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Quarterly Consolidated Financial Results for the First Quarter of Fiscal Year Ending March 31, 2025 (Japanese Accounting Standards)

July 31, 2024

Name of listed company: Digital Arts Inc.

Listed on: Tokyo Stock Exchange
Prime Market

Securities code: 2326

URL <https://www.daj.jp/>

Representative: (Title) Representative Director,
President and CEO

(Name) Toshio Dogu

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Scheduled date to start
dividends distribution: -

Preparation of supplementary explanatory : Yes
documents for quarterly results:

Holding of quarterly results briefing: : No

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the first quarter of the fiscal year ending March 31, 2025 (April 1, 2024 – June 30, 2024)

(1) Consolidated operating results (cumulative totals) (Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2024	2,234	(12.1)	838	(3.9)	847	(4.3)	584	(5.0)
June 30, 2023	2,541	6.5	872	(13.5)	885	(13.2)	614	(12.4)

(Note) Comprehensive income: Three months ended June 30, 2024: 587 million yen (-4.9%)
Three months ended June 30, 2023: 617 million yen (-12.7%)

	Profit per share (basic)	Profit per share (diluted)
	Yen	Yen
Three months ended June 30, 2024	42.50	41.96
June 30, 2023	43.87	43.08

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2024	21,471	15,967	74.3	1,161.63
As of March 31, 2024	22,518	15,998	71.0	1,162.40

(Reference) Equity capital: As of June 30, 2024: 15,955 million yen
As of March 31, 2024: 15,986 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2024	—	40.00	—	40.00	80.00
Year ending March 31, 2025	—	—	—	—	—
Year ending March 31, 2025 (forecast)	—	40.00	—	45.00	85.00

(Note) Revisions to most recently announced dividend forecast : No

3. Forecast of consolidated financial results for the year ending March 31, 2025 (April 1, 2024 – March 31, 2025)

(Percentage figures represent changes from same period of previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	10,720	(6.9)	5,140	16.1	5,140	15.7	3,540	(19.1)	257.39

(Note) Revisions to most recently announced results forecasts: No

* Notes

(1) Changes in important scope of consolidation during the three months ended June 30, 2024 : None

New - (Company name) Excluding - (Company name)

(2) Application of special accounting methods to the preparation of quarterly consolidated financial statements : Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to quarterly consolidated financial statements (Application of special accounting methods to the preparation of quarterly consolidated financial statements)" on page 9 of the attached materials.

(3) Changes in accounting policies, changes of accounting estimates and restatement

- 1) Changes in accounting policies due to revisions of accounting standards, etc.: None
- 2) Changes in accounting policies due to reasons other than those stated in 1): None
- 3) Changes in accounting estimates: None
- 4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury shares)	As of June 30, 2025	14,133,000 Shares	As of March 31, 2024	14,133,000Shares
2) Number of treasury shares	As of June 30, 2025	397,130Shares	As of March 31, 2024	379,630Shares
3) Average number of shares issued and outstanding in each period (cumulative total)	As of June 30, 2025	13,751,364 Shares	As of June 30, 2024	14,018,845Shares

*Review of attached quarterly consolidated financial statements by : None certified public accountant or audit corporation

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

Business forecasts and other forward-looking statements in this material contain predictions based on future assumptions, outlooks and plans as of the date of publication of this material. The Company does not warrant the accomplishment of the forecasts. Actual results may differ significantly from the forecasts due to risks and uncertain factors associated with the world economy, the state of competition, and fluctuations in foreign exchange rates and interest rates.

For matters concerning results forecasts, please refer to 1. Overview of Business Results, etc. (3) Explanation about information on future forecasts such as consolidated results forecasts" on page 5 of the attached materials.

(How to obtain supplementary materials for quarterly results)

The material is available at Digital Arts Inc. corporate website.

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1. Overview of Business Results, etc.

(1) Overview of business results for the first three months of the consolidated fiscal year under review

During the first three months of the consolidated fiscal year under review (from April 1, 2024 to June 30, 2024), the security industry where the Digital Arts Group ("the Group") operates saw demand increase among companies and organizations using information and communication technology (ICT) equipment for business and educational purposes, given that damage caused by ransomware attacks, supply chain attacks and other cyberattacks intensified and that information leakage incidents attributable to unauthorized access occurred frequently. This trend is expected to expand and persist, as it is widespread irrespective of the size or sector of companies and organizations.

At the end of the previous fiscal year, the Company transferred all of the shares it owned in Digital Arts Consulting Inc. (DAC), a consolidated subsidiary engaged in the security consulting business. That produced an impact of a decrease in net sales for the first three months of the consolidated fiscal year under review of around 452 million yen. Following this, the Group re-established its Medium-Term Management Plan (fiscal year ending March 31, 2025 through fiscal year ending March 31, 2027) in a situation where it may begin focusing on product expansion as a general Japan-made security manufacturer this fiscal year. This plan defines three priority areas: growth of the security business, increased public sector market share and investment in personnel to execute new measures. Accordingly, the Group started pursuing a number of different initiatives in the current fiscal year. In the enterprise sector market, the Group continued to enhance the functions of its mainstay products, namely i-FILTER, m-FILTER and FinalCode, and added new functions to StartIn and f-FILTER, which are new products. It also advertised the optional product Anti-Virus & Sandbox in a bid to boost net sales by meeting customers' comprehensive security needs and to increase its brand value as a general Japan-made security manufacturer. In the public sector market, the Group upgraded the functions of i-FILTER for schools and advertised the superiority of its products to boards of education through sales partners and participation in outside events to display its products for the purpose of winning projects related to the second phase of the GIGA School Concept and Next-Generation School Affairs DX projects. In so doing, the Group is engaged in systematic activities for steady net sales growth and for further market share expansion. Activities for personnel investment as one of the priority areas include new outside training for new graduate employees, a base pay increase for personnel in the development team, consideration of an incentive plan for the sales and marketing team and other measures for existing employees as well as bolstering of mid-career recruitment.

With regard to expenses, DAC's cost of sales and personnel expenses dropped due to the exclusion of DAC from consolidation. Meanwhile, the Group increased its investment in personnel as mentioned.

As a consequence, net sales for the first quarter of the consolidated fiscal year under review amounted to 2,234 million yen (down 12.1% year on year), operating profit was 838 million yen (down 3.9% year on year), ordinary profit came to 847 million yen (down 4.3% year on year), and profit attributable to owners of parent was 584 million yen (down 5.0% year on year).

Excluding the effect of the DAC transfer, net sales were up 7.0% year on year. Operating profit declined because of the personnel investment schedule, but it reached the level planned by the Group.

Overview of Consolidated Business Results

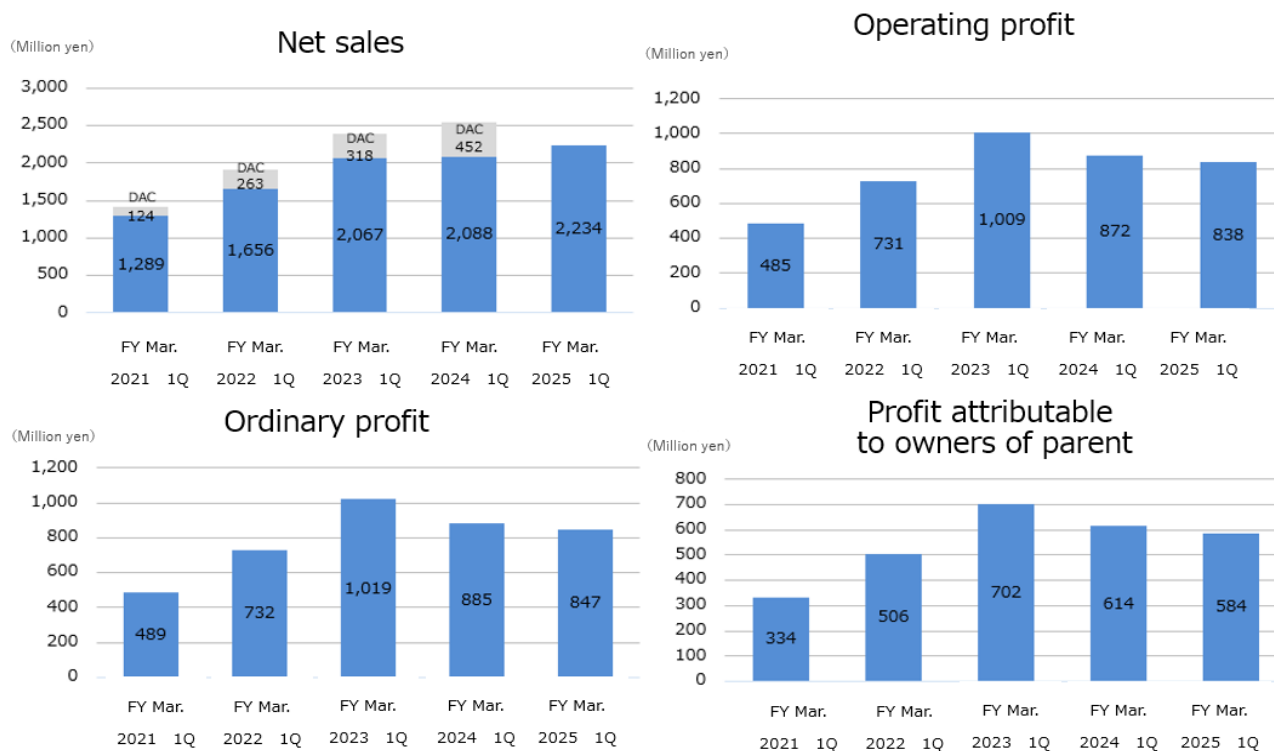
	(Million yen)			
	First quarter of year ended March 31, 2024	First quarter of year ending March 31, 2025	Change	% Change
Net sales	2,541	2,234	(307)	(12.1)
Operating profit	872	838	(33)	(3.9)
Ordinary profit	885	847	(38)	(4.3)
Profit attributable to owners of parent	614	584	(30)	(5.0)

(Reference)

Overview of non-consolidated business results (net sales)

(Million yen)

	First quarter of year ended March 31, 2024	First quarter of year ending March 31, 2025	Change	% Change
Net sales	2,085	2,231	+145	+7.0



*The transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year has an impact of lowering net sales for the first three months of the consolidated fiscal year under review by around 452 million yen. (Excluding this effect, net sales were up 7.0% year on year.)

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, the Group proposed i-FILTER and the optional product Anti-Virus & Sandbox in response to needs for a shift to cloud security, for visualization of the state of use of SaaS after expansion of its use for business, and for shifting from competitors' products. That resulted in a major growth in new projects gained. In addition, its cloud edition, m-FILTER, excelled in acquiring new projects, as it earned high marks for its comprehensive functions to meet various e-mail security needs, such as protecting against ransomware attacks and providing e-mail security measures in the cloud environment. In addition, the new product f-FILTER collaborated with m-FILTER in providing measures against what is called PPAP, a file transfer practice in which the file is converted into a password-protected zip file before sending and the password is sent in a separate e-mail message. This helped accelerate the receipt of orders and increase the number of projects. Meanwhile, the transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year produced an impact of decreasing net sales by around 452 million yen.

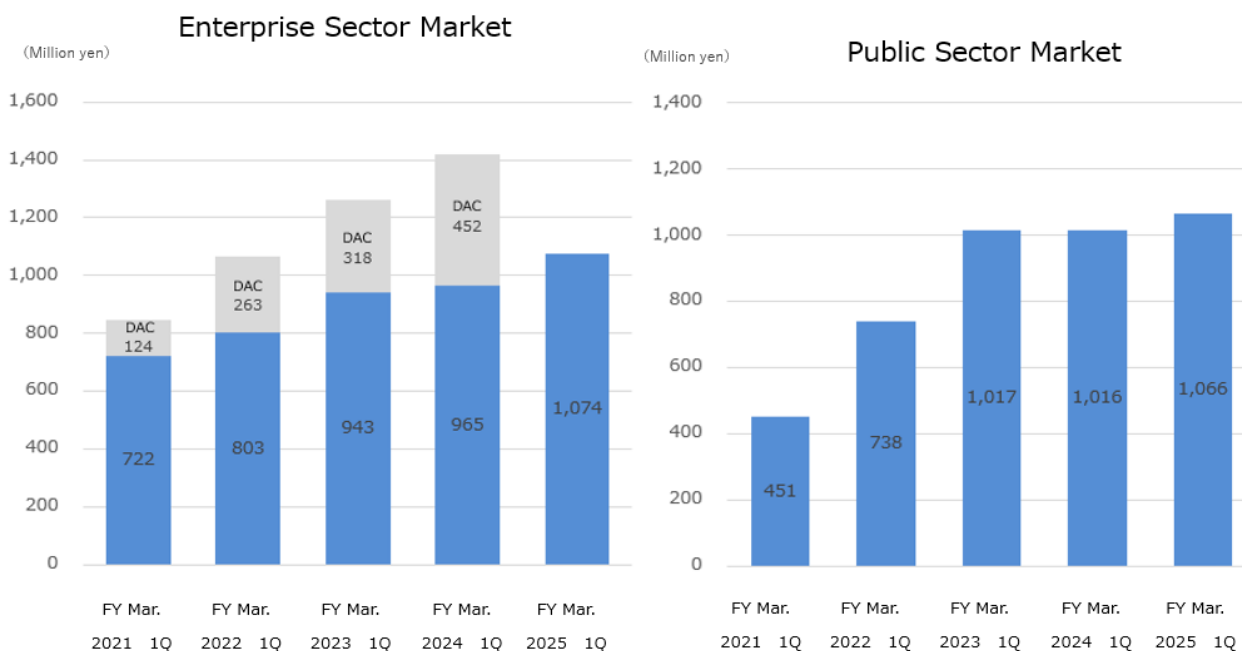
As a consequence, net sales in this market stood 1,074 million yen, down 24.2% year on year.

Excluding the effect of the DAC transfer, net sales in the enterprise sector market were up 11.2% year on year.

Public Sector Market

In the public sector market, the Group gave comprehensive proposals of solutions that followed the Guidelines for Educational Information Security Policies in Next-Generation School Affairs DX projects. This led to the acquisition of new projects and improvement in pipeline. With regard to the projects related to the second phase of the GIGA School Concept, separate boards of education are budgeting funds for the next fiscal year in which the projects will gather further momentum. In view of that, the Group strengthened i-FILTER's functions for schools and its superiority in preparation for winning new projects. In association with the Security Improvements for Local Governments projects, the Group proposed solutions in line with the Guidelines for Information Security Policies in Local Governments and consequently received new projects.

As a consequence, net sales in this market reached at 1,066 million yen, up 4.9% year on year.



* The transfer of all shares in Digital Arts Consulting Inc., a consolidated subsidiary, owned by the Company at the end of the previous fiscal year produced an impact of lowering net sales in the enterprise sector market for the first three months of the consolidated fiscal year under review by around 452 million yen. (Excluding this effect, net sales in the enterprise sector market were up 11.2% year on year.)

Consumer Sector Market

In the consumer sector market, the Group made efforts to sell i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID, and to acquire commissioned development projects related to this. However, revenue from mobile network carriers, MVNOs, etc. decreased.

As a consequence, net sales in this market amounted to 93 million yen, down 12.0% year on year.

(2) Overview of financial position for the first three months of the consolidated fiscal year under review

(Assets)

Total assets at the end of the first quarter of the consolidated fiscal year under review decreased 1,046 million yen from the end of the previous fiscal year to 21,471 million yen. This was due mainly to a decrease of 1,290 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the first quarter of the consolidated fiscal year under review decreased 1,015 million yen from the end of the previous consolidated fiscal year to 5,504 million yen. This was due mainly to a decrease of 1,071 million yen in income taxes payable.

(Net assets)

Net assets at the end of the first quarter of the consolidated fiscal year under review decreased 30 million yen from the end of the previous fiscal year to 15,967 million yen. This was mainly due to the payment of cash dividends and the purchase of treasury stock, which exceeded the increase in retained earnings resulting from the recording of net income attributable to owners of the parent.

(3) Explanation about information on future forecasts such as consolidated results forecasts

Operating results for the first quarter of the consolidated fiscal year under review remained steady overall, and there was therefore no change in the forecast of consolidated financial results for the year ending March 31, 2025 announced on May 8, 2024.

The Company has determined the results forecasts based on information available on the day of these financial results for the first quarter of the year ending March 31, 2025. Actual results may be different from the forecasts due to a variety of factors. If there are any significant changes, the Company will disclose them appropriately.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal 2024 (As of March 31, 2024)	First quarter of fiscal 2025 (As of June 30, 2024)
Assets		
Current assets		
Cash and deposits	18,339	17,049
Notes and accounts receivable - trade	1,535	1,381
Finished goods	0	1
Supplies	2	2
Other	305	673
Total current assets	20,183	19,108
Non-current assets		
Property, plant and equipment	211	206
Intangible assets		
Software	1,367	1,432
Other	234	200
Total intangible assets	1,602	1,633
Investments and other assets	521	523
Total non-current assets	2,334	2,363
Total assets	22,518	22,471
Liabilities		
Current liabilities		
Accounts payable - trade	54	23
Income taxes payable	1,354	283
Provision for bonuses	137	75
Advances received	4,418	4,395
Other	501	673
Total current liabilities	6,467	5,451
Non-current liabilities		
Asset retirement obligations	49	49
Other	3	3
Total non-current liabilities	52	52
Total liabilities	6,519	5,504
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	956	956
Retained earnings	16,029	16,063
Treasury shares	(1,730)	(1,798)
Total shareholders' equity	15,968	15,934
Accumulated other comprehensive income		
Foreign currency translation adjustment	18	20
Total accumulated other comprehensive income	18	20
Share acquisition rights	11	11
Total net assets	15,998	15,967
Total liabilities and net assets	22,518	21,471

(2) Quarterly consolidated statement of income and comprehensive income
Quarterly consolidated statement of income
Consolidated first quarter

(Million yen)

	First quarter of fiscal 2024 (from April 1, 2023 to June 30, 2023)	First quarter of fiscal 2025 (from April 1, 2024 to June 30, 2024)
Net sales	2,541	2,234
Cost of sales	1,019	726
Gross profit	1,521	1,508
Selling, general and administrative expenses	648	669
Operating profit	872	838
Non-operating income		
Interest income	0	0
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	9	5
Miscellaneous income	2	1
Total non-operating income	12	8
Non-operating expenses		
Miscellaneous loss	0	0
Total non-operating expenses	0	0
Ordinary profit	885	847
Extraordinary income		
Gain on reversal of share acquisition rights	0	0
Gain on sales of non-current assets	4	-
Total extraordinary income	5	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	890	847
Income taxes	275	262
Profit	614	584
Profit attributable to non-controlling interests	(0)	-
Profit attributable to owners of parent	614	584

Quarterly consolidated statement of comprehensive income
Consolidated first quarter

(Million yen)

	First quarter of fiscal 2024 (from April 1, 2023 to June 30, 2023)	First quarter of fiscal 2025 (from April 1, 2024 to June 30, 2024)
Profit	614	584
Other comprehensive income		
Foreign currency translation adjustment	2	2
Total other comprehensive income	2	2
Comprehensive income	617	587
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	617	587
Comprehensive income attributable to non-controlling interests	(0)	-

(3) Notes to quarterly consolidated financial statements

(Application of special accounting methods to the preparation of quarterly consolidated financial statements)

Calculation of tax expenses

With respect to the calculation of tax expenses, reasonable estimations are performed on an effective tax rate established after applying tax accounting to profit before income taxes for the consolidated fiscal year, which includes the first quarter of the consolidated fiscal year under review, and such tax expenses are calculated by multiplying this estimated effective tax rate by profit before income taxes.

(Notes on segment information, etc.)

Segment information

First three months of fiscal 2024 (from April 1, 2023 to June 30, 2023) and first three months of fiscal 2025 (from April 1, 2024 to June 30, 2024)

The Group has only one segment, which is the security business, and segment information is omitted.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters.

(Notes on the premise of a going concern)

There are no applicable matters.

(Notes on statement of cash flows)

The Company did not prepare quarterly consolidated statements of cash flows for the first three months under review. Depreciation (including amortization of intangible assets) for the first three months under review is as follows.

	First quarter of fiscal 2024 (from April 1, 2023 to June 30, 2023)	First quarter of fiscal 2025 (from April 1, 2024 to June 30, 2024)
Depreciation	210 million yen	225 million yen