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From April 1, 2024 to December 31, 2024

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2025

January 31, 2025

Digital Arts Inc.
(Securities Code: 2326)

For Internet Convenience,
Safety and Security

Domestic
software
developer

13.71 million
active users^{*1}

High
profitability

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

Stock Market Tokyo Stock Exchange Prime Market
(Securities Code: 2326)

Number of
Employees Consolidated: 292 (As of March 31, 2024)

Sales Offices Hokkaido Sales Office/ Tohoku Sales Office /
Chubu Sales Office/ Kansai Sales Office/
Chushikoku Sales Office/ Kyushu Sales Office

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

Web

Enabling users to securely connect to websites without security concerns

i-FILTER **i-FILTER@Cloud**

Option

Anti-Virus & Sandbox

Endpoint
Web Security

Secure proxy
appliance

Malicious website-filtering
software for home use

i-FILTER
ブラウザ & クラウド

ID-SPA

イフィルター

E-mail

Enabling users to securely send and receive email without security concerns

m-FILTER **m-FILTER@Cloud**

Option

Anti-Virus & Sandbox

Measures to provide pop-ups for email misdelivery

NEW

[For email software]
[For Microsoft365 software]

m-FILTER
MailAdviser

File

**File
encryption
solution**

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

FINALCODE
FINALCODE@Cloud

**DLP / File
transfer
solution**

Supporting secure file transfers without leaking critical information

F-FILTER **NEW**

IDaaS

NEW

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

StartIn

Key Points

Excluding the impact of the transfer of the shares of a consolidated subsidiary at the end of the previous fiscal year, mainly propelled by the growth of the enterprise sector market, the Group **achieved the growth** of net sales for the first nine months of the fiscal year ending March 31, 2025. Operating profit **increased** because the increase in the cost of sales was offset by the increase in net sales. The contract amount **increased by a large margin**, reflecting strong orders received for projects for the second phase of the GIGA School Concept.

Enterprise sector market

Net sales increased following the product strategy of supporting both cloud and on-premises environments and the sales strategy of cross-selling and upselling mainstay products. (Excluding DAC^{*1})

Public sector market

Net sales increased after receiving a project for security improvements for Local Governments, for which demand continues to exist, as well as projects for next-generation School Affairs DX and for the second phase of the GIGA School Concept.

Revenue

The exclusion of DAC from consolidation meant declines in the consolidated cost of sales and DAC personnel expenses.

Operating profit increased with the increase in net sales making it possible to absorb the increase in the cost of sales in line with the increase of communication expenses resulting from an increase in the number of users of cloud service products.

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

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01 | Consolidated Results Highlights

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

Consolidated Results Highlights

Contracts

6,858 million yen

-408 million yen or -5.6% YoY
 +1,135 million yen or +19.8% YoY
 *Excluding DAC

Enterprise
sector market

The Group achieved growth by capturing the demand for cloud security measures related to both Internet and email and the demand for continuing on-premises measures and by successfully cross-selling and upselling new products and optional products.

Public
sector market

The Group rapidly grew by receiving projects for security improvements for Local Governments, Next-Generation School Affairs DX and the second phase of the GIGA School Concept.

Net Sales

7,274 million yen

-1,047 million yen or -12.6% YoY
 +496 million yen or +7.3% YoY
 *Excluding DAC

Enterprise
sector market

Sales saw robust growth, reflecting sales from strong orders for cloud service products and from license sales products.

Public
sector market

Net sales rose after posting sales from projects for security improvements for local governments and for Next-Generation School Affairs DX that had been obtained and posting sales from the projects for the first and second phases of the GIGA School Concept.

Operating Profit

3,145 million yen

+22 million yen or +0.7% YoY

Cost of Sales

Data center communication expenses increased due to an increase in the number of cloud product users.

SG & A
expenses

SG&A expenses increased due to the strengthening of sales promotion activities with an eye toward the project for the second-phase of the GIGA School Concept and increasing personnel investments, but this increase was within the planned range.

Overall

Operating profit increased because the increase in the cost of sales was offset by the increase in net sales.

Special Notes

The transfer of all shares in Digital Arts Consulting (DAC^(*)), a consolidated subsidiary, held by the Company at the end of the previous fiscal year has an impact of **lowering contracts and net sales by around 1,544 million yen** respectively for the current fiscal year.

Consolidated Statement of Income

The contract amount **increased around 20%** reflecting the brisk performance in both the enterprise sector market and the public sector market. In particular, the growth rate in 3Q was the second **highest quarterly growth rate** following the one in 3Q of the first fiscal year of the first phase of the GIGA School Concept. Net sales **increased approximately 7%** following an increase in the sales share of cloud service products. (Excluding DAC¹) Operating profit grew, reflecting an increase in net sales that offset the increase in the cost of sales, although the increasing communication expenses of data centers were a heavy burden following the continued increase in the number of users of cloud service products.

(million yen)

	First 9 Months FY March 2024	First 9 Months FY March 2025	Change YoY	FY March 2025 Full-Year Forecast ^{*2}
Contracts	7,267 [5,723]	6,858	-5.6% [+19.8%]	-
<small>*The figure in square brackets [] represents the result excluding DAC.</small>				
Net sales	8,322 [6,777]	7,274	-12.6% [+7.3%]	10,720
<small>*The figure in square brackets [] represents the result excluding DAC.</small>				
Cost of sales	3,306	2,228	-32.6%	2,850
Gross profit	5,015	5,045	+0.6%	7,870
Selling, general and administrative expenses	1,892	1,900	+0.4%	2,730
Operating profit	3,122	3,145	+0.7%	5,140
Operating margin (%)	37.5%	43.2%	-	47.9%
Ordinary profit	3,132	3,150	+0.6%	5,140
Profit attributable to owners of parent	2,162	2,174	+0.6%	3,540
EBITDA ^{*3}	3,852	3,901	+1.3%	-

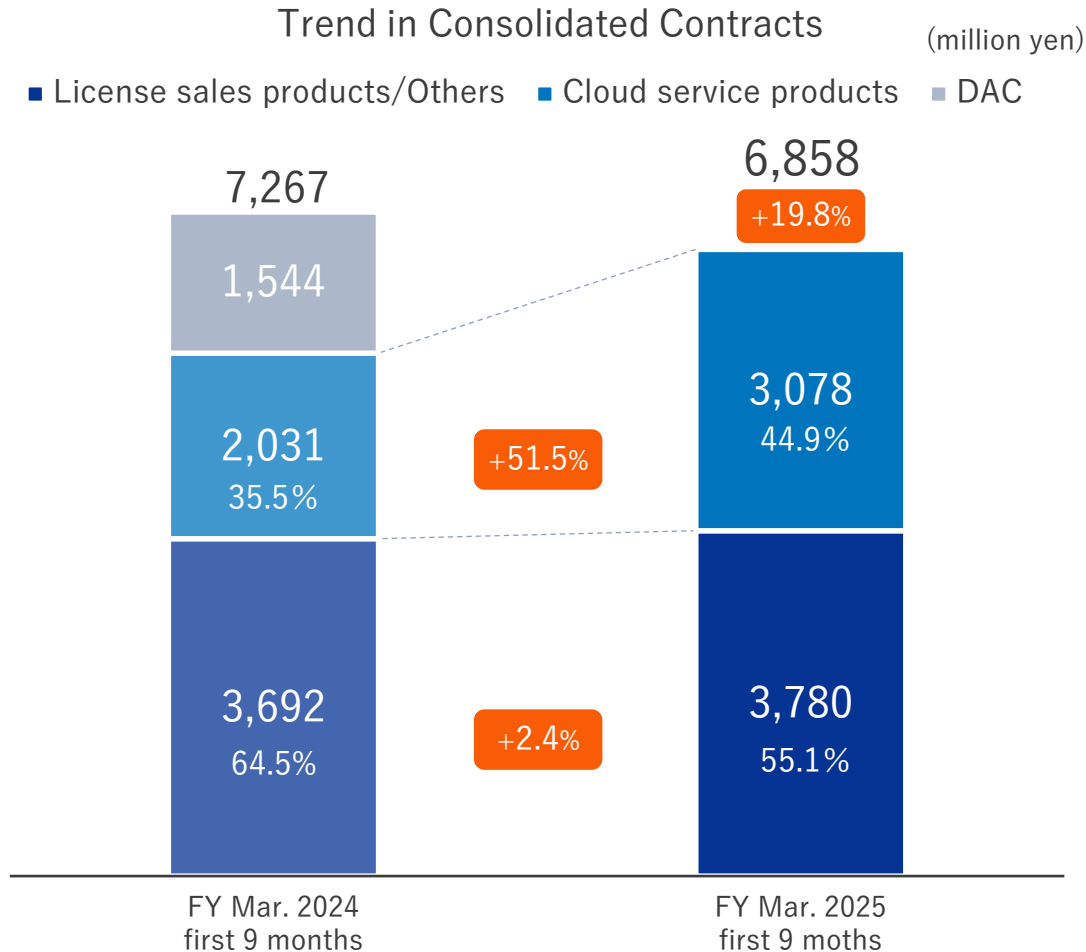
*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

*2: Financial Forecast is the consolidated financial forecast announced on May 8, 2024.

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

Trend in Consolidated Contracts

Consolidated contracts totaled **6,858 million yen, up 19.8% year on year.** (Excluding DAC^{*1})



Cloud service products

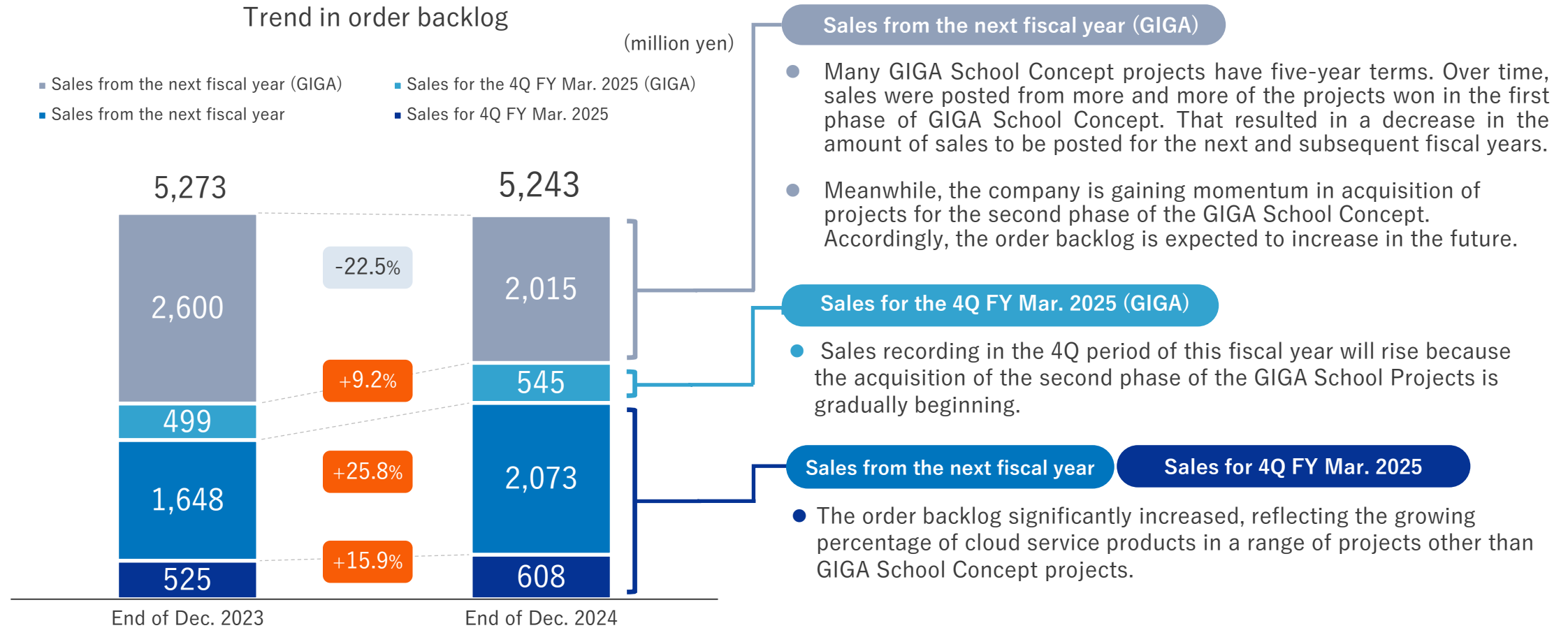
- Sales of cloud-based i-FILTER and m-FILTER products remained strong. These products meet the needs for cloud security measures for the Internet and email in the enterprise sector market.
- Sales increased more than planned due to the acquisition of a project for next-generation School Affairs DX and a project for the second phase of the GIGA School Concept in the public sector market.

License service products/Others

- Growth was achieved by capturing demand for ongoing on-premises measures in the enterprise sector market.
- In the public sector market, continued growth was achieved in projects for security improvements for Local Governments.

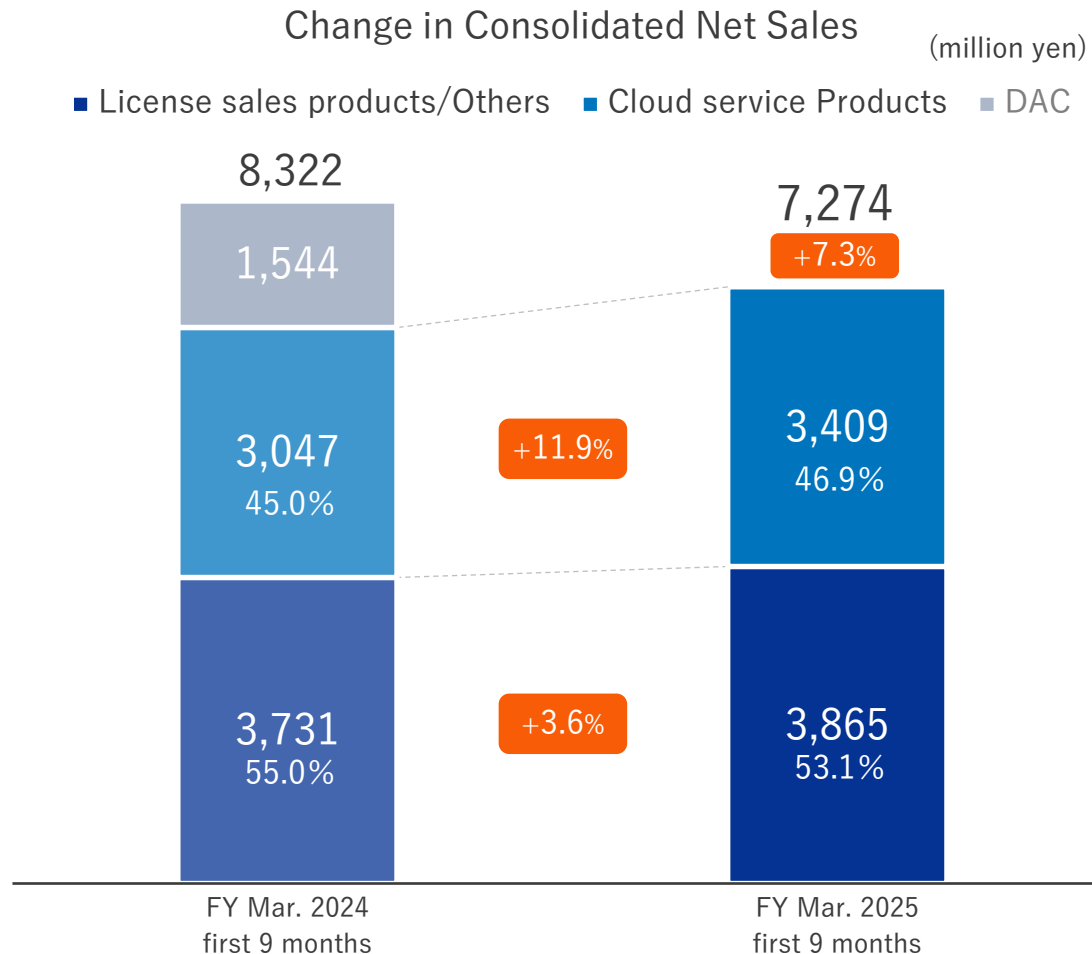
Trend in Order Backlog

Excluding GIGA School Concept projects, sales from which will be posted for the next and subsequent fiscal years, **order backlog steadily increased.**



Change in Consolidated Net Sales

Consolidated net sales **grew 7.3%** year on year, to **7,274 million yen**. (Excluding DAC^{*1})



Cloud service products

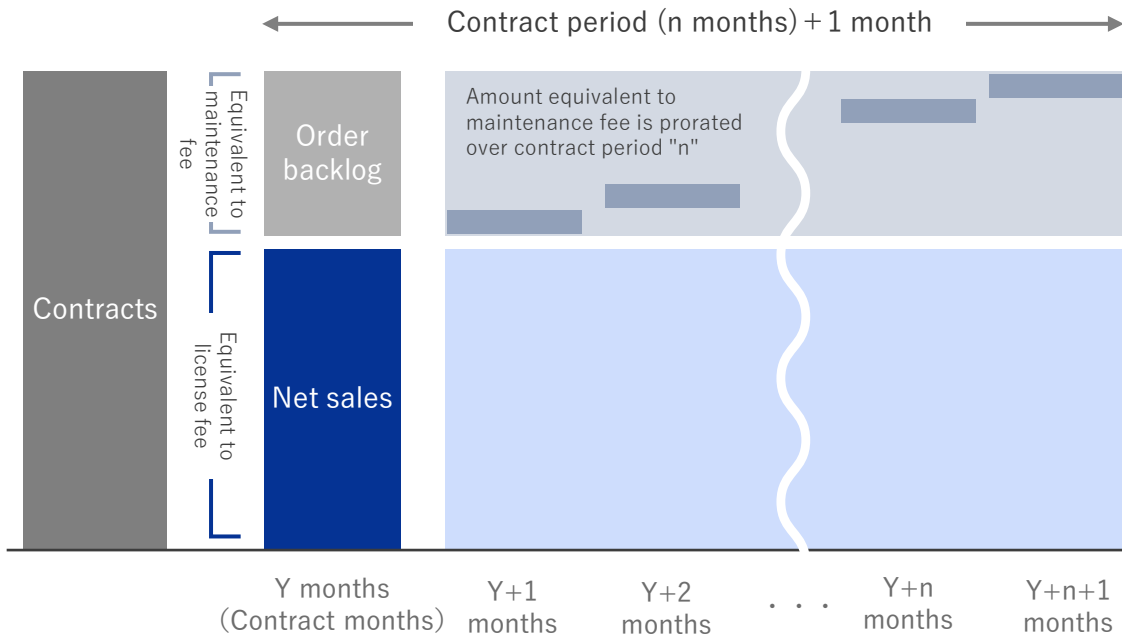
- Sales were up due to progress in the posting of sales related to the strong cloud-based i-FILTER and m-FILTER contract amount because demand for cloud security measures for the Internet and email was captured in the enterprise sector market.
- Sales increased after the acquisition of projects for Next-Generation School Affairs DX and the posting of sales from projects for the first and second phases of the GIGA School Concept in the public sector market.

License sales products/Others

- Growth was achieved by capturing demand for ongoing on-premises measures in the enterprise sector market.
- Projects continued to be acquired in relation to Security Improvements for Local Governments projects in the public sector market.

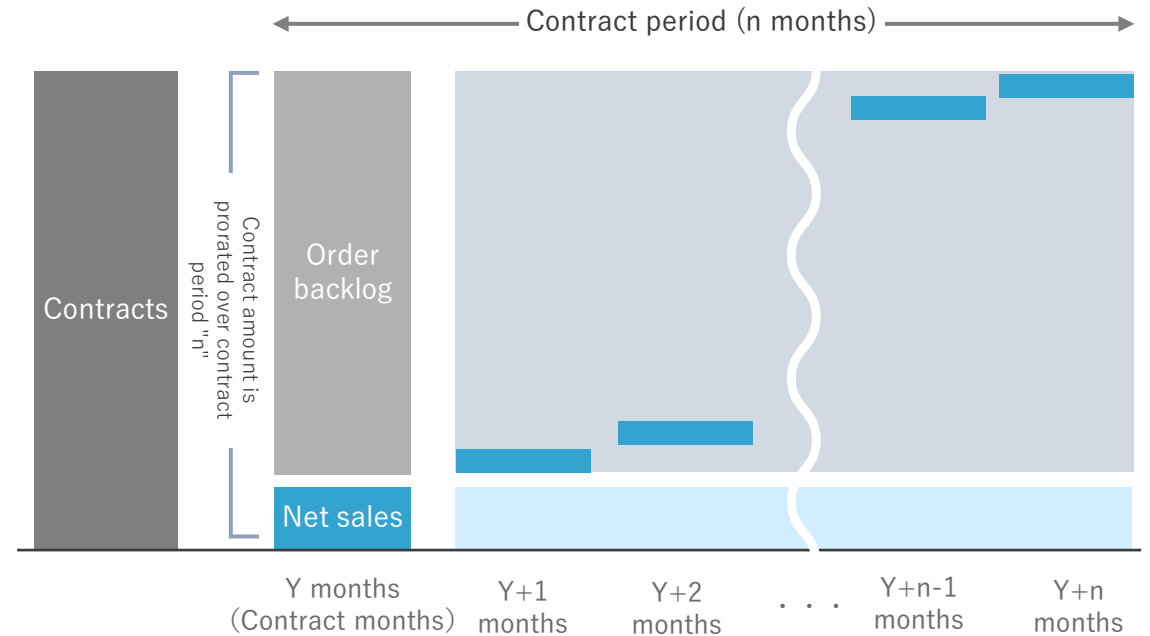
Method of recording sales by product

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



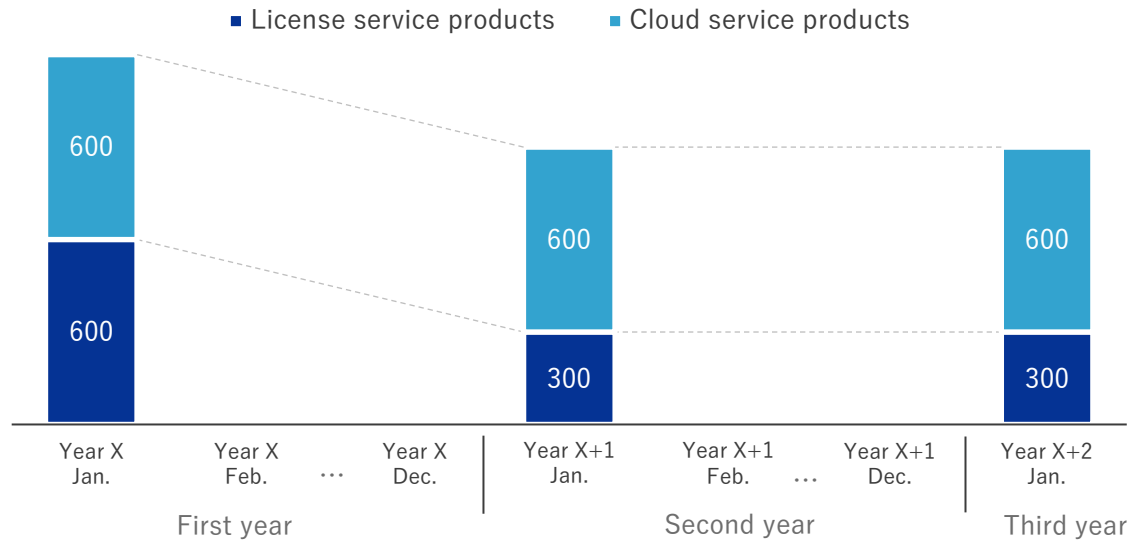
- Contract amount is recorded as sales on a pro rata basis over the contract period (split into equal monthly amounts).
- As the contract amount of cloud service products rises, the contract amount that is deferred (order backlog) increases.

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

Supplement

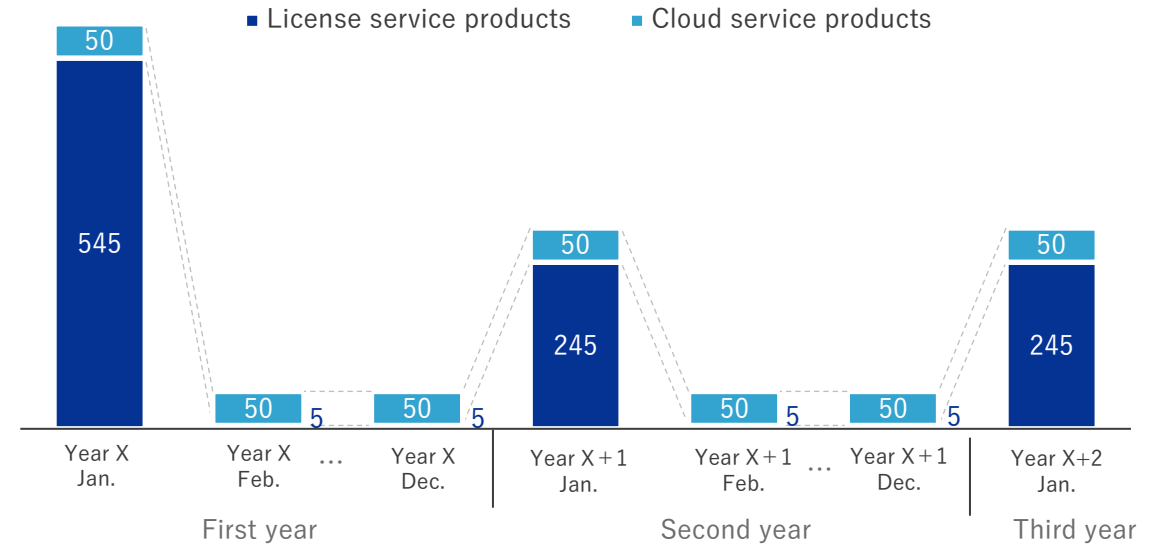
For example, the diagrams on the left show the relationships between the contract amount and net sales in license sales products and cloud service products with a one-year contract at the amount of 600 million yen.

Trend in 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.

Change in 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.

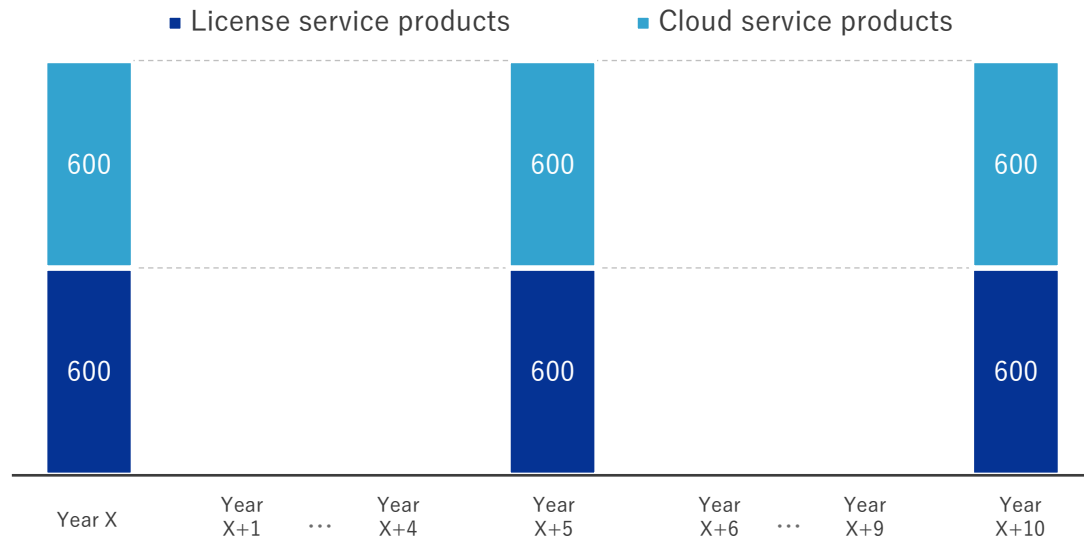
Relationship between contract amount and sales by product (multi-year contracts)

Supplement

Many projects in the public sector market are multi-year contracts, such as five-year ones. They have longer periods until renewal.

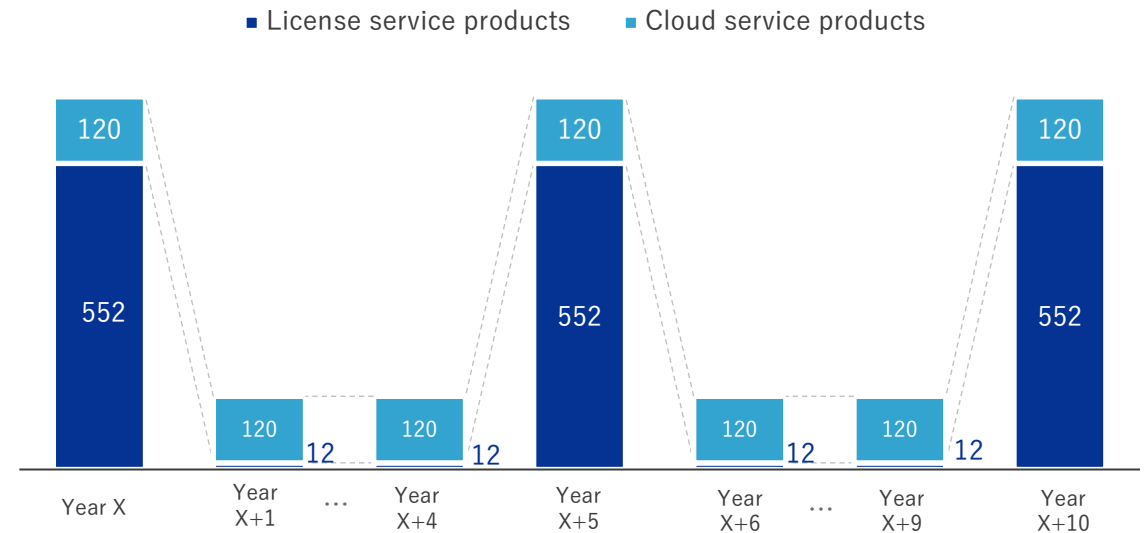
For example, the diagrams on the left show the relationships between the contract amount and net sales in license sales products and cloud service products with a five-year contract of 600 million yen.

Trend in Contracts



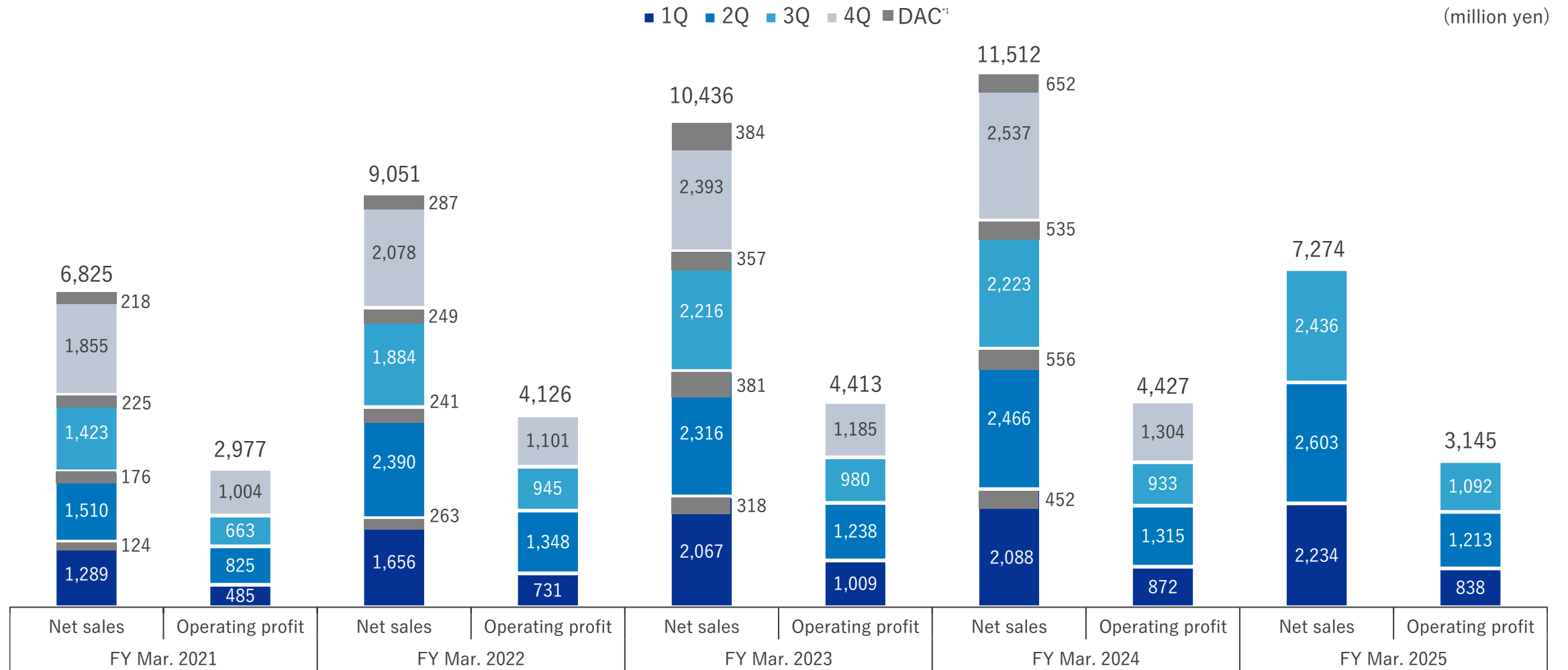
For both license sales products and cloud service products, contract amounts are unchanged at the time of renewal.

Change in 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).

Trend in Consolidated Net sales, Operating profit



*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

01 Consolidated Cost of Sales and Selling, General and Administrative Expenses



While the consolidated cost of sales and DAC's^{*1} personnel expenses decreased, communication expenses increased at the data center due to the higher-than-planned growth of the percentage of cloud service products.

(million yen)

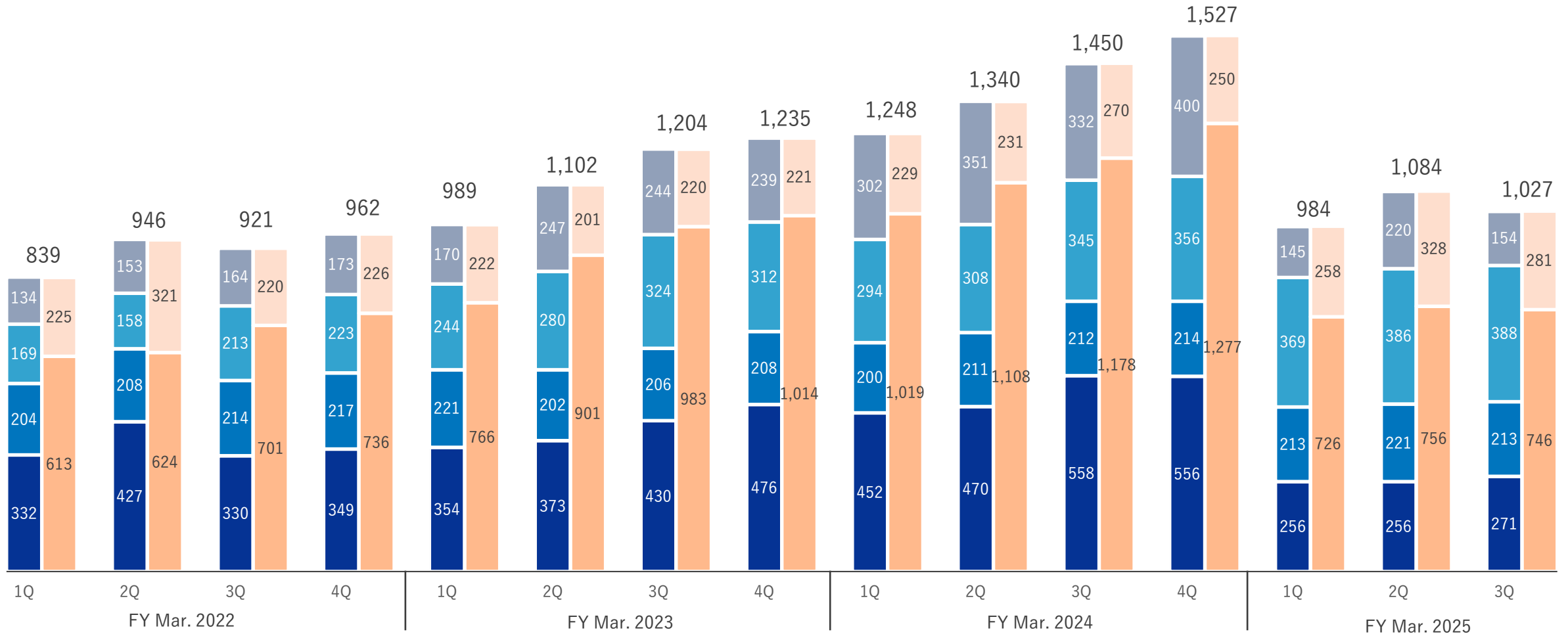
	First 9 Months FY March 2024	First 9 Months FY March 2025	Change YoY	Main Factors for Change
Cost of sales	3,306	2,228	-1,078	
Labor	1,482	785	-697	Increase due to the enhancement of DA's development workforce (+99M) Impact of exclusion of DAC from consolidated (Approx. -792M)
Depreciation	624	647	+23	
Communication expenses	948	1,144	+196	Data center communication expenses increased due to an increase in the number of cloud product users. (+196M) Note: Including an increase due to the effect of foreign exchange rates (+34M).
Others	984	520	-464	Increase due to the development of new DA products (+83M) Impact of exclusion of DAC from consolidated (Approx. -588M)
Transfer to other accounts	-732	-868	-136	
Selling, general and administrative expenses	1,892	1,900	+8	
Personnel expenses	977	924	-53	Increase in DA's personnel expenses (+16M) Impact of exclusion of DAC from consolidated (Approx. -65M)
Advertising expenses	227	259	+31	Increased due to the implementation of sales promotions and the provision of trial versions of cloud service products (+35M) Impact of exclusion of DAC from consolidated (Approx. -3M)
Others	687	716	+29	DA's Hiring expenses (+47M)

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

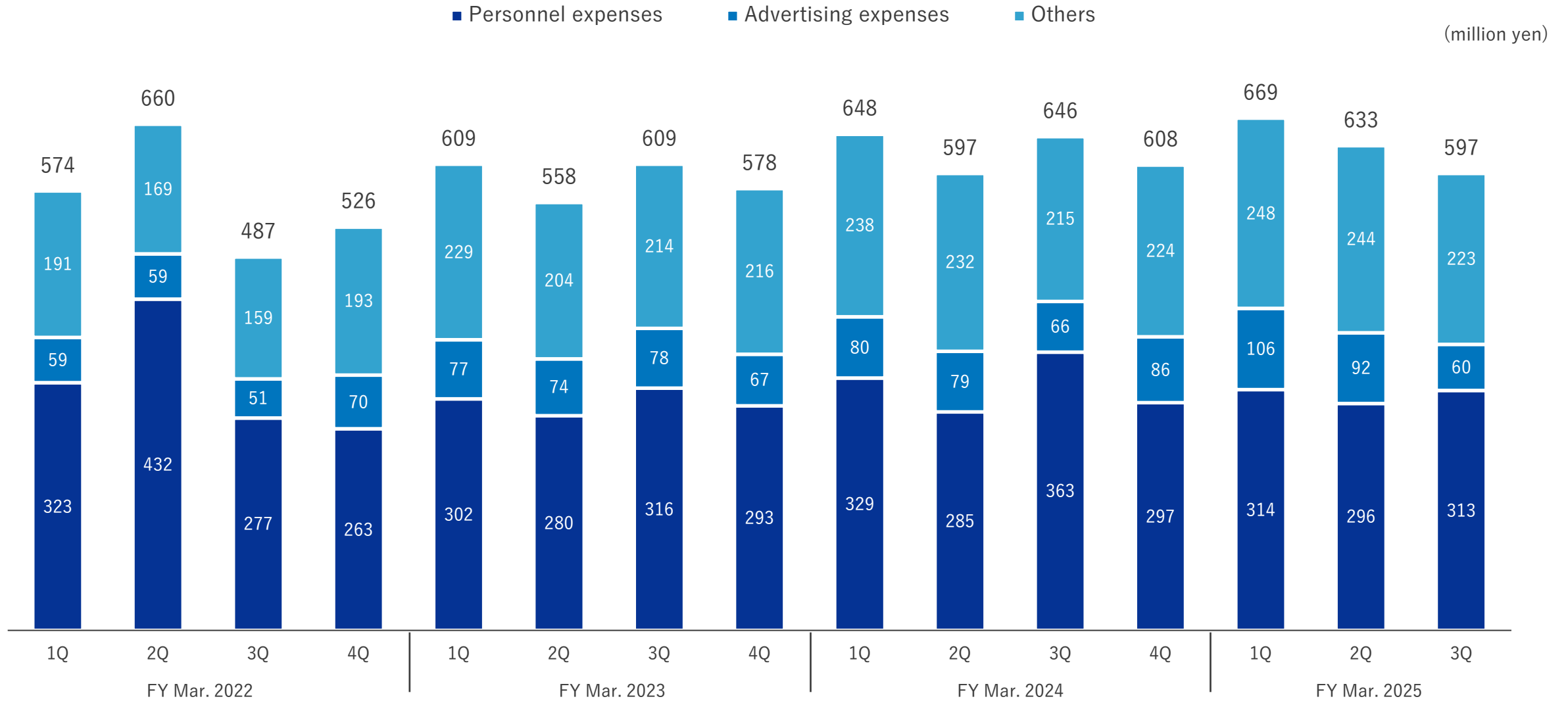
Quarterly Trend in Consolidated Cost of Sales

■ Labor
 ■ Depreciation
 ■ Communication expenses
 ■ Others
 ■ Cost of Sales
 ■ Transfer to other accounts

(million yen)



01 Quarterly Trend in Consolidated Selling, General and Administrative Expenses



Consolidated Balance Sheet

Current assets decreased from the end of the previous fiscal year due to the payment of income taxes. The equity ratio was up 7.6 percentage points from the end of the previous fiscal year, to 78.6%.

(million yen)

	As of end of 3Q FY March 2024	As of end of FY March 2024	As of end of 3Q FY March 2025	Change from end of FY March 2024	Main factors for changes
Current assets	17,422	20,183	18,542	-8.1%	Cash and deposits (-1,108M), Accounts receivable (-415M)
(Cash and deposit)	15,961	18,339	17,230	-6.0%	Fund for treasury share purchases (-500M) Increase in income tax paid (due to the transfer of DAC ¹)
Non-current assets	2,294	2,334	2,537	+8.7%	Software (97M)
Total assets	19,717	22,518	21,079	-6.4%	
Current liabilities	5,862	6,467	4,424	-31.6%	Income taxes payable (-1,354M) Advances received (-574M)
(Advanced received)	4,784	4,418	3,844	-13.0%	Decreased linked to the progress in the recording of sales.
Non-current liabilities	51	52	51	-0.5%	
Equity capital	13,768	15,986	16,573	+3.7%	Treasury share buy-back (-492M), Dividends paid (-1,095M), Profit (+2,174M), and others
Net assets	13,803	15,998	16,603	+3.8%	
Equity ratio	69.8%	71.0%	78.6%	-	
ROE	15.5%	29.1%	13.4%	-	
ROA	10.6%	20.1%	10.0%	-	

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

02 | Non-consolidated Results Highlights

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

Summary of Non-consolidated Results

The contract amount **increased around 20%** reflecting the brisk performance in both the enterprise sector market and the public sector market. In particular, the growth rate in 3Q was the second **highest quarterly growth rate** following the one in 3Q of the first fiscal year of the first phase of the GIGA School Concept. Net sales **increased approximately 7%** due to an increase in the cloud service product sales share. Operating profit **grew**, reflecting an increase in net sales that offset the increase in the cost of sales, although the increasing communication expenses of data centers imposed a heavy burden due to the continued increase in the number of users of cloud service products.

(million yen)

	First 9 months FY March 2024	First 9 Months FY March 2025	Change YoY	FY March 2025 Full-Year Forecast ^{*1}
Contracts	5,714	6,851	+19.9%	-
Net sales	6,769	7,267	+7.4%	10,710
Cost of sales	1,952	2,226	+14.0%	2,850
Gross profit	4,816	5,040	+4.6%	7,860
Selling, general and administrative expenses	1,734	1,892	+9.1%	2,710
Operating profit	3,081	3,148	+2.2%	5,150
Operating margin	45.5%	43.3%	-	48.1%
Ordinary profit	3,094	3,155	+1.9%	5,150
Profit	2,142	2,179	+1.7%	3,550

*1: Financial Forecast is the non-consolidated financial forecast announced on May 8, 2024.

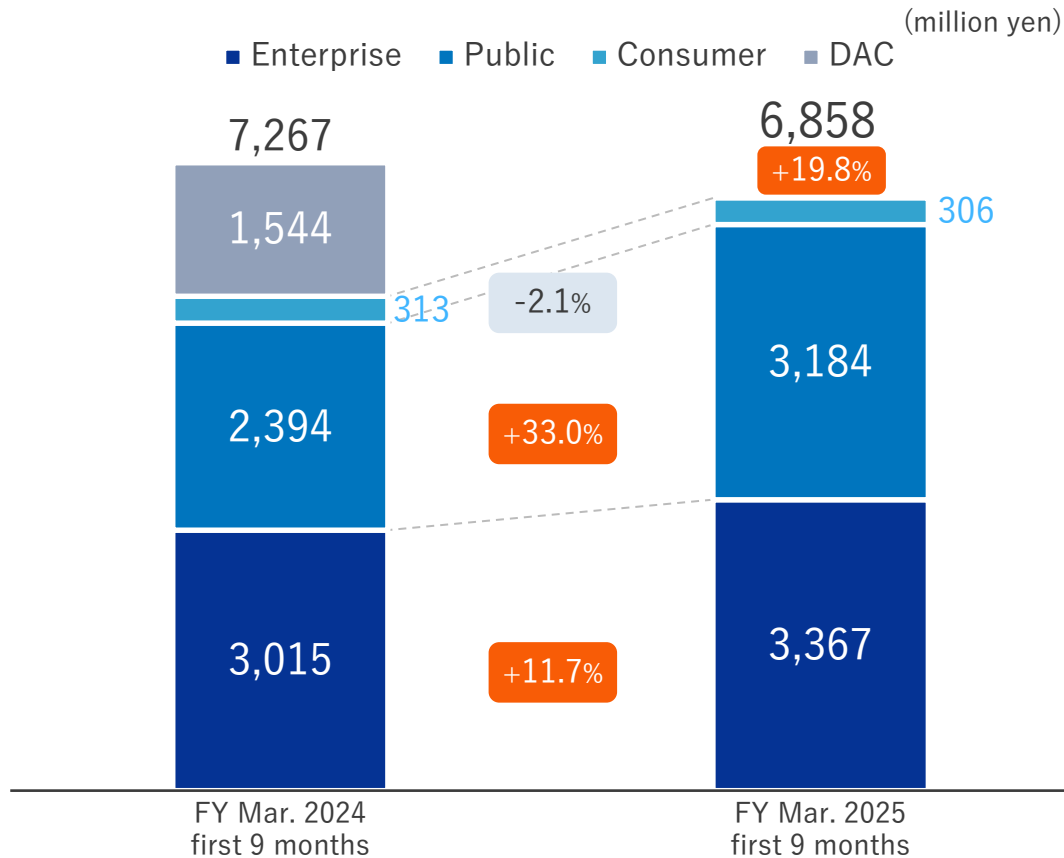
03 | Net Sales by Market

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

Consolidated Contract Amount by Market

As in 2Q, double digit growth was recorded in both the enterprise sector market and in the public sector market. (Excluding DAC^{*1})

Trend in Consolidated Contract Amount by Market



Enterprise sector market

- The contract amount increased 351 million yen (+11.7%) because demand for cloud security measures for the Internet and email and ongoing on-premises measures was captured and the company's performance in the cross-selling and upselling of the new f-FILTER product and the optional Anti-Virus & Sandbox product. (Excluding DAC^{*1})

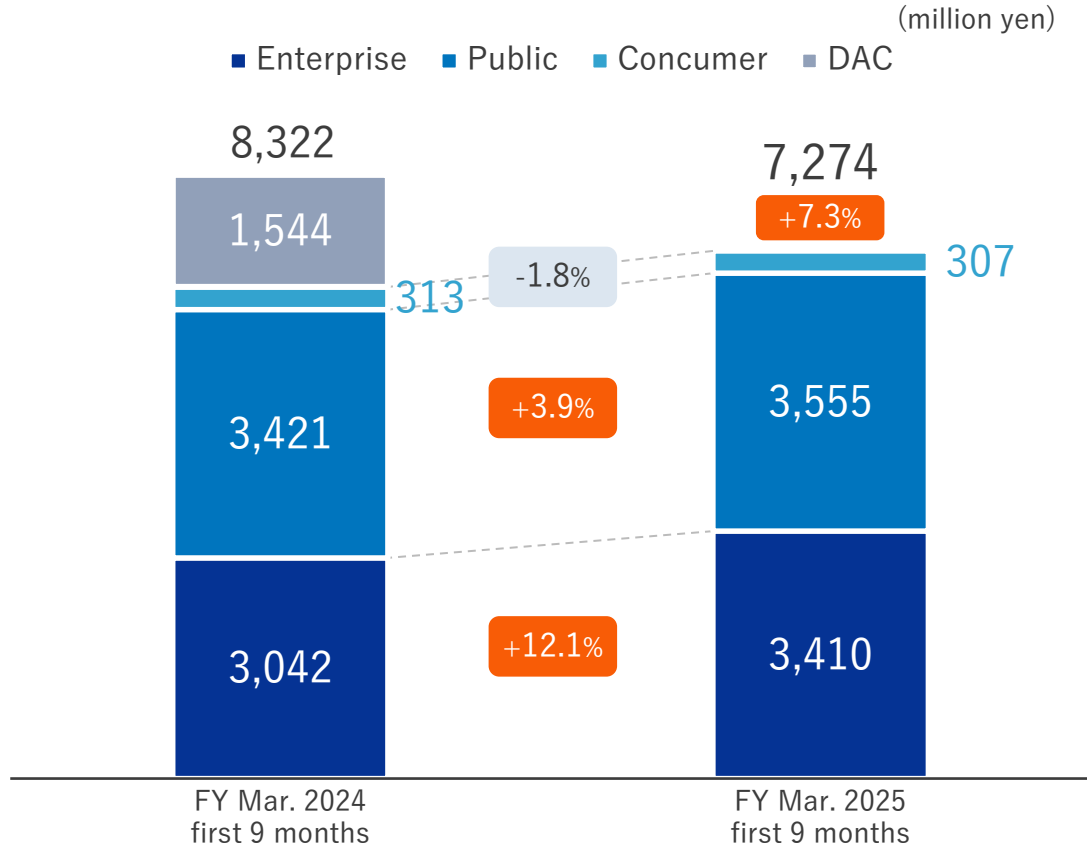
Public sector market

- The contract amount climbed 790 million yen (+33.0%) due to the steady acquisition of projects for security improvements for Local Governments and for Next-Generation School Affairs DX, the acquisition of projects for the second phase of the GIGA School Concept approaching full swing and the reception of multiple large projects in the fiscal year under review which helped increase the contract amount by a large margin.

Consolidated Net sales by Market

As in 2Q, double digit growth was recorded in the enterprise sector market. In the public sector market, slight growth was achieved as a result of an unexpectedly significant increase in the cloud service product sales share. (Excluding DAC^{*1})

Trend in Consolidated Net Sales by Market (million yen)



Enterprise sector market

- The trend in sales appears similar to the trend in contracts. Sales increased 368 million yen (+12.1%), reflecting the success in capturing the demand for cloud security measures for the Internet and email and for ongoing on-premises measures and the strong performance of the company in the cross-selling and upselling of the new f-FILTER product and the optional Anti-Virus & Sandbox product. (Excluding DAC^{*1})

Public sector market

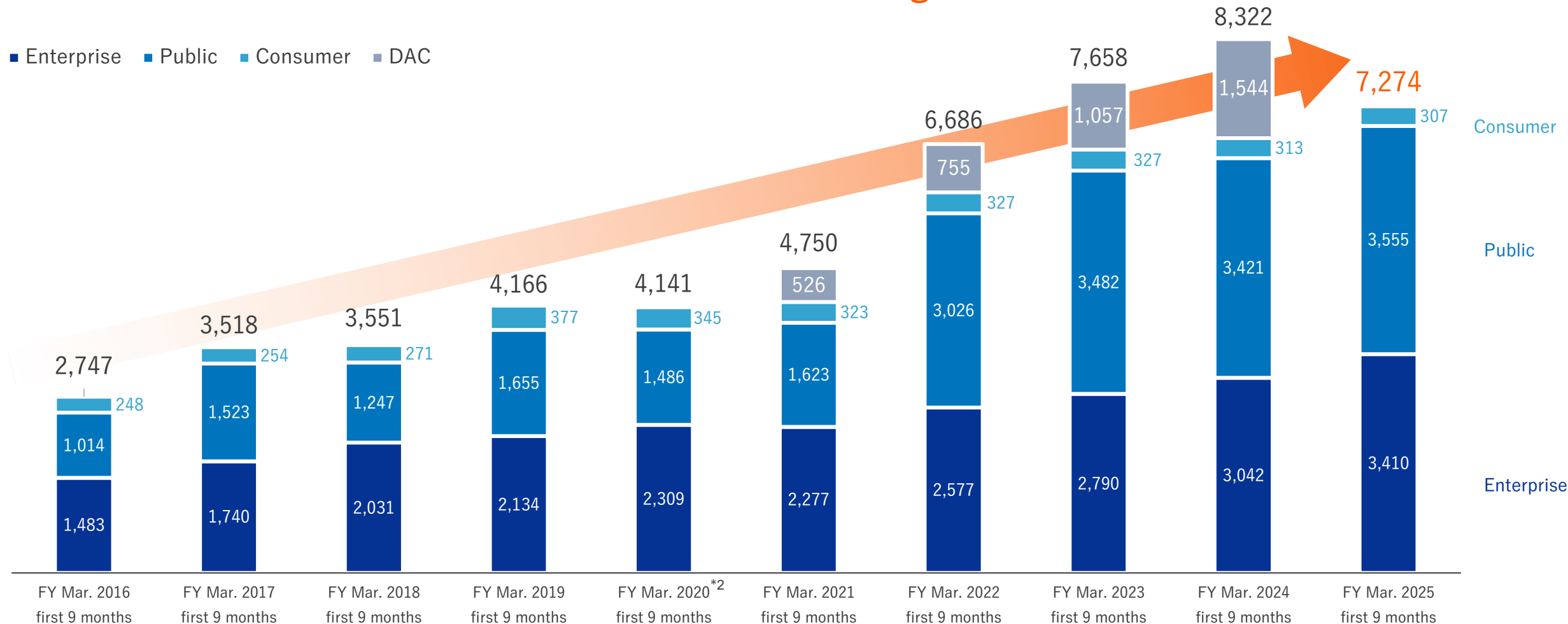
- Sales grew slightly, by 134 million yen (+3.9%), due to the poor progress in the posting of sales related to the increase in orders for next-generation School Affairs DX, for the second phase of the GIGA School Concept and for other cloud service products despite the steady advancement of the posting of sales from projects for security improvements for local governments and for projects for the first phase of the GIGA School Concept acquired in the previous fiscal year and earlier.

Trend in Consolidated Net Sales by Market

Net sales for the first nine months **reached a record high.** (Excluding DAC^{*1})

(million yen)

■ Enterprise ■ Public ■ Consumer ■ DAC



*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

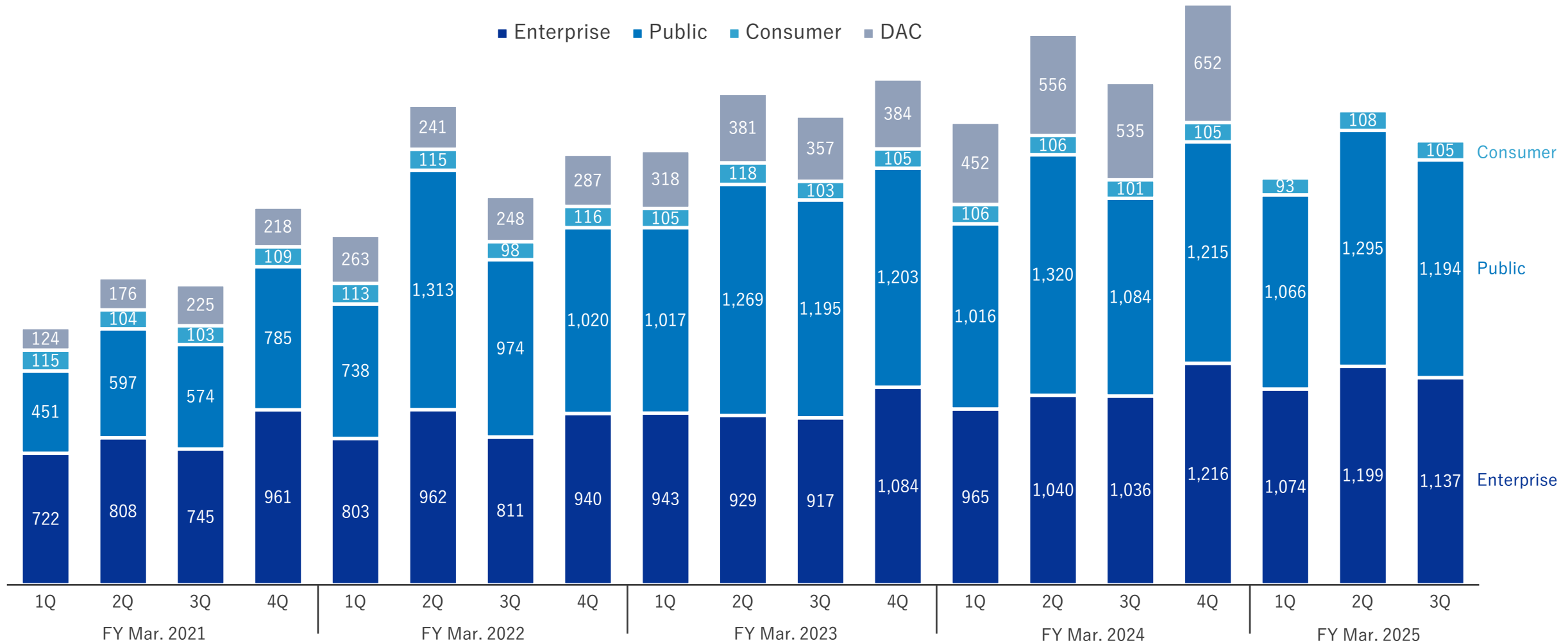
*2: DAC figures for 2020 and earlier are omitted, given that they have minor impacts.

Quarterly Trend in Consolidated Net Sales by Market



Net sales for the nine months reached a **record high**. (Excluding DAC^{*1})

(million yen)



*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

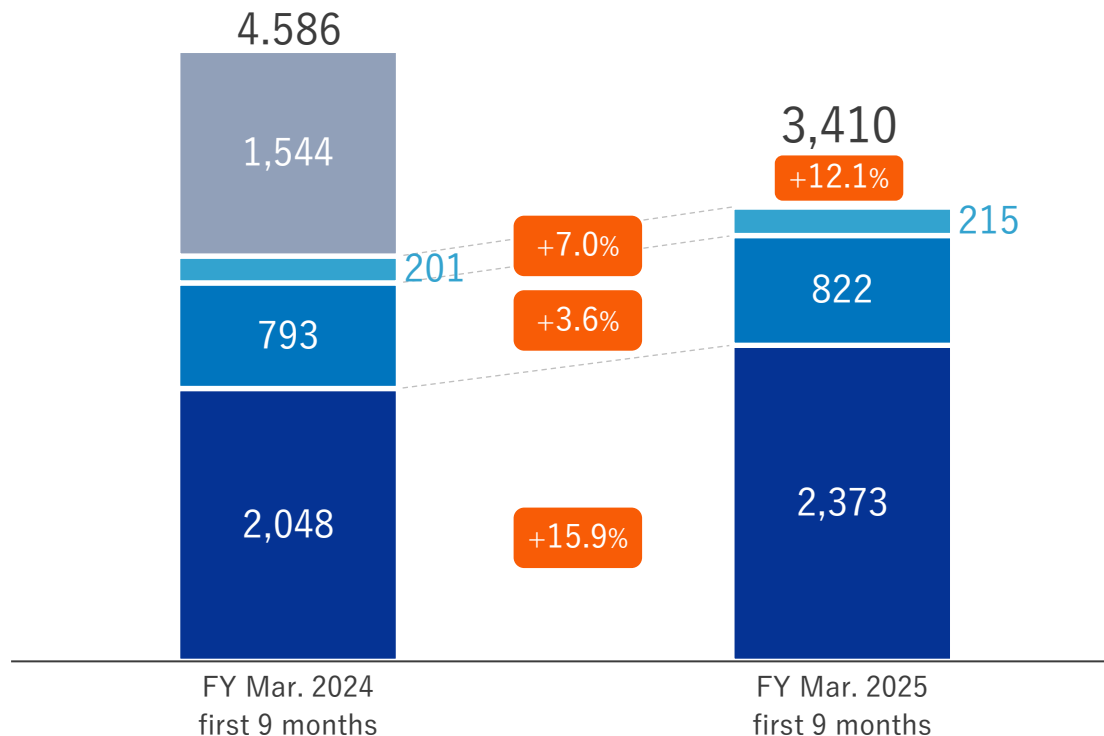
Net Sales in Market by Product

Net sales grew enormously as a result of the capturing of demand for cloud security measures and for continued on-premises measures and the strong sales of the new f-FILTER product and the optional Anti-Virus & Sandbox product. (Excluding DAC^{*1})

Trend in Net Sales in Enterprise Sector Market by Product

(million yen)

■ i-FILTER series ■ m-FILTER series ■ FinalCode/Other products ■ DAC



i-FILTER series

- While there were no distinctive large projects, the i-FILTER series of products met the needs of small and medium enterprises regarding cloud security measures (such as cloud proxies, local breakout (LBO) control and cloud access security brokers (CASB) and on-premises products (as a result of a shift from other companies' discontinued on-premises products, for hybrid cloud/on-premises operations, etc.). In addition, sales of the optional Anti-Virus & Sandbox product were strong. (+325 million yen/+15.9%)

m-FILTER series

- In the current situation where there are cloud-based email security measure needs (malware, PPAP^{*2} and mistakenly sent email countermeasures, email archiving solutions, etc.) connected to the widespread use of Exchange Online, Google Workspace and other cloud-based email services, the company has been highly evaluated for its comprehensive features meeting a wide variety of email security needs, resulting in the steady reception of new projects. (+28 million yen/+3.6%)

FinalCode/Other products

- Regarding f-FILTER, a new product, steady progress was made in the acquisition of new projects due to efforts to sell the product with m-FILTER as a set from the perspective of solutions to the PPAP^{*2} issue.

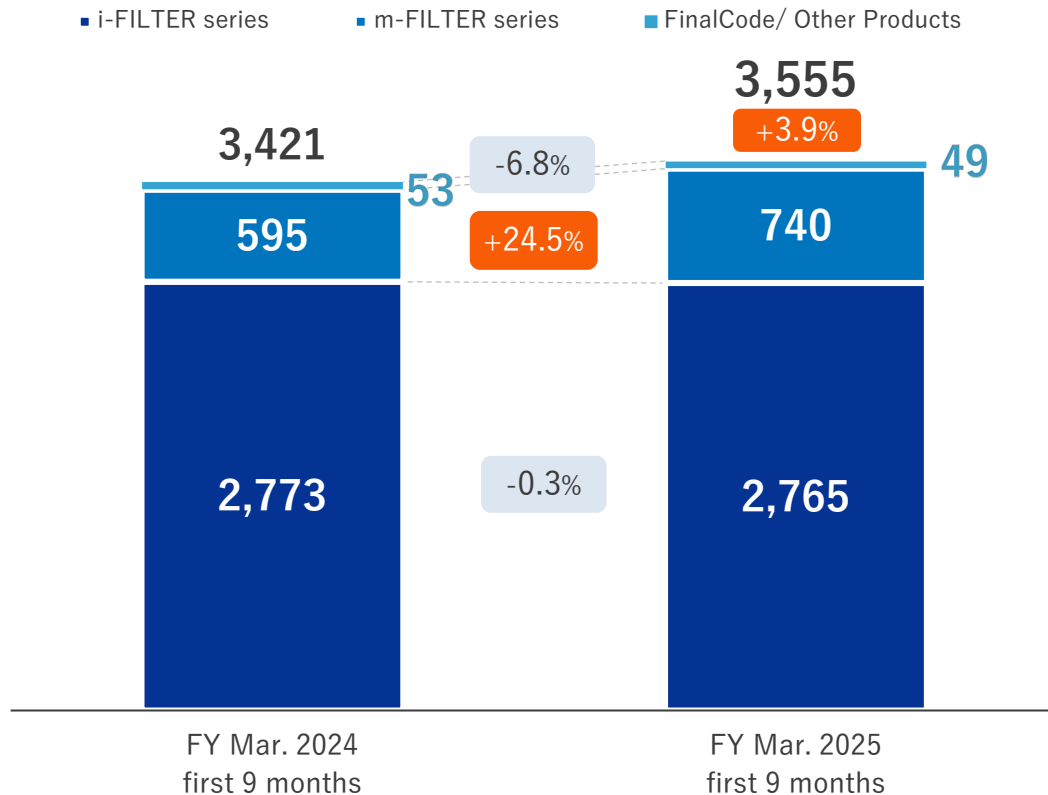
*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

*2: 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.

Net Sales Market by Product

While the **contract amount increased significantly (+33.0%)** due to the acquisition of projects for the Security Improvements for Next-Generation School Affairs programs and Phase 2 of the GIGA School Concept (see page 23), Net sales increased slightly following the rise in the cloud service product contract amount share.

Trend in Net Sales in Public Sector Market by Product
(million yen)

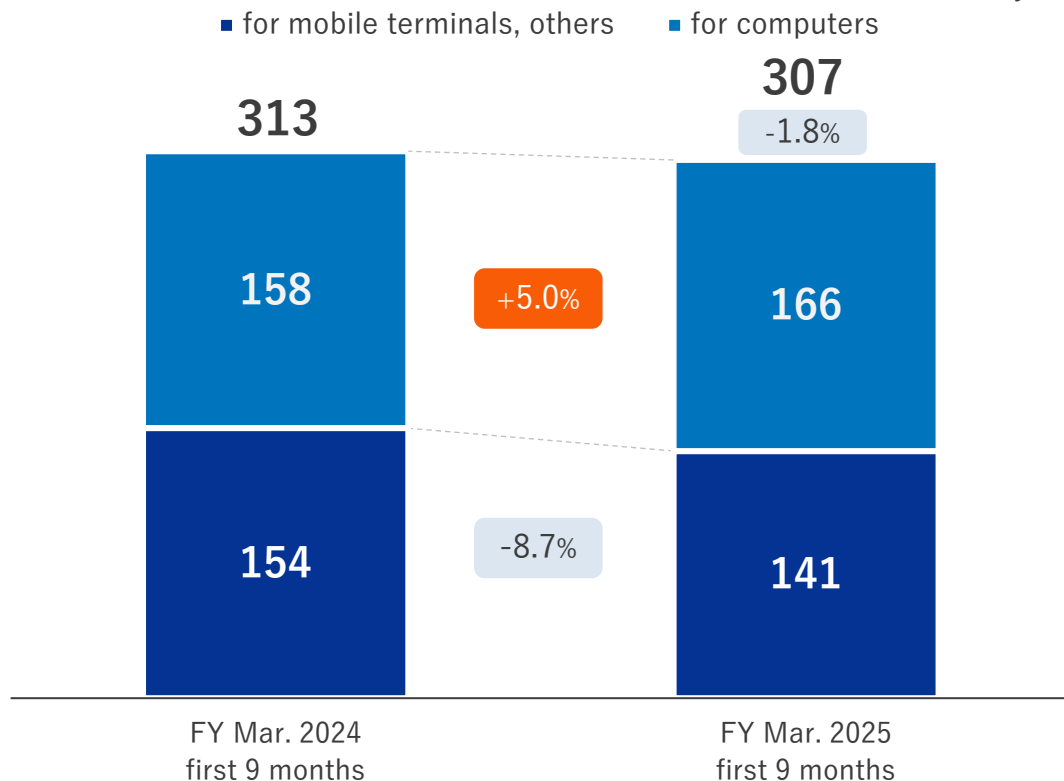


- In addition to the steady acquisition of projects for next-generation School Affairs DX, the Group started gradually gaining orders for projects regarding the second phase of the GIGA School Concept. During the fiscal year under review, a number of large projects were received which helped increase the contract amount considerably. At the same time, the number of orders for cloud service products received was larger than expected. This led to slow progress in the posting of sales, resulting in the growth of sales of i-FILTER series products being slightly negative. (-7 million yen/-0.3%)
- Projects received for security improvements for Local Governments and for Next-Generation School Affairs DX were brisk, resulting in a high m-FILTER series product growth rate. (+145 million yen/+24.5%)
- The Group promoted proposals including the new f-FILTER product in combination with mainstay i-FILTER and m-FILTER products. As a result, its sales were buoyant.

Net Sales Market by Product

In the consumer sector market, sales of filtering measures for mobile devices slowed following the end of demand for such measures. The Group will increase its efforts to sell these solutions to expand its target customers and tap into new demand.

Trend in Net Sales in Consumer Sector Market by Product
(million yen)



- Net sales declined reflecting a slowdown in new contracts obtained despite the strengthening of sales promotion activities for multi-year package products and the implementation of initiatives for products for Internet cafes. (-5 million yen/ -1.8%)
- 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.

04 | FY03/25 Initiatives

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

Product Lineup *repeat

Web

Enabling users to securely connect to websites without security concerns

i-FILTER **i-FILTER@Cloud**

Option

Anti-Virus & Sandbox

Endpoint
Web Security

i-FILTER
ブラウザ & クラウド

Secure proxy
appliance

ID-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**

Option

Anti-Virus & Sandbox

Measures to provide pop-ups for email misdelivery

NEW

[For email software]
[For Microsoft365 software]

m-FILTER
MailAdviser

File

**File
encryption
solution**

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

FINALCODE
FINALCODE@Cloud

**DLP / File
transfer
solution**

Supporting secure file transfers without leaking critical information

F-FILTER **NEW**

IDaaS

NEW

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

StartIn

i-FILTER@Cloud

Reference Price (monthly): **500 yen**

i-FILTER

Reference Price (monthly): **250 yen**
(for purchases of 500 licenses)

FINALCODE@Cloud

Reference Price (monthly): **1,000 yen**^{*1}
(for purchases of 10 licenses)

i-FILTER@Cloud

GIGA School

Reference Price (monthly): **150 yen**

m-FILTER@Cloud

Reference Price (monthly): **500 yen**

m-FILTER

Reference Price (monthly): **250 yen**
(for purchases of 500 licenses)

FINALCODE

Reference Price (monthly): **1,000 yen**^{*1}
(for purchases of 10 licenses)

Desk

GIGA School

Reference Price (monthly): **250 yen**
(for a minimum of 10 licenses)

Measures to provide pop-ups for email misdelivery
Outlook/Becky!/Thunderbird version

m-FILTER

MailAdviser

Reference Price (monthly): **300 yen**

Measures to provide pop-ups for email misdelivery
For Microsoft365 software

m-FILTER

MailAdviser

Reference Price (monthly): **300 yen**

f-FILTER

Reference Price (monthly): **300 yen**
(for a minimum of 10 licenses)

Desk

Reference Price (monthly): **300 yen**
(for a minimum of 10 licenses)

Option

Available options when purchased together with i-FILTER or m-FILTER

Anti-Virus & Sandbox

Reference Price (monthly): **200 yen**

f-FILTER

Reference Price (monthly): **100 yen**

StartIn

Reference Price (monthly): **300 yen**
(monthly): **150 yen**^{*2}
(for a minimum of 10 licenses)

*1: Fees are charged only for users in organizations who perform encryption and editing.

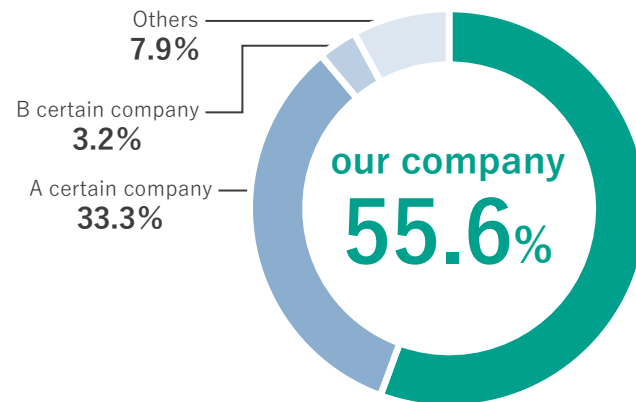
*2: Applies when purchasing Start In together with Digital Arts products

i-FILTER and m-FILTER Market Shares

i-FILTER

According to the ITR Market Review: Cyber Security Solutions Market 2024 market research report published by ITR Corporation, i-FILTER had a 55.6% market share in "Web Filtering Market: Sales Share by Vendor" in FY2022, indicating it had the largest share of the market.

Web Filtering Market: Sales Share by Vendor in FY2022

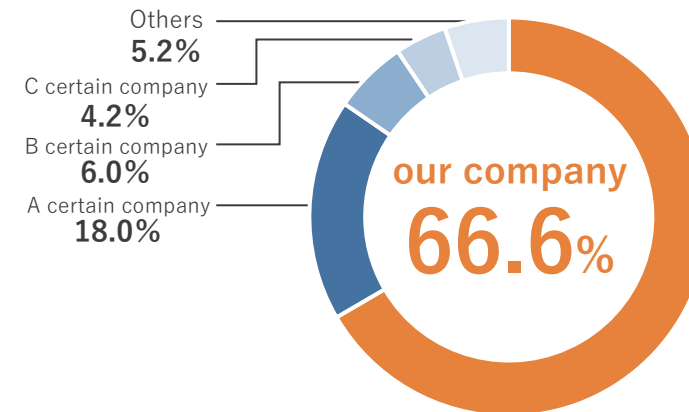


*Source: "Web Filtering Market: Sales Share by Vendor (FY2022)" in ITR Corporation: ITR Market Review: Cyber Security Solutions Market 2024 (published in May 2024)

m-FILTER

According to Current State and Future Prospect of Internal Threat Control Solutions Market in FY2023 (<https://micr.co.jp/mr/03010/>) market research report by Deloitte Tohmatsu MIC Research Institute Co., Ltd., m-FILTER had a 66.6% market share in "Shipment Volume Share in Email Filtering and Archive Tools Market" in FY2022. This affirms that it had the largest share of the market.

Email Filtering and Archive Tools Market: Shipment Volume Share by Vendor



*Source: MIC Research Institute Ltd. "Information Security Solutions Market: Status and Outlook 2023 - Internal Information Leakage Prevention Solutions (<https://mic-r.co.jp/mr/03010/>)" Email Filtering/Archive Market: Vendor Share (by shipment) (FY2022) (Published February 2024).

What is our mainstay solutions “White Operation” ?

White operations use a whitelist method that permits users to connect only to websites and email messages that have been verified as secure in advance. It protects ICT environments from known and unknown threats irrespective of the computer literacy of the user.

White Operation (whitelist method)

Security measures other than DA (blacklist method)



Access to unknown hazardous websites

- are blocked and cannot be accessed
- When users attempt to access these websites at anytime, attacks are blocked.

- are accessible
- Measures are taken after a cyber attack occurs.
- Devices are secure if they access them in the future.



Receive of unknown hazardous email

- are not received
- The product does not prevent users from securely opening other messages.

- are received
- Measures are taken after a cyber attack occurs.
- are now safe to open



Difference

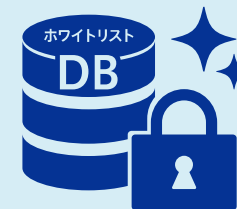
There is a major difference between white operation, which blocks users from connecting to "gray areas" where it is unknown if it is safe or dangerous, and security measures provided by vendors other than Digital Arts, which allow users to connect to gray areas.

Why do competitors not adopt white operations?

White operations cannot be realized without the two elements mentioned on the right. It is therefore difficult for them to achieve them. However, Digital Arts have achieved white operations using its original technologies.

1

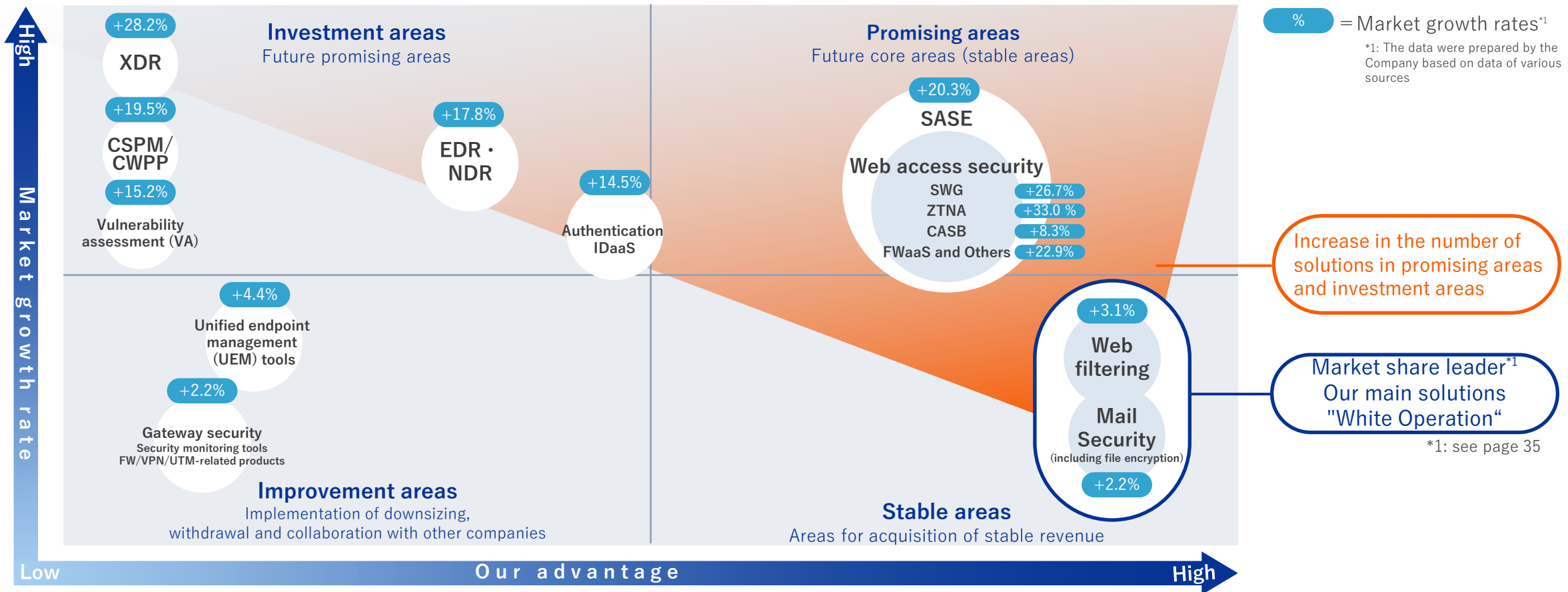
Database with a high coverage rate and high accuracy constructed



2

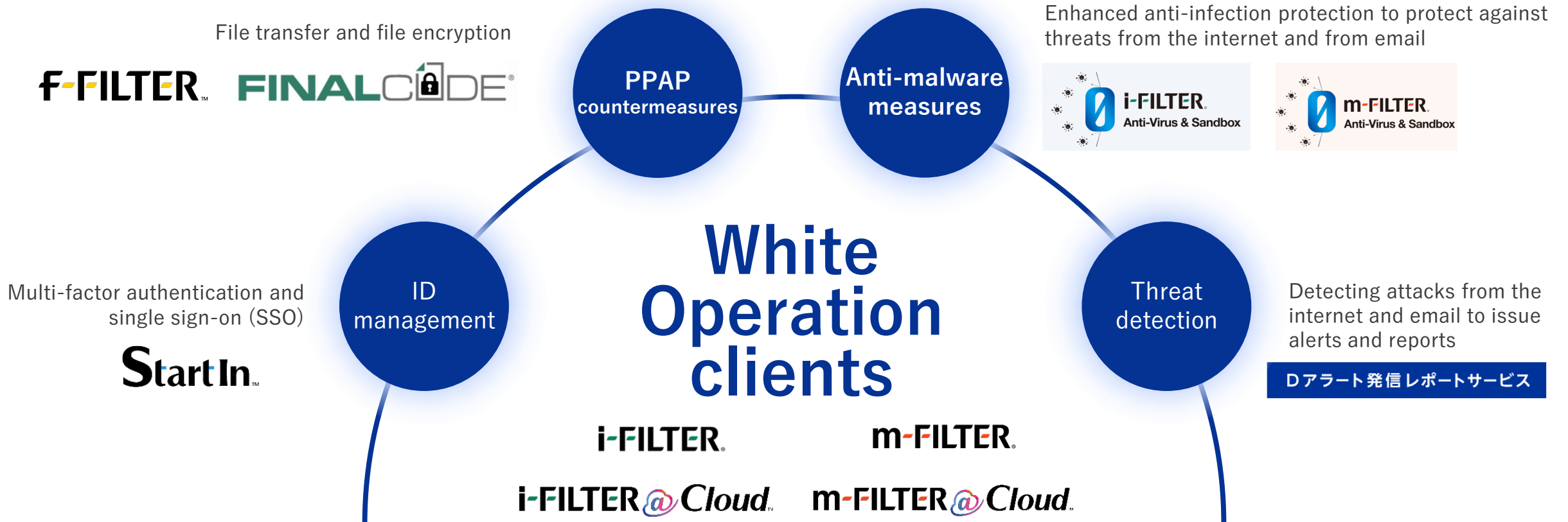
The implementation of measures to prevent the falsification of the database

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

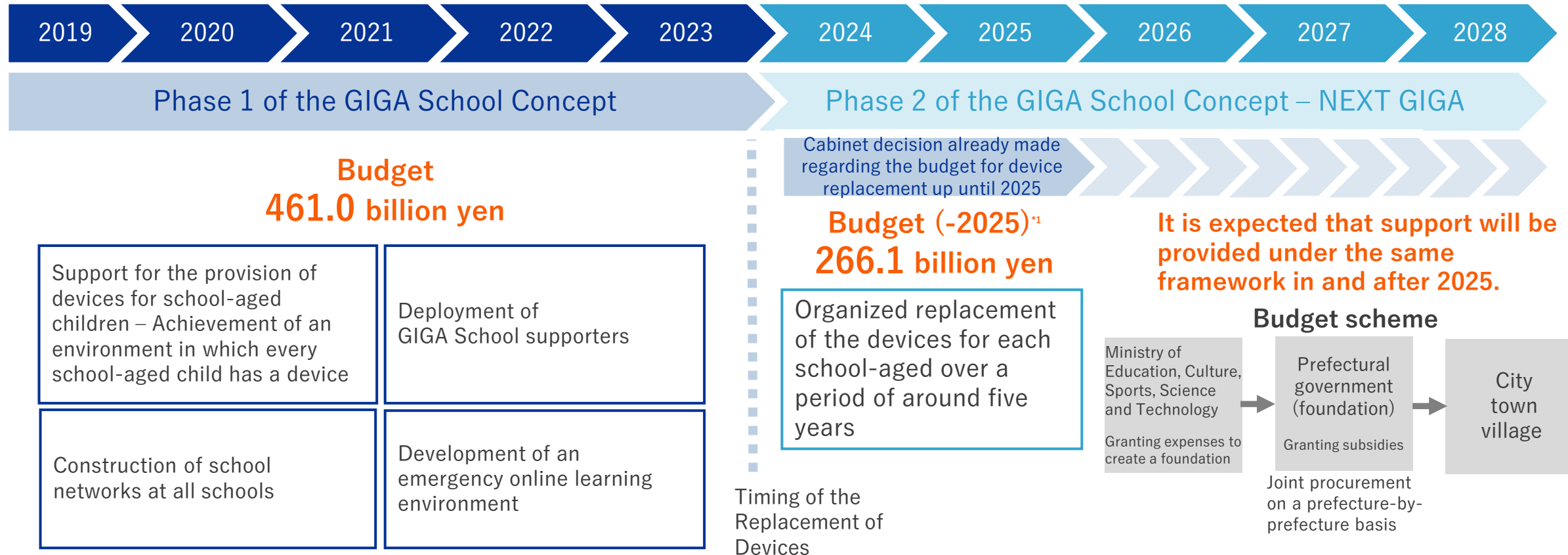
We will promote cross-selling and upselling for White Operation customers.



Phase 2 of the GIGA School Concept

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

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

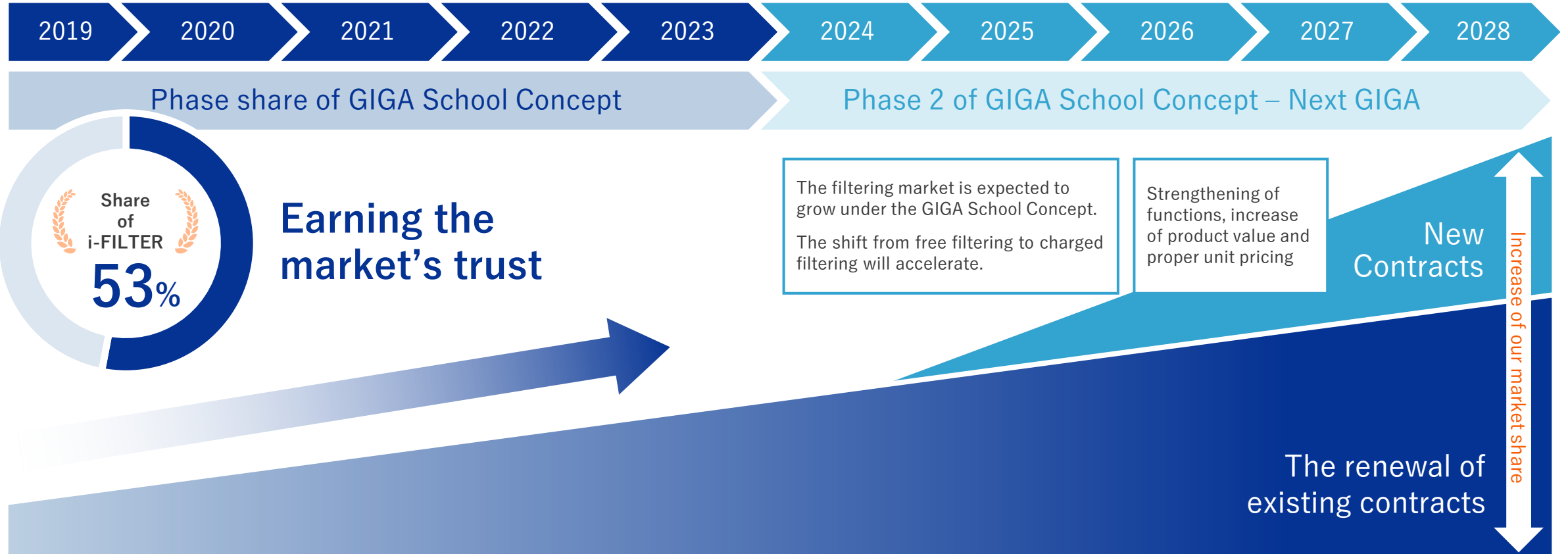


*1 Only for replacement of GIGA School Concept Devices

Phase 2 of the GIGA School Concept

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]

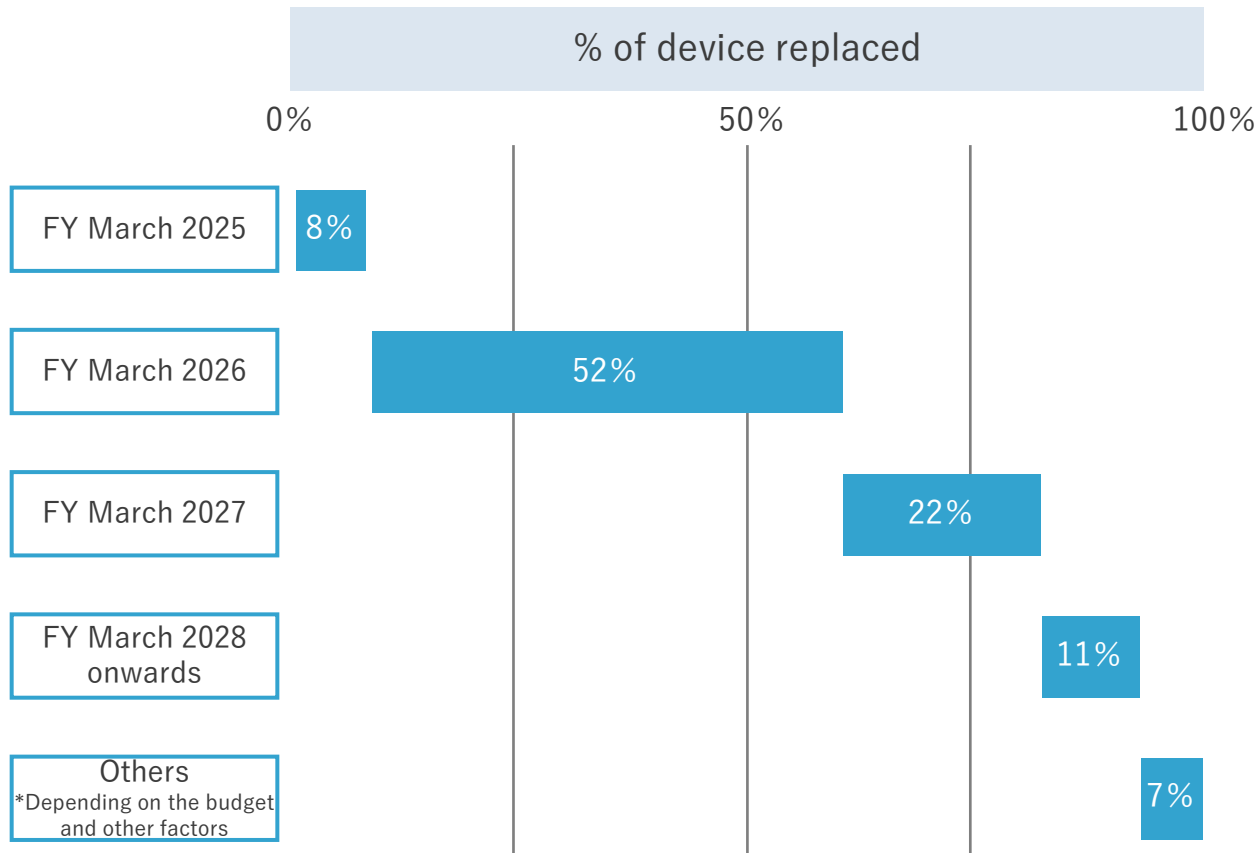


Phase 2 of the GIGA School Concept

- 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]

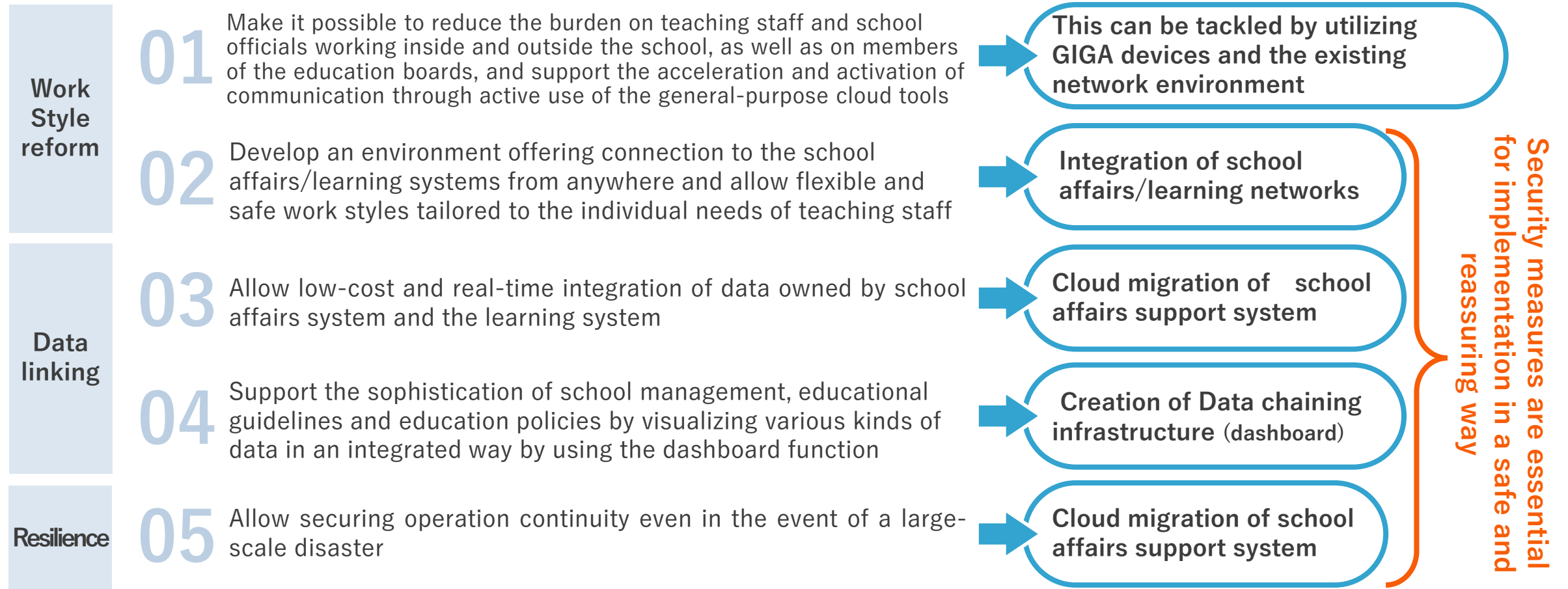


POINT

- 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.

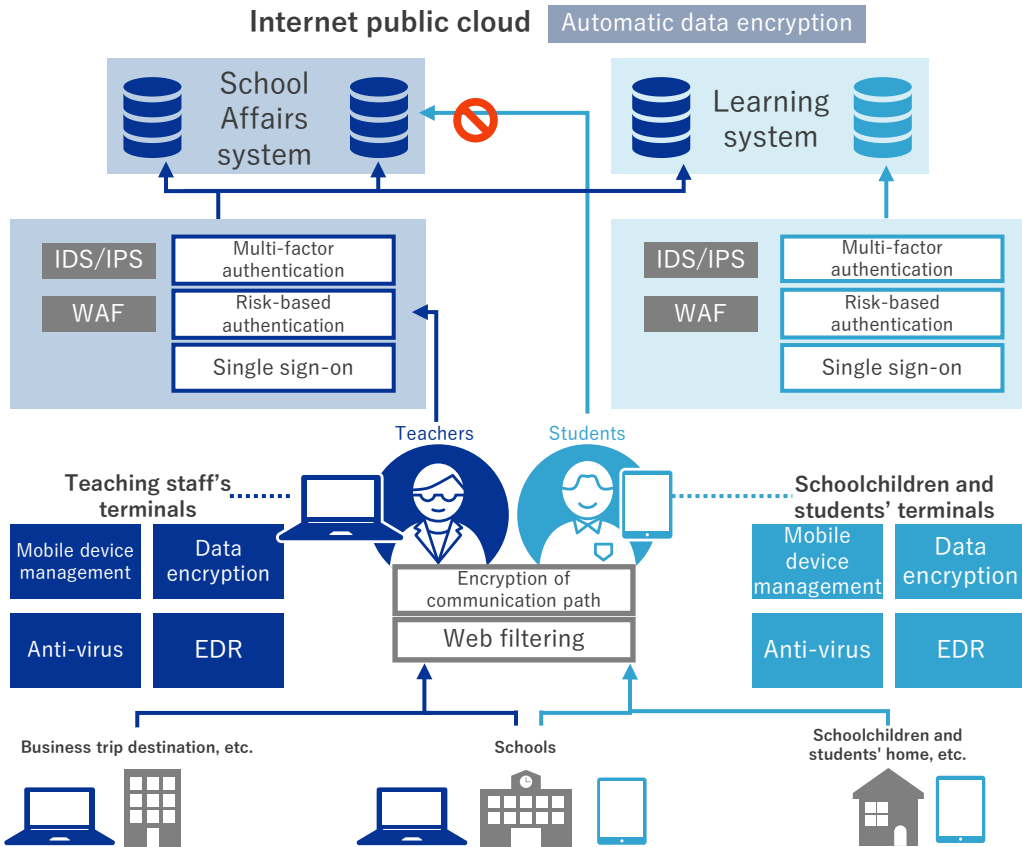
The Ministry of Education, Culture, Sports, Science and Technology calls for the following implementation as the direction of the Next-Generation School Affairs DX:

*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



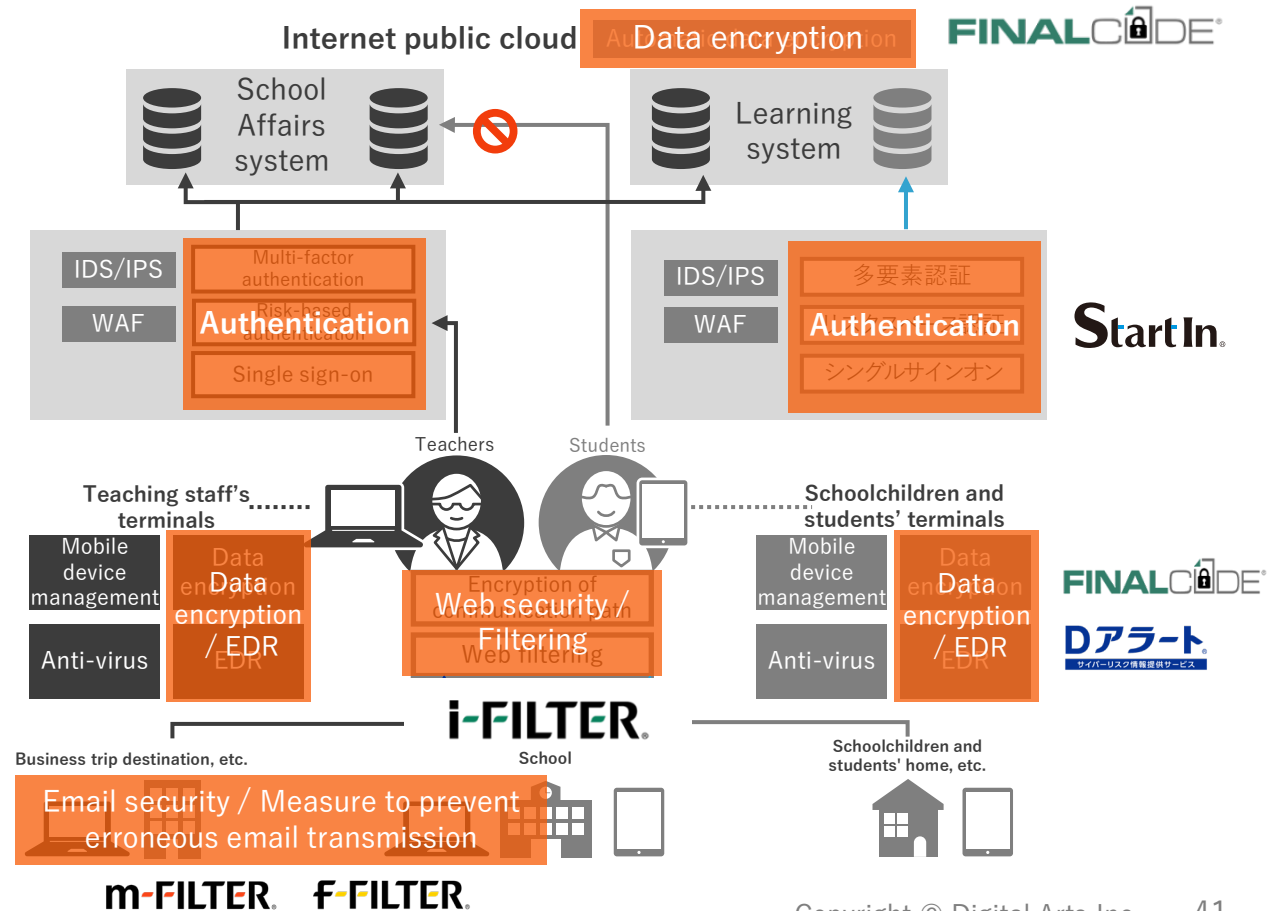
Our products are applicable in many different areas to ensure security. We will proactively advertise the value of our products.

Overview diagram of security measures in school affairs DX



Security support map with our products

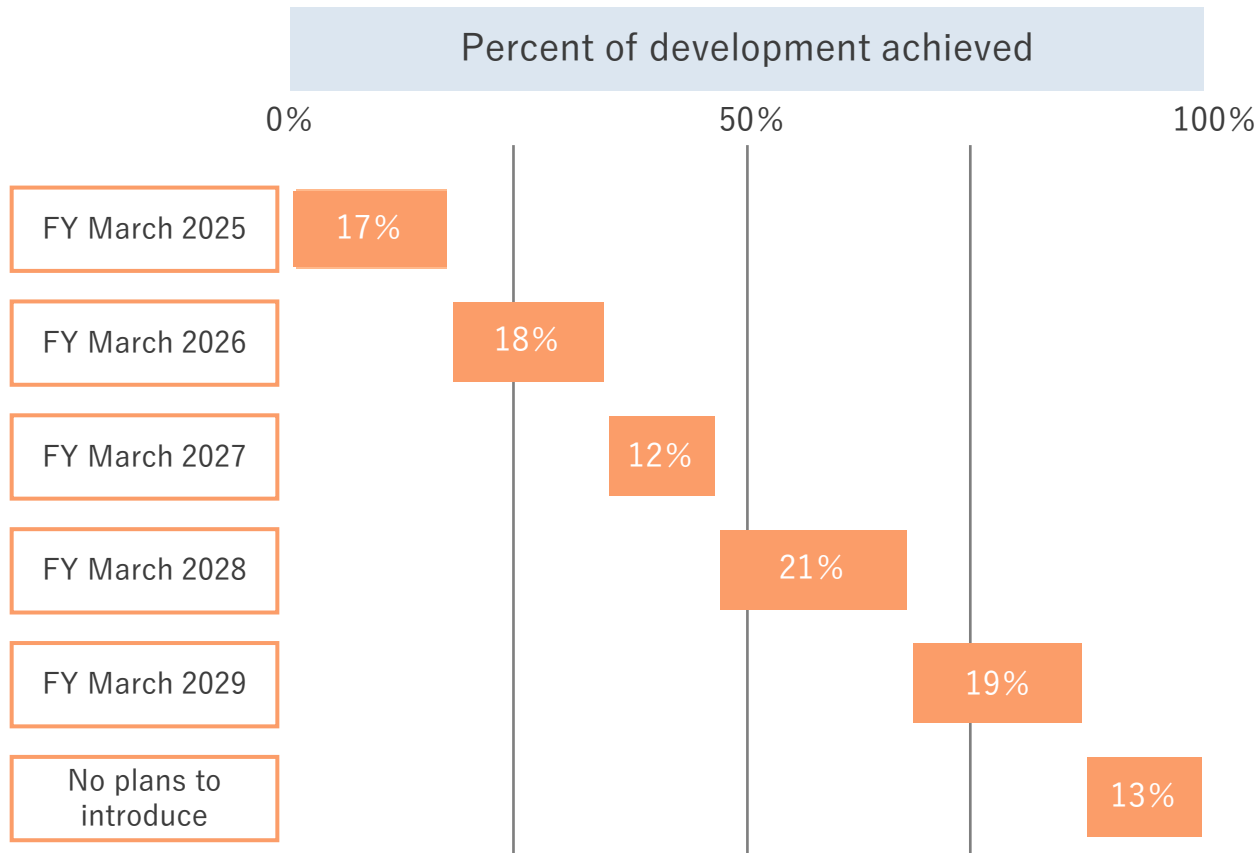
= Scope of supports



Schedule for Development of Next-Generation School Affairs DX

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**.

05 | Status of Measures for the Fiscal Year Ending March 31, 2025

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

New Functions released in July

Large-size storage / file storage period adjustment functions

Examples of requests for f-FILTER



Customer A

We hope that f-FILTER will **support large files of over 100 MB**, since they cannot be sent by e-mail.



Customer B

For security reasons, we want to limit the file access period to several days. (A period shorter than 30 days is desirable.)



Customer C

We hope that, for **audit purposes**, files can be stored for a longer period than 30 days, such as five to seven years.

Enhancement of features

▶ **The uploadable file size is increased to 20 GB** and an option is provided that allows users to choose from different levels of storage capacity according to their needs.

▶ The software is modified to provide a **standard function that allows users to set the file access period within a range from one day to 30 days.**

▶ **An option is provided that allows users to configure the file storage period to one year, three years, five years, seven years and others.**

New Functions released in December

Strengthen generative AI security using i-FILTER

A function that visualizes the state of use of generative AI

Word-by-word filtering control

A function that allows users to allow only necessary generative AI operations

A function that displays a utilization warning screen

General AI category

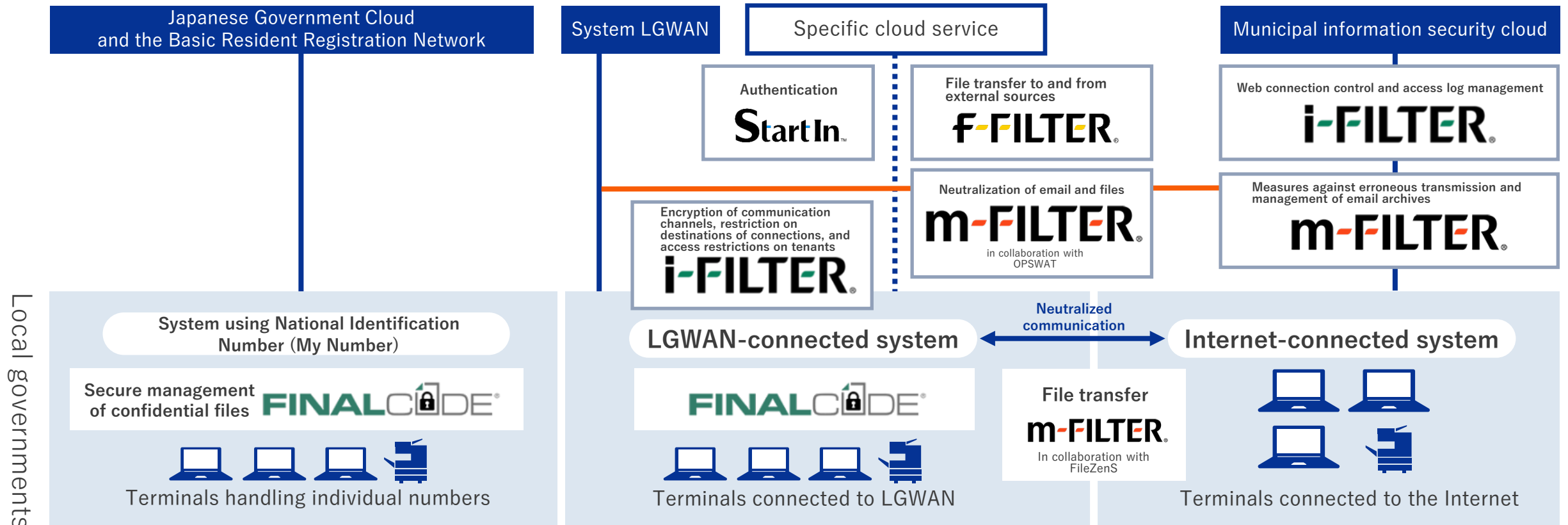
A function that comprehensively blocks or enables generative AI operations

NEW

Solving data leaks and other issues connected to the use of generative AI to encourage the secure use of generative AI.

05 Toughening of Security for Local Government: Compliance with New Guidelines

The α model is a commonly used security solution characterized by three-layer isolation. It is used for Local Governments' networks and personal computers and other business devices connected to them. Because of its emphasis on security, it is difficult to operate flexibly. Its drawbacks are in user convenience and operation efficiency. The new guidelines defined the α' model as a method for connecting business devices directly to cloud services. That ultimately enlarged the scope of effective applicability of Digital Arts' solutions. In addition, the measure requires registration with the Information System Security Management and Assessment Program (ISMAP)*¹ This means it is expected that our solutions that are already registered with ISMAP will be more likely to be selected.



*1: Security assessment system for government information systems

Digital Arts' Solutions: Status of ISMAP*¹ Registration

Web Security

Enabling users to securely connect to websites without security concerns

i-FILTER.

i-FILTER@Cloud. 

Mail Security

Enabling users to securely send and receive email

m-FILTER. **m-FILTER@Cloud.** 

[Microsoft 365 supported Version]

m-FILTER.
MailAdviser

 Registration Pending with ISMAP

File Encryption

File encryption solution

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

FINALCODE. **FINALCODE@Cloud.** 

Secure file transfer

 Registration Pending with ISMAP

DLP / File transfer solution

Supporting secure file transfers without leaking critical information

f-FILTER.

IDaaS

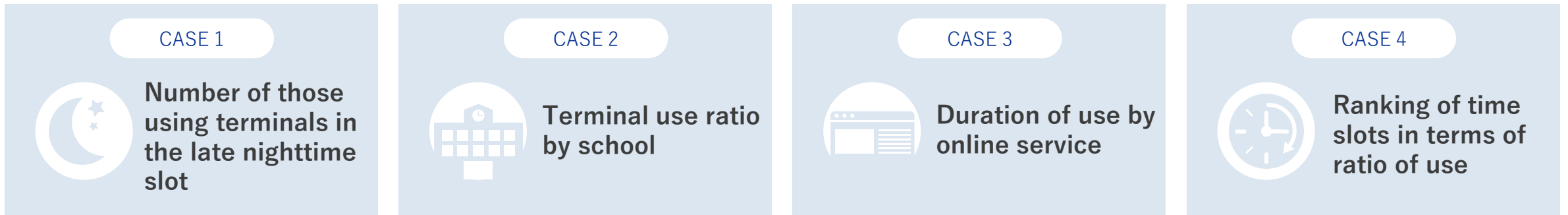
 Registration Pending with ISMAP

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

StartIn.

New functions released in the current fiscal year

Visualizing what websites schoolchildren and students view and how often

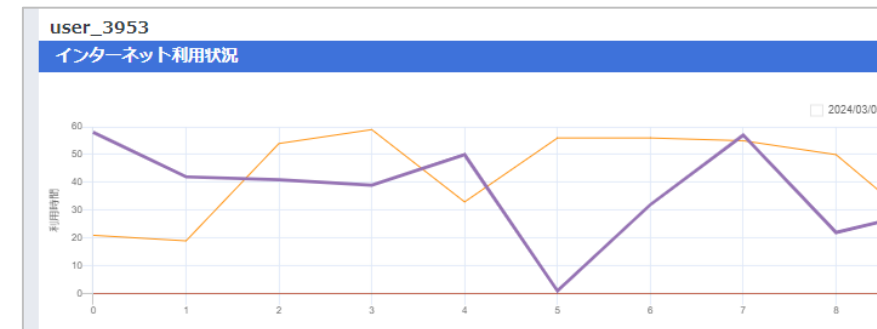


Meeting one of the conditions for subsidies for terminal replacement costs, **monitoring the state of operation of terminals** for fulfillment of the minimum standard for specifications.



Webサービス毎の累計利用時間

#	Webサービス	累計	今朝	午前
1	Yahoo!トラベル	3時間45分	12分	24分
2	Yahoo!カレンダー	3時間13分	14分	29分
3	Gmail 添付ファイル	3時間03分	03分	14分
4	Microsoft TechNet Online	3時間01分	12分	18分
5	X (Twitter) 連携アプリ認証 (OAuth認証)	2時間57分	26分	26分
6	X (Twitter) ログイン	2時間48分	20分	24分
7	Yahoo! 画像・動画検索	2時間39分	16分	22分
8	文部科学省公式チャンネル 閲覧	2時間37分	18分	26分
9	Amazon Drive	2時間15分	10分	14分
10	Bing 画像アップロード検索	2時間07分	14分	18分



A major update in the current fiscal year



It is a portal website that put together online learning videos.

It supports search by grade or by subject and indication of videos in the order of popularity. It can be used by schoolchildren and students for home learning and for educational materials in school classes.

POINT

- **For previews and reviews of school classes**
What is learned at school can be previewed and reviewed at any time and anywhere!
- **For educational materials in school classes**
Videos can be used as education materials for a more intuitive understanding!

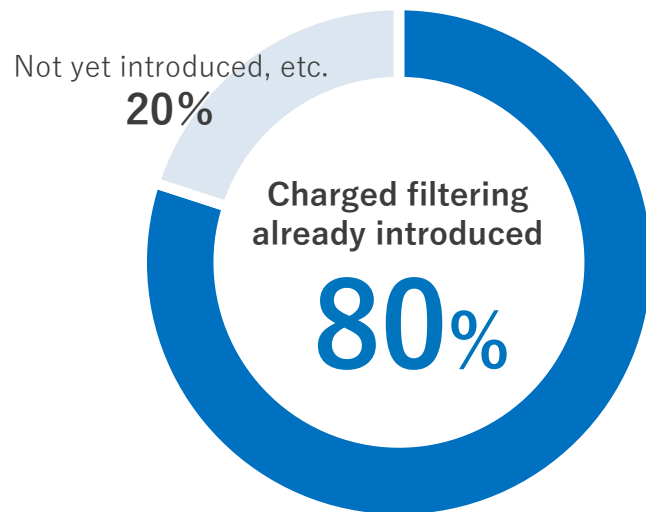


GIGA School Concept

Advertise the superiority of i-FILTER to boards of education that have yet to introduce filtering and those which have introduced competitors' products in order to hold an even larger market share

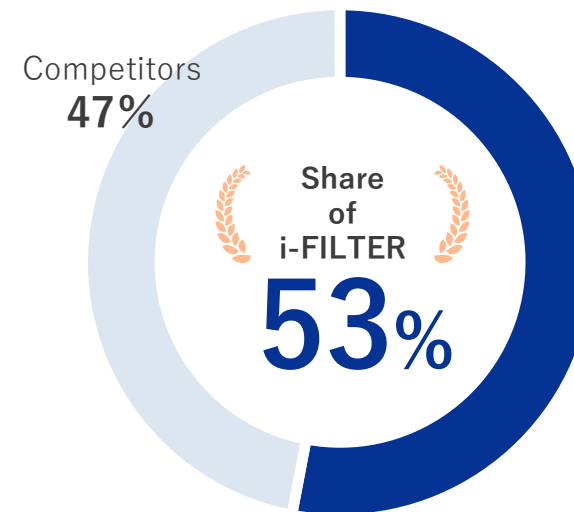
Introduction of filtering under the GIGA School Concept^{*1}

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 1,741 boards of education (Dec 2024)

06 | Full-Year Financial Forecast for the Fiscal Year Ending March 31, 2025

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

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



DAC's sales of 2.3 billion yen and expenses of 2.2 billion 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 1.9 billion yen due to the transfer of shares in DAC*1.

(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 1.9 billion 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 point	60.2%	73.4%	-	-	Improved significantly due to the deconsolidation of DAC whose cost of sales ratio is high.
SG & A	2,500	2,730	+229	+9.2%	For the above reason, DAC's selling, general and administrative expenses, which were 200 million yen in the previous fiscal year, are excluded from consolidation, starting from the current fiscal year. Approximately 330 million yen are expected to be invested in human resources.
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 1.9 billion yen due to the transfer of shares in DAC.

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

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



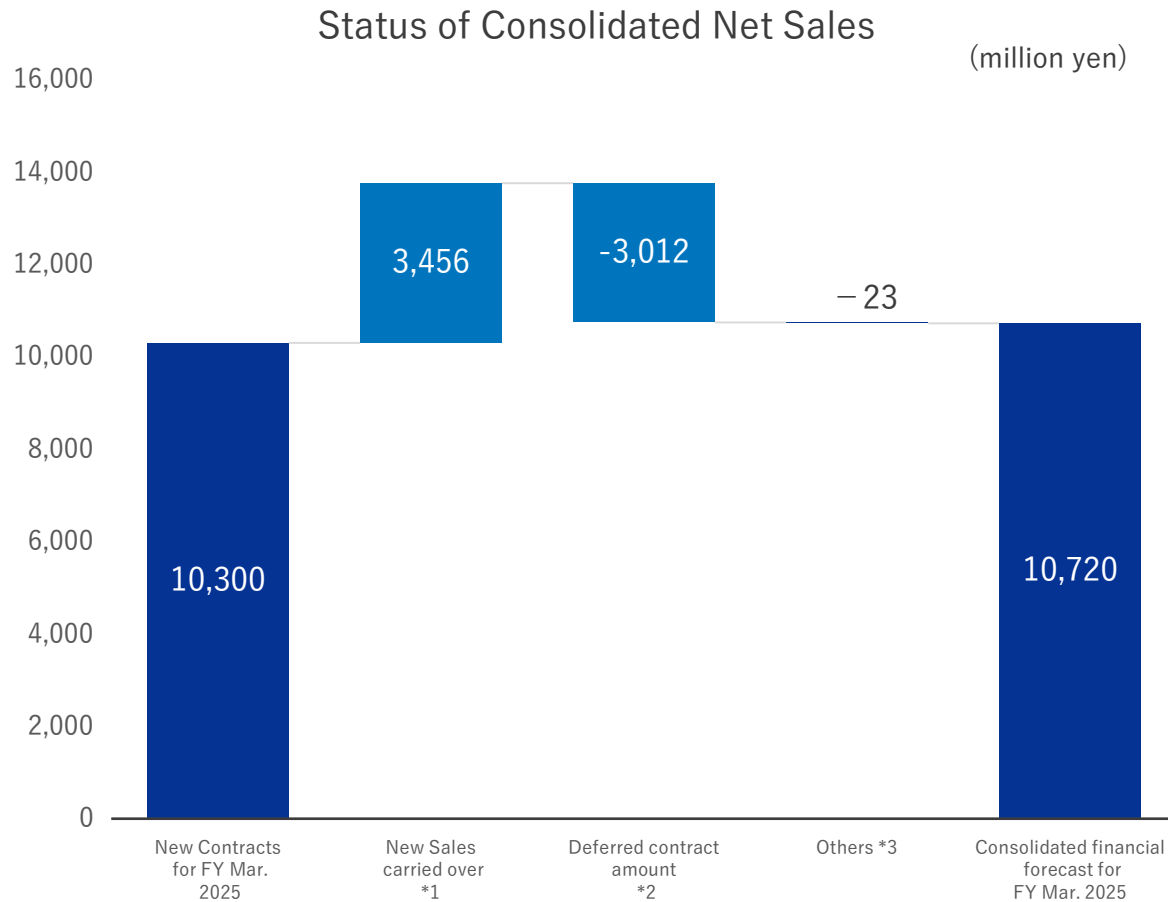
The Group aims to achieve growth in net sales and operating profit through the initiatives for the three priority areas set out in the Medium-Term Management Plan (FY2025-FY2027).

(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 point	71.4%	73.4%	-	-	
SG & A	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	4,536	3,550	-986	-21.7%	The previous fiscal year's result reflects extraordinary income of approximately 2.15 billion yen due to the transfer of shares in DAC*1.

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

Consolidated net sales are forecast as follows:



Contracts for the current fiscal year

- New contracts 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 School Affairs 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.

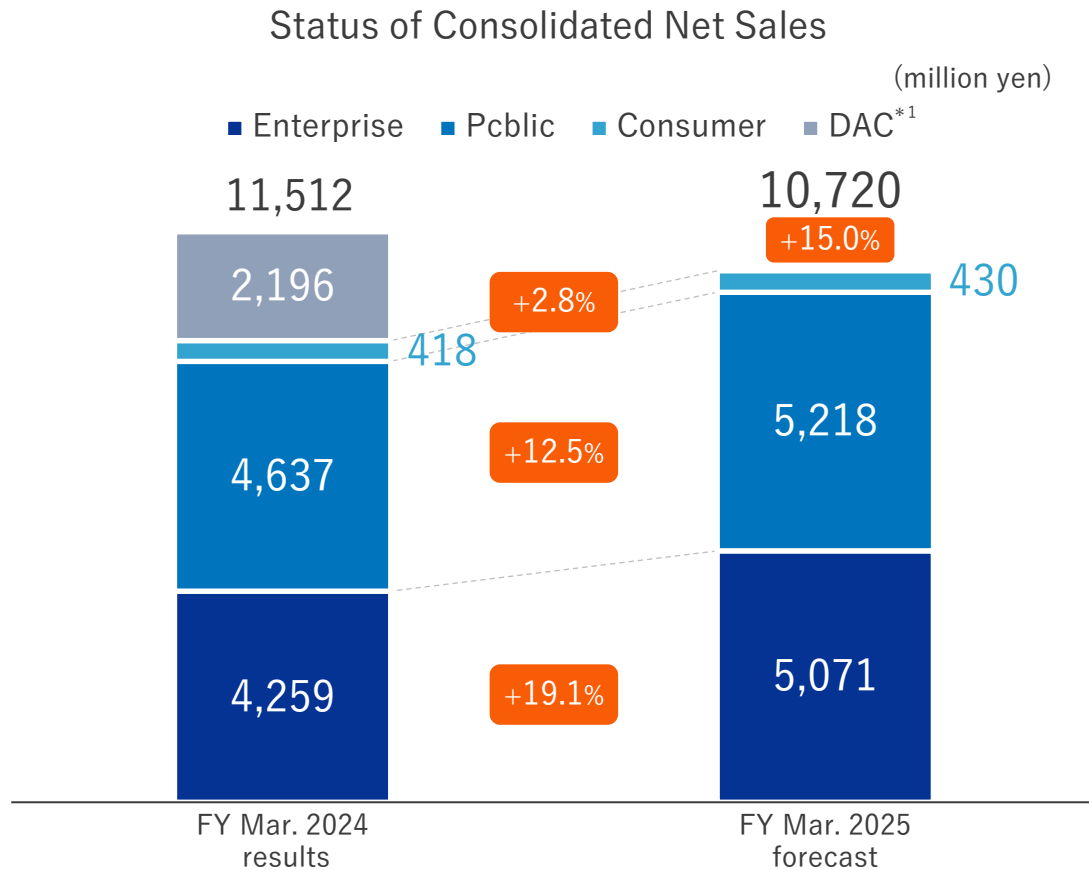
*1 : Sales recorded from the order backlog of contracts acquired in previous fiscal years

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

*3 : Sales returns and sales at overseas subsidiaries

Status of Consolidated Net Sales

Consolidated net sales by market are forecast as follows:



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.

*1: 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%.

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 School Affairs DX projects.

06 Consolidated Cost of Sales and Selling, General and Administrative Expenses



The cost of sales is expected to improve significantly because DAC's^{*1} cost of sales in the previous fiscal year is excluded from consolidation. Selling, general and administrative expenses are expected to rise mainly due to the increased investment in human resources.

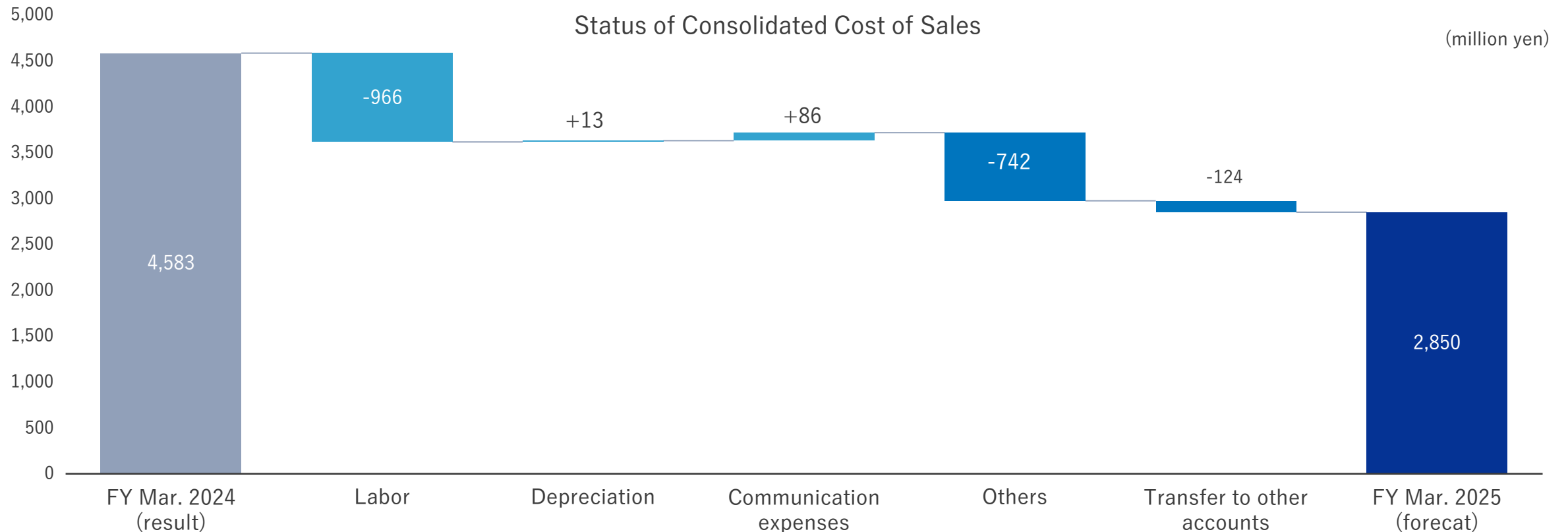
(million yen)

	FY March 2024 Full-Year Results	FY March 2025 Full-Year Forecasts	% Change	Main Factors for Change
Cost of Sales	4,583	2,850	-37.8%	Impact of the deconsolidation of DAC
Labor	2,038	1,071	-47.4%	
Depreciation	839	852	+1.6%	
Communication expenses	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.
Others	1,384	642	-53.6%	
Transfer to other accounts	-982	-1,107	+12.7%	
SG & A	2,500	2,730	+9.2%	
Personnel expenses	1,275	1,457	+14.3%	Investments in human resources including the hiring of new graduates, strengthening of employment activities and incentive plans
Advertising expenses	313	320	+2.0%	
Others	911	952	+4.5%	

*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

Status of Consolidated Cost of Sales

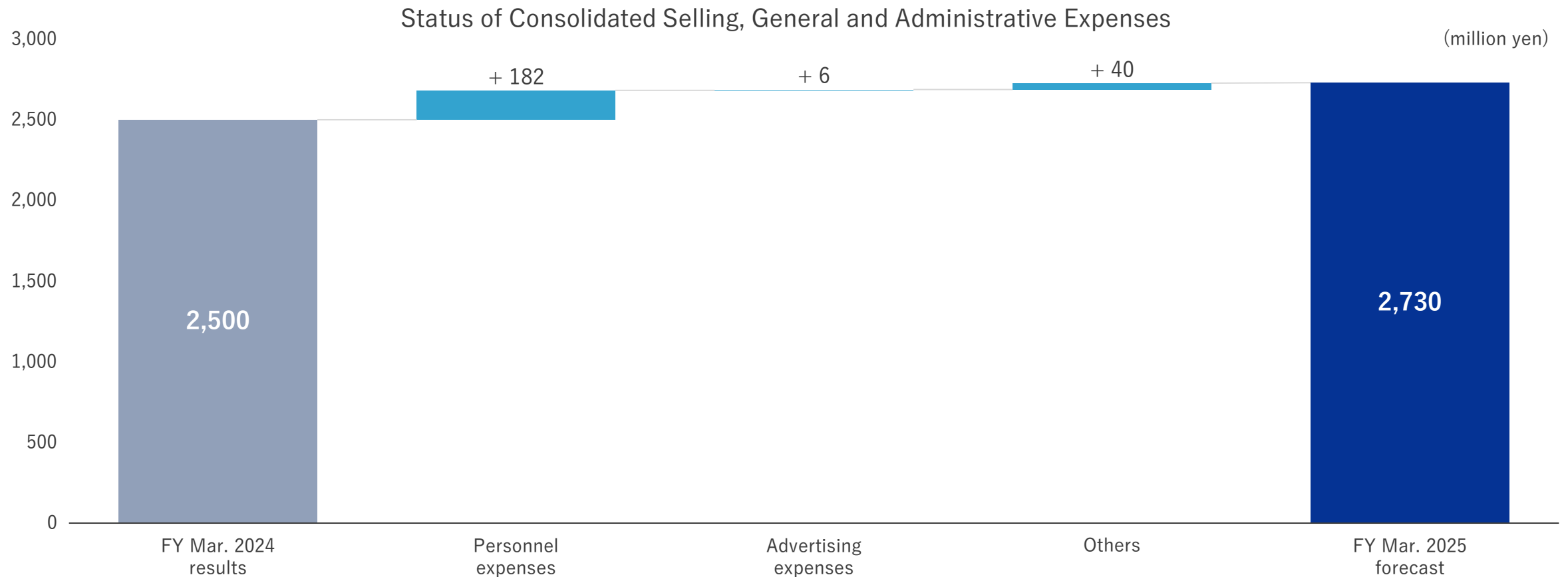
The labor cost and other expenses are expected to be reduced significantly because DAC's^{*1} labor cost and other expenses are excluded from consolidation. Regarding communication expenses, cloud server expenses are expected to increase, reflecting an increase in the number of customers as a result of the expansion of sales of cloud service products.



*1: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred at the end of the previous fiscal year)

06 Status of Consolidated Selling, General and Administrative Expenses

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).



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

Consolidated Financial Results for the First Nine Months
of the Fiscal Year Ending March 31, 2025

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. (**planned to increase for 11 consecutive years**)

	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	40.00			
FY March 2025 (forecast)		45.00	85.00	33.0%

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.

■ Reference [Total payout ratio]

(million yen)

	Dividends paid	Amount of treasury stock acquired	Total return	Total payout ratio
FY March 2024 (results)	1,105	1,429	2,534	82.6% ^{*1}
FY March 2025 (forecast)	1,158	500^{*2}	1,658	46.9%

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

*2 Announced on June 12, 2024

- 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. based on 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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