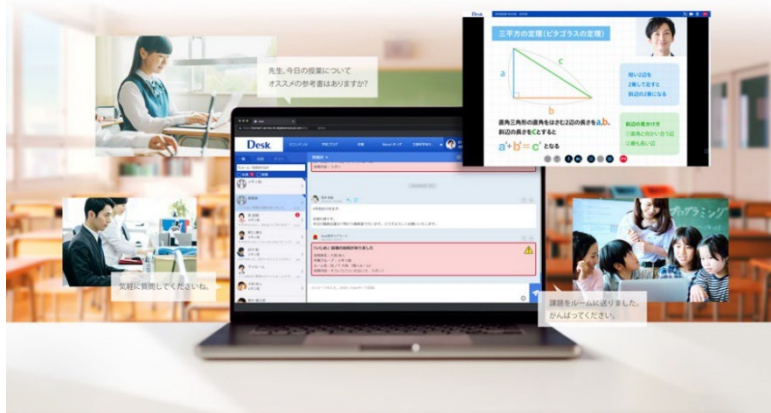
Addresses information leakage risks by visualizing and controlling confidential information that passes through networks

POINT

- ✓ The Group won a project worth **21 million yen** in the fiscal year under review by capturing demand for PPAP-based countermeasures through collaboration with m-FILTER and that for network DLP measures through collaboration with i-FILTER. Projects worth **approximately 130 million yen** has been created at this point.

Chat and Online Conferencing System

Launch the communication business in June 2023
Addressing security risks emerging in communication



Chat and online conferencing

Desk®

Chats (for schools)

Desk® (GIGA School版)

Enhancement of features

Video conferencing tool

Desk Event™

POINT

- ✓ Add the usage time restriction and Google Workspace collaboration functions to GIGA School Edition
- ✓ Aim to promote cross-selling in Phase 2 of GIGA School Concept projects, targeting in particular the users of the GIGA School version of i-FILTER

Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024

05

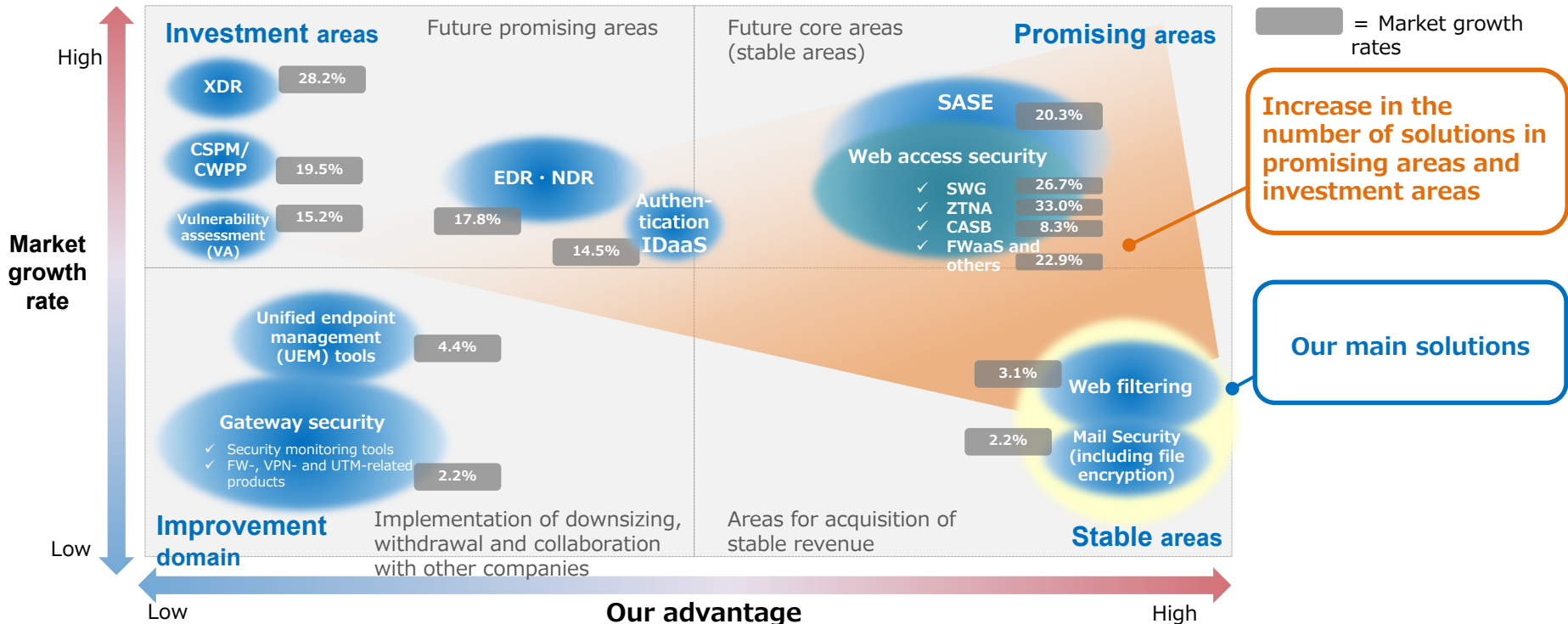
POLICY FOR INITIATIVES FOR THE FISCAL YEAR ENDING MARCH 2025

05

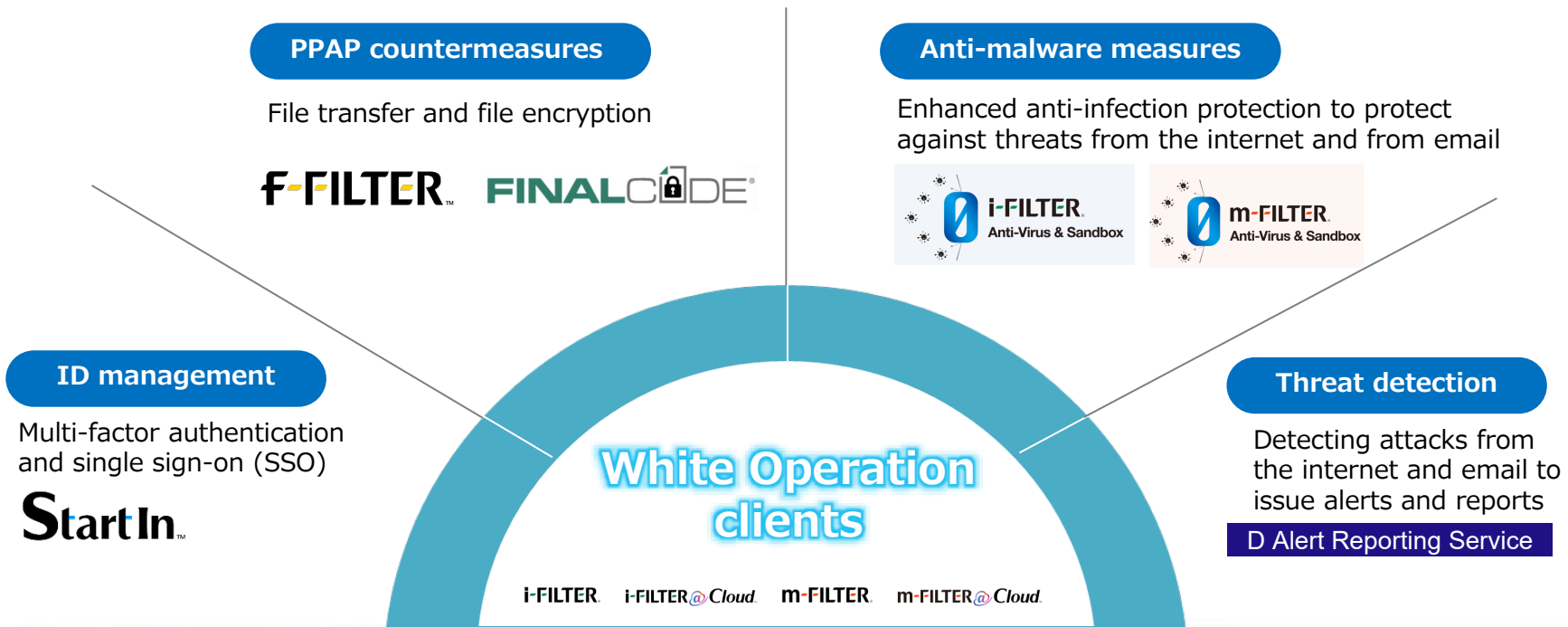
Policy for Initiatives For
the Fiscal Year Ending March 2025

PRODUCT STRATEGY AND SALES STRATEGY

In view of the rate of growth of the product market and our advantages, we will increase solutions in promising areas and investment areas to maximize synergy with our mainstay solutions.



Carry out upselling and cross-selling for White Operation clients



05

Policy for Initiatives For
the Fiscal Year Ending March 2025

INCREASE IN MARKET SHARE IN THE PUBLIC SECTOR MARKET

Phase 2 of the GIGA School Concept

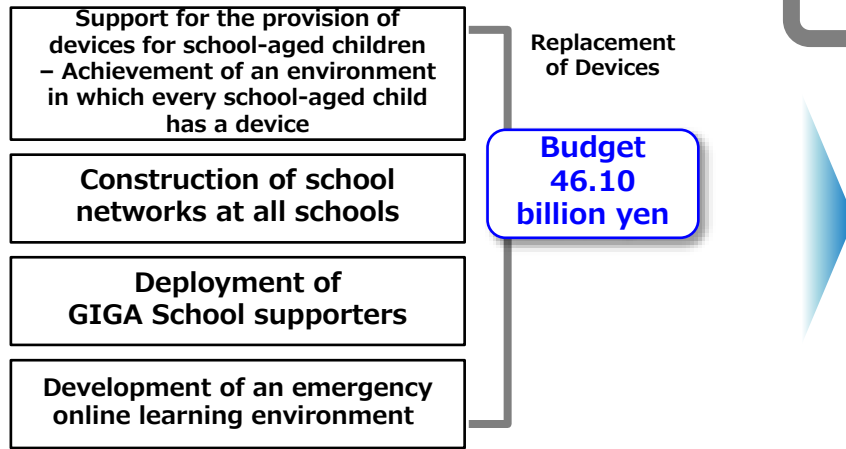


The implementation of Phase 2 of the NEXT GIGA was planned for the five-year period starting in FY2024

GIGA School Concept operated by the Ministry of Education, Culture, Sports, Science and Technology



Phase 1 of the GIGA School Concept



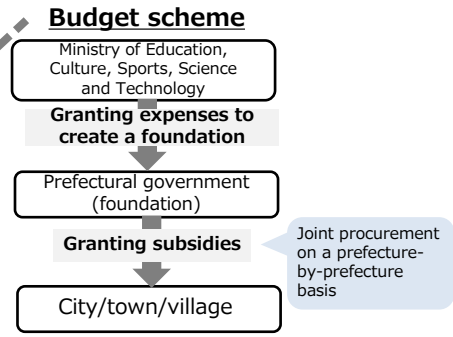
Cabinet decision already made regarding the budget for device replacement up until 2025

Phase 2 of the GIGA School Concept – NEXT GIGA

Organized replacement of the devices for each school-aged over a period of around five years

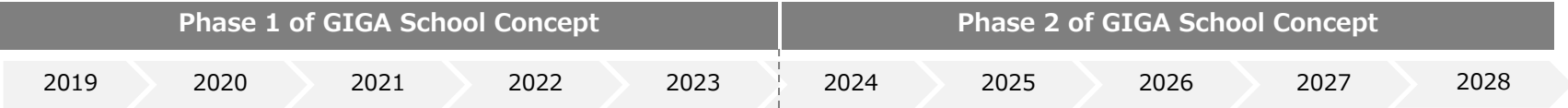
Budget (-2025) ※ 26.61 billion yen

※ Only for replacement of GIGA School Concept Devices

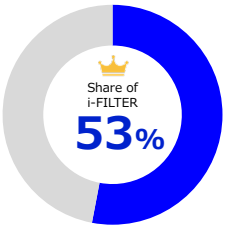


We will work proactively to ensure the renewal of existing contracts as well as receive new contracts to increase our market share.

Our share of the GIGA School Concept market



Earning the market's trust



The filtering market is expected to grow under the GIGA School Concept.

- ✓ The shift from free filtering to charged filtering will accelerate.

Strengthening of functions, increase of product value and proper unit pricing

New contracts

the renewal of existing contracts

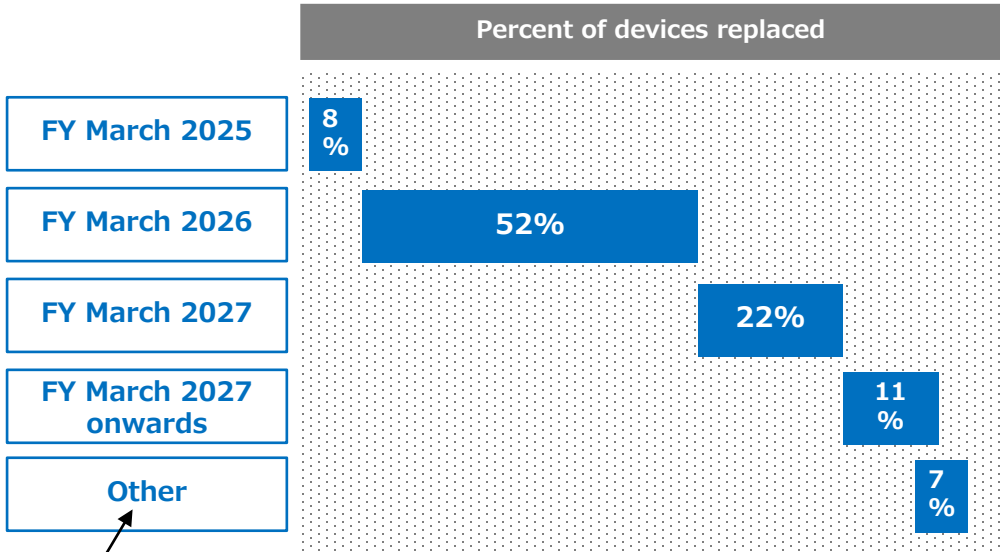
Increase of our market share

Phase 2 of the GIGA School Concept – Timing of the Replacement of GIGA School Concept Devices



The GIGA School Concept device replacement will start in the fiscal year ending March 31, 2025 and will be fully implemented in the fiscal year ending March 31, 2026.

[GIGA device replacement timing]



Depending on the previous fiscal year, the budget and other factors

POINT

- ✓ As for the date of replacing GIGA devices, approx. **60% of the education boards** will be due for replacement **by the end of FY March 2026**.
- ✓ The guidelines for device procurement in phase 2 of the GIGA School Concept presented by the Ministry of Education, Culture, Sports, Science and Technology stipulate that the procured devices **must have a web filtering function**. It is anticipated that procurement of web filtering will be faster than in phase 1.

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

Work style reform

01

Make it possible to reduce the burden on teaching staff and school officials working inside and outside the school, as well as on members of the education boards, and support the acceleration and activation of communication through active use of the general-purpose cloud tools

This can be tackled by utilizing GIGA devices and the existing network environment

02

Develop an environment offering connection to the school affairs/learning systems from anywhere and allow flexible and safe work styles tailored to the individual needs of teaching staff

Integration of school affairs/learning networks

Data linking

03

Allow low-cost and real-time integration of data owned by school affairs system and the learning system

Cloud migration of school affairs support system

04

Support the sophistication of school management, educational guidelines and education policies by visualizing various kinds of data in an integrated way by using the dashboard function

Creation of Data chaining infrastructure (dashboard)

Resilience

05

Allow securing operation continuity even in the event of a large-scale disaster

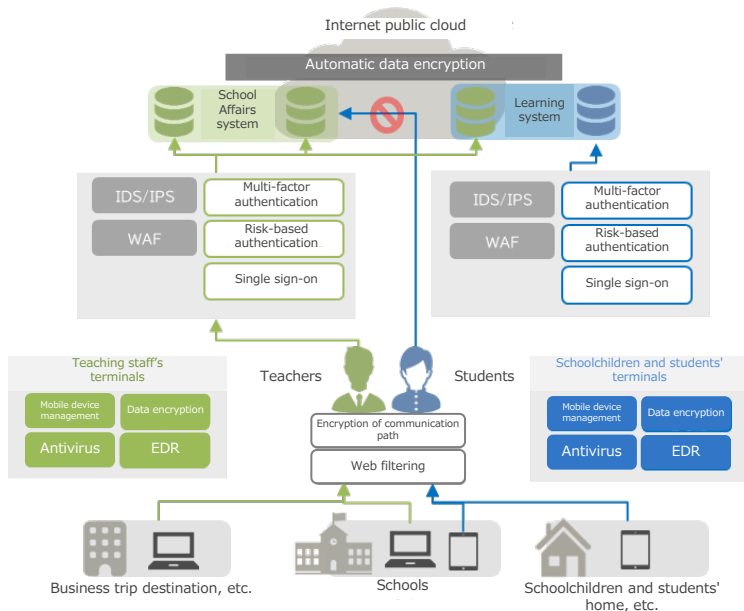
Cloud migration of school affairs support system

Security measures are essential for implementation in a safe and reassuring way

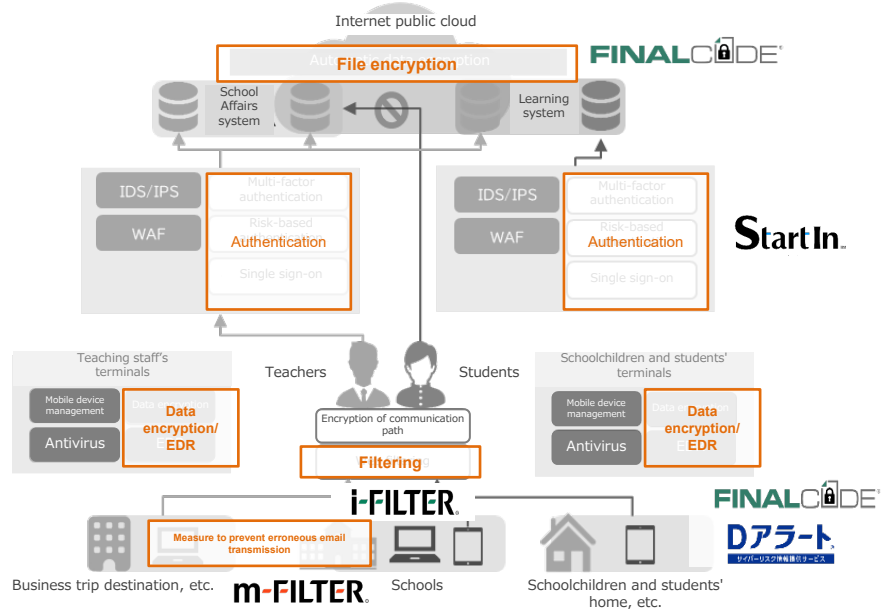
Our products are applicable in many different areas to ensure security. We will proactively advertise the value of our products.

= Scope of supports

Overview diagram of security measures in school affairs DX

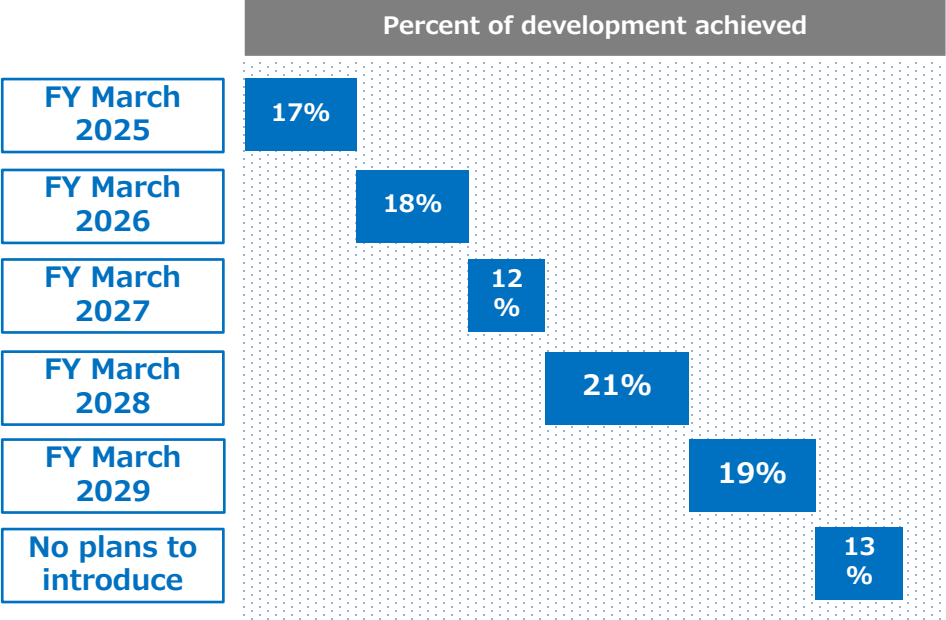


Security support map with our products



Procurement of products is expected to start in the fiscal year ending March 31, 2025 with a view toward the operation of a school affairs support system.

[School Affairs DX development schedule]



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.

**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

**06 Full-Year financial Forecast for
the Fiscal Year Ending March 2025**

Forecasts for Fiscal Year Ending March 31, 2025 (Consolidated)



DAC's sales of 23 million yen and expenses of 22 million yen, which were included in the financial results of the previous fiscal year, are excluded from consolidated earnings forecasts for the current fiscal year. Therefore, DA's growth in sales is expected to result in significant improvements in the gross profit and operating profit margins. Meanwhile, profit attributable to owners of parent of the previous financial results included extraordinary income of approximately 19 million yen due to the transfer of shares in DAC.

(Million yen)

	FY March 2024 Full-Year Results	FY March 2025 Full-Year Forecasts	Change	% Change	Main Factors for Change
Net sales	11,512	10,720	-792	-6.9%	DAC's sales, which were of 2.3 billion yen in the previous fiscal year, are excluded from consolidation, starting from the current fiscal year.
Cost of sales	4,583	2,850	-1,733	-37.8%	For the above reason, DAC's cost of sales, which was 19 million yen in the previous fiscal year, is excluded from consolidation, starting from the current fiscal year.
Gross profit	6,928	7,870	+941	+13.6%	
Gross profit margin	60.2%	73.4%	-	-	Improved significantly due to the deconsolidation of DAC whose cost of sales ratio is high.
Selling, general and administrative expenses	2,500	2,730	+229	+9.2%	For the above reason, DAC's selling, general and administrative expenses, which were 2 million yen in the previous fiscal year, are excluded from consolidation, starting from the current fiscal year.
Operating profit	4,427	5,140	+712	+16.1%	
Operating margin	38.5%	47.9%	-	-	Improved significantly due to the deconsolidation of DAC
Ordinary profit	4,443	5,140	+696	+15.7%	
Profit attributable to owners of parent	4,377	3,540	-837	-19.1%	The previous fiscal year's profit reflects extraordinary income of approximately 19 million yen due to the transfer of shares in DAC.

Forecasts for Fiscal Year Ending March 31, 2025 (Non-consolidated)

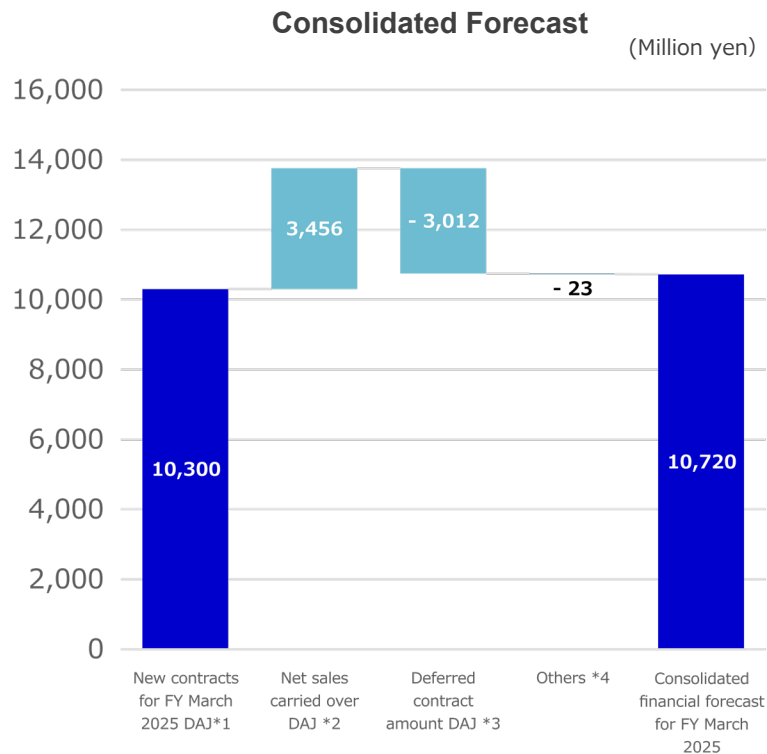


The Group aims to achieve growth in net sales and operating profit through the initiatives for the three priority areas set out in the Medium-Term Management Plan (FY2025 - FY2027).

(Million yen)

	FY March 2024 Full-Year Results	FY March 2025 Full-Year Forecasts	Change	% Change	Main Factors for Change
Net sales	9,304	10,710	+1,405	+15.1%	Sales are expected to grow through the implementation of product/sales strategies and public sector market-focused measures.
Cost of sales	2,664	2,850	+185	+7.0%	Approximately 180 million yen are expected to be invested in human resources of engineering.
Gross profit	6,639	7,860	+1,220	+18.4%	
Gross profit margin	71.4%	73.4%	-	-	
Selling, general and administrative expenses	2,309	2,710	+400	+17.3%	Approximately 330 million yen are expected to be invested in human resources.
Operating profit	4,330	5,150	+819	+18.9%	
Operating margin	46.5%	48.1%	-	-	
Ordinary profit	4,348	5,150	+801	+18.4%	
Profit attributable to owners of parent	4,536	3,550	-986	-21.7%	The previous fiscal year's result reflects extraordinary income of approximately 21.5 million yen due to the transfer of shares in DAC.

Consolidated net sales are forecast as follows:



- **New contracts of DAJ** are expected to be 10,300 million yen in the current fiscal year, reflecting the facilitation of the acquisition of new customers and cross-selling and upselling with a focus on existing customers in the enterprise sector market and the winning of the second phase of GIGA School Concept projects and Next-Generation DX projects in the public sector market.
- 3,456 million yen from the cloud projects that were acquired before the previous fiscal year, such as the first phase of GIGA School Concept projects, are **transferred as sales in the current fiscal year**.

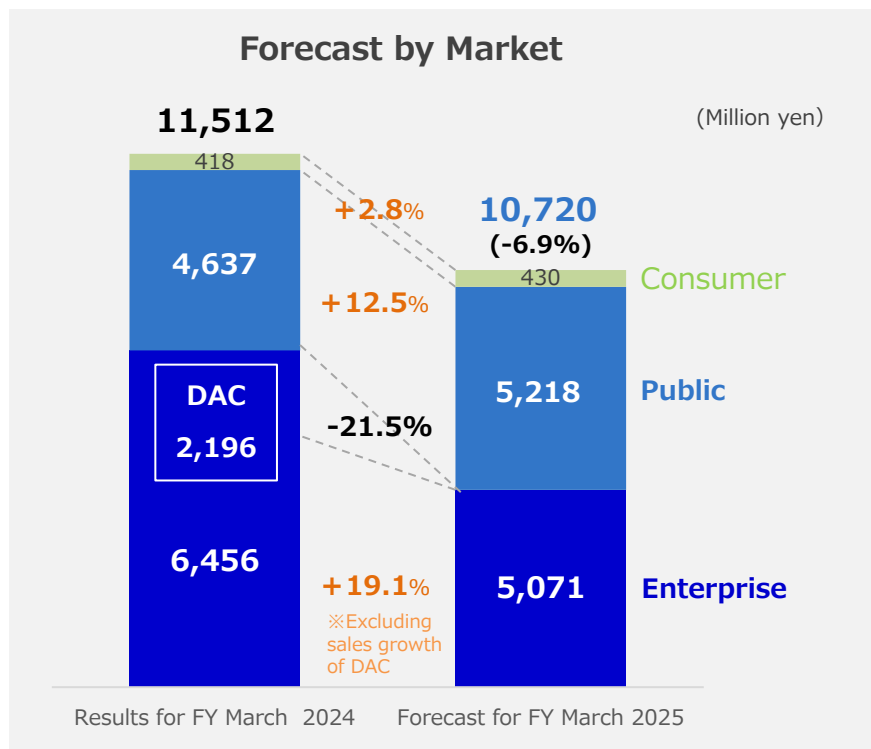
*1 : DAJ = Digital Arts Inc.

*2 : Sales recorded from the order backlog of contracts acquired in previous fiscal years

*3 : Contracts for the current fiscal year that are deferred to subsequent fiscal years (contract backlogs)

*4 : Sales returns at DAJ and sales at overseas subsidiaries

Consolidated net sales by market are forecast as follows:



- **In the enterprise sector market**, the Group expects to increase sales by increasing customers that use White Operation-and facilitating cross-selling and upselling to customers who adopt White Operation, as well as **continuous product enhancement efforts**.

*The results of the previous fiscal year reflect DAC's sales of approximately 2,196 million yen. Excluding such sales, the Group expects an increase by 812 million yen, or 19.1%.

- **In the public sector market**, the Group expects sales growth through the implementation of sales and marketing measures for the second phase of GIGA School Concept projects and Next-Generation DX projects.

Consolidated Cost of Sales and Selling, General and Administrative Expenses



The cost of sales is expected to improve significantly because DAC's cost of sales in the previous fiscal year is excluded from consolidation.

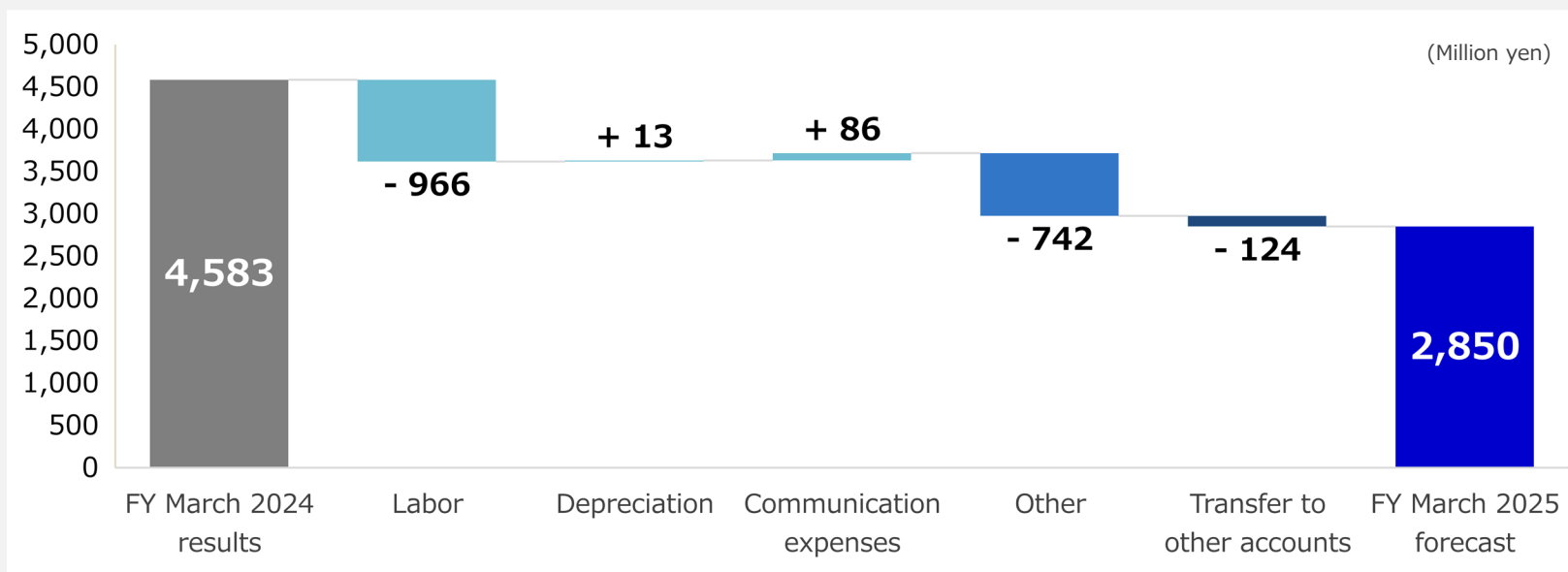
(Million yen)

	FY March 2024 Full-Year Results	FY March 2025 Full-Year Forecasts	Change YoY	Main Factors for Change
Net sales	4,583	2,850	-37.8%	Impact of the deconsolidation of DAC
Cost of sales	2,038	1,071	-47.4%	
Gross profit	839	852	+1.6%	
Gross profit margin	1,304	1,390	+6.6%	An increase in cloud server expenses as a result of the expansion of sales of cloud service products and an increase in the number of licenses.
Selling, general and administrative expenses	1,384	642	-53.6%	
Operating profit	-982	-1,107	+12.7%	
Operating margin	2,500	2,730	+9.2%	
Ordinary profit	1,275	1,457	+14.3%	Investments in human resources including the hiring of new graduates, strengthening of employment activities and incentive plans
Profit attributable to owners of parent	313	320	+2.0%	
Net sales	911	952	+4.5%	

Status of Consolidated Cost of Sales

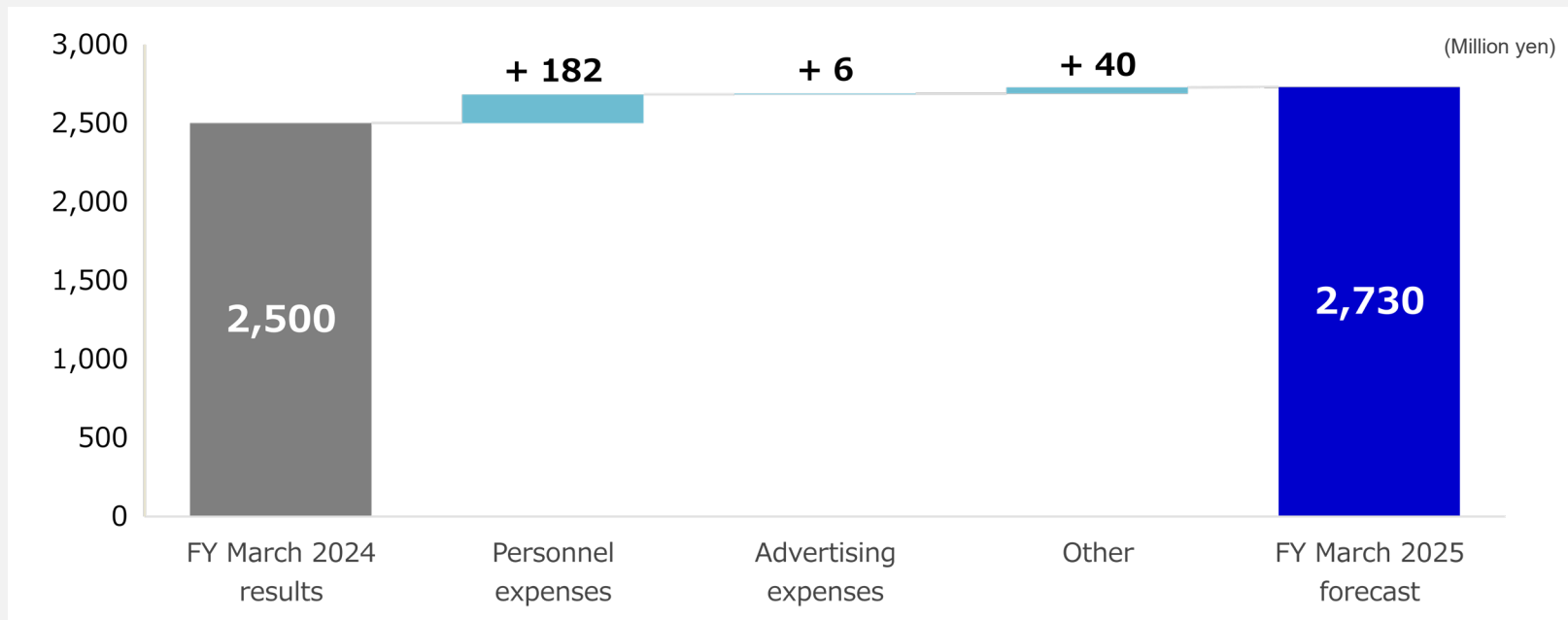
The labor cost and other expenses are expected to be reduced significantly because DAC's labor cost and other expenses are excluded from consolidation. Regarding communication expenses, cloud server expenses are expected to increase, reflecting an increase in the number of customers as a result of the expansion of sales of cloud service products.

Status of Consolidated Cost of sales



Personnel expenses are expected to increase with the enhancement of investments in human resources, which is a priority area in the Medium-Term Management Plan (FY2025 - FY2027).

Status of Consolidated Selling, General and Administrative Expenses



**Material on Consolidated Financial Results
for the Fiscal Year Ended March 31, 2024**

**07 Return to Shareholders for the
Fiscal Year Ending March 31, 2025**

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, 2025: 33.0%
- ◆ Annual dividends of surplus forecasted for fiscal year ending March 31, 2025: 85.00 yen per share.
- ◆ We expect to increase the annual dividend by 5.00 yen per share.

	Dividend (in yen) per share			Consolidated payout ratio
	2Q-end	Year-end	Annual	
FY March 2024	40.00	40.00	80.00	36.5% ※1
FY March 2025 (forecast)	40.00	45.00	85.00	33.0%

※1 Excluding 1,930 million yen as a gain on sale of the stock of consolidated subsidiary Digital Arts Consulting Inc.

Treasury shares will be purchased using a flexible approach, with a focus on returns to shareholders while taking into consideration trends in business performance and stock market movements.

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, i-FILTER Anti-Virus & Sandbox, i-FILTER@Cloud Anti-Virus & Sandbox, i-FILTER@Cloud Dアラート発信レポートサービス, info board, Active Rating System, D-SPA, Anti-Virus & Sandbox for D-SPA, NET FILTER, SP-Cache, White Web, ZBRAIN, クレデンシャルプロテクション, ホワイト運用, m-FILTER, m-FILTER MailFilter, m-FILTER Archive, m-FILTER Anti-Spam, m-FILTER Anti-Virus & Sandbox, m-FILTER@Cloud Anti-Virus & Sandbox, m-FILTER@Cloud Dアラート発信レポートサービス, m-FILTER File Scan, Mail Detox, m-FILTER EdgeMTA, EdgeMTA, FinalCode, i-フィルター, DigitalArts@Cloud, Desk, Desk Event, StartIn, f-FILTER, Dアラート, Dコンテンツ, f-FILTER and other logos and icons related to Digital Arts Inc. and its products are trademarks or registered trademarks of Digital Arts Inc.

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