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Consolidated Financial Results for the Three Months Ended June 30, 2025 [Japanese GAAP]

July 31, 2025

Company name: Digital Arts Inc.

Listing: Tokyo Stock Exchange

Securities code: 2326

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

Representative: Toshio Dogu

Inquiries: Fumihiko Tanizaki

Telephone: +81-3-5220-1670

Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: Yes

Holding of financial results briefing: None

Representative Director, President and CEO

General Manager of the Investor Relations Office

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2025 (April 1, 2025 to June 30, 2025)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2025	2,270	1.6	795	(5.2)	806	(4.8)	556	(4.9)
June 30, 2024	2,234	(12.1)	838	(3.9)	847	(4.3)	584	(5.0)

(Note) Comprehensive income: Three months ended June 30, 2025: ¥ 555 million [(5.5) %]
Three months ended June 30, 2024: ¥ 587 million [(4.9) %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2025	40.97	40.09
June 30, 2024	42.50	41.96

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2025	22,444	17,052	75.8	1,254.98
March 31, 2025	22,627	17,365	76.6	1,274.46

(Reference) Equity: As of June 30, 2025: ¥ 17,023 million
As of March 31, 2025: ¥ 17,336 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2025	-	40.00	-	45.00	85.00
Fiscal year ending March 31, 2026	-				
Fiscal year ending March 31, 2026 (Forecast)		45.00	-	50.00	95.00

(Note) Revision to the forecast for dividends announced most recently: None

The dividend forecast for the end of the six months ending September 30, 2025:

Ordinary dividend 40.00 yen

Special dividend for 30th anniversary commemoration 5.00 yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2026 (April 1, 2025 to March 31, 2026)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	12,550	25.7	6,150	34.9	6,150	34.8	4,200	31.9	308.76

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - (Company name:)

Excluded: - (Company name:)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: Yes

*For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Note 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 in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

June 30, 2025: 14,133,000 shares

March 31, 2025: 14,133,000 shares

2) Number of treasury shares at the end of the period:

June 30, 2025: 568,332 shares

March 31, 2025: 530,296 shares

3) Average number of shares outstanding during the period:

Three months ended June 30, 2025: 13,573,930 shares

Three months ended June 30, 2024: 13,751,364 shares

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

* Proper use of earnings forecasts, and other special matters

(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, 2025 to June 30, 2025), there has been a surge in security incidents caused by increasingly sophisticated and diverse cyberattacks in the security industry where the Digital Arts Group (the "Group") operates, including ransomware infections leading to personal information leaks, phishing scams, the unauthorized access of systems to hijack online securities accounts and attacks targeting IT tool vulnerabilities. Against this backdrop and from the perspective of information asset protection, companies, public institutions and households that use ICT equipment in business, education and people's everyday lives have greater security measure needs, increasing the demand for these measures. Going forward and taking the current policy trends and market conditions into consideration, it is expected that the importance of these security measures will continue to increase.

The Group established a Medium-Term Management Plan (fiscal year ended March 31, 2025 through fiscal year ending March 31, 2027) in the previous year. It has identified three priority areas: the growth of security business, the increase of public sector market share, and investment in personnel to carry out new measures. Accordingly, the Group has been implementing initiatives. This fiscal year marks the second year of the Group's Medium-Term Management Plan. In the enterprise sector market, sales of m-FILTER grew significantly. m-Filter has enabled the Group to capture demand for mail cloud security products. The Group also achieved solid results in its cross-selling and upselling strategy through which it offered Anti Virus & Sandbox and f-FILTER, optional products that provide added value to the users of mainstay products such as i-FILTER and m-FILTER. As a result, the Group continued to grow steadily. In the public sector market, thanks to the rigorous project management that has been implemented since the previous fiscal year, the Group was able to increase its market share in the area of Phase 2 of the GIGA School Concept. The percentage of GIGA School Concept Phase 2 project orders that we received increased from 89% at the end of the previous fiscal year to 95%. In addition, the Group utilized the GIGA School Concept-related customer base to succeed in creating Next-Generation School Affairs DX project sales opportunities. This enabled the Group to provide not only mainstay products but also offer these products together with FinalCode and f-FILTER as a set, which resulted in a significant increase in contracts. However, since this increase in contracts was driven mainly by orders received for cloud service products, revenue recognition did not progress due to corporate accounting rules. This resulted in a decrease in net sales. ^{*1}

Regarding Z-FILTER, a new product for this fiscal year, the Group proceeded with development, sales promotion and other promotional activities in line with its plan with an eye toward launching Z-FILTER this autumn, and customers' expectations are very high. In the consumer sector market, the Group moved forward with preparations for the release of products equipped with measures to address security risks in the personal use of the Internet (such as the hijacking of online securities accounts or phishing).

In terms of expenses, the cost of sales and selling, general and administrative expenses increased year on year, reflecting increased data center communication expenses due to an increase in the number of users of cloud service-based products, coupled with the implementation of personnel-related investments including the review of the remuneration system and personnel recruitment in line with the current fiscal year's policies. Even so, the Group managed to keep expenses lower than planned.

As a result, contracts for the first three months of the consolidated fiscal year under review climbed 2,306 million yen (up 15.7% year on year), net sales reached 2,270 million yen (up 1.6% year on year), operating profit amounted to 795 million yen (down 5.2% year on year), ordinary profit came to 806 million yen (down 4.8% year on year), and profit attributable to owners of parent was 556 million yen (down 4.9% year on year).

^{*1}: For on-premises products, which are products sold as licenses, most of the contracted amount is recorded as sales in a lump sum at the time of shipment. In contrast, cloud service products, orders for which are received mainly in GIGA School Concept and Next-Generation School Affairs DX projects, are subject to the corporate accounting rules which state that sales are recorded on a monthly prorated basis during the relevant service period.

Overview of Consolidated Business Results

(Millions of Yen)

	First three months of year ended March 31, 2025	First three months of year ending March 31, 2026	Change	% Change
Contracts	1,993	2,306	+313	+15.7
Net Sales	2,234	2,270	+36	+1.6
Operating profit	838	795	(43)	(5.2)
Ordinary profit	847	806	(40)	(4.8)
Profit attributable to owners of parent	584	556	(28)	(4.9)



*Note: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred in the fiscal year ended March 31, 2024)

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, the Group was negatively impacted by the absence of sales related to large products that were recorded in the previous fiscal year. Even so, the Group achieved growth because it was able to address demand for security measures for terminals used outdoors for sales and business negotiations with its i-FILTER@Cloud products. Sales of Anti-Virus & Sandbox, which is an optional product, remained strong. In addition, reflecting the growing demand for cloud-based e-mail security measures linked to the popularization of cloud-based e-mail servers, the performance of m-FILTER@Cloud was solid in terms of the acquisition of orders for new projects due to its e-mail security measures that comprehensively respond to this demand. Furthermore, in collaboration with m-FILTER, sales of f-FILTER grew because it addressed corporate demand for measures relating mainly to PPAP, a file transfer practice in which a file is converted into a password-protected zip file before it is sent to a recipient and then the password is sent in a separate e-mail message.

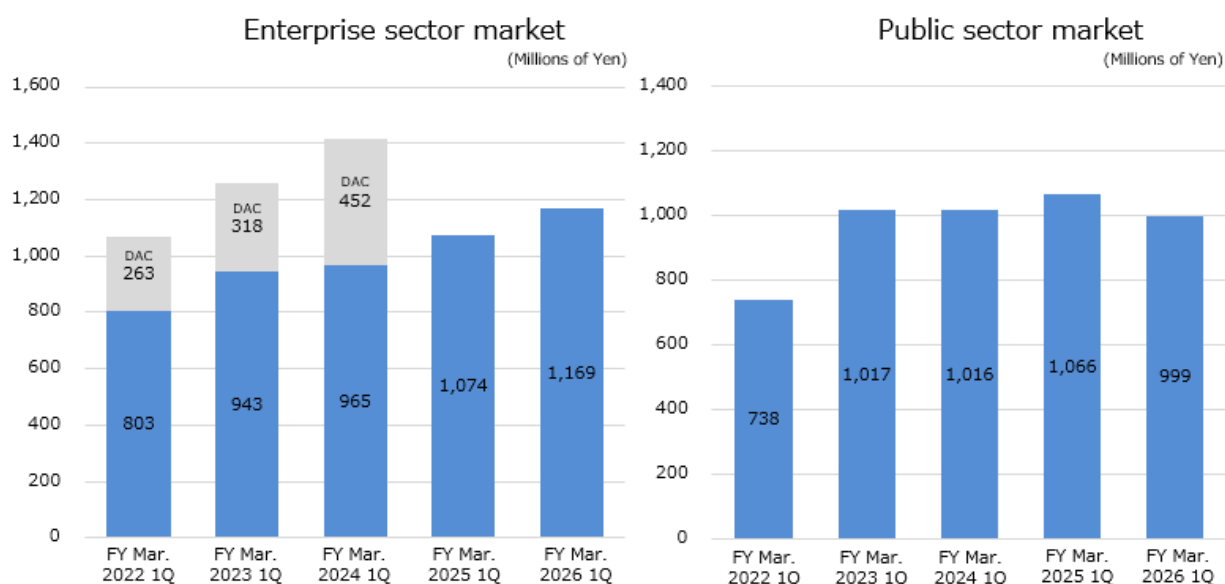
As a result, contracts in the enterprise sector market reached 1,044 million yen (up 5.0% year on year), net sales amounted to 1,169 million yen (up 8.9% year on year).

Public Sector Market

In the public sector market, contracts reached a record high due to significant progress in GIGA School Concept Phase 2 and Next-Generation School Affairs DX project orders. In particular, as a result of continued rigorous project management, the Group was able to increase its market share in the area of Phase 2 of the GIGA School Concept. The percentage of GIGA School Concept Phase 2 project orders that we received increased from 89% at the end of the previous fiscal year to 95%, a continuation of the growth that has been exceeding the Group's plans. However, the Group was negatively impacted by the absence of sales related to large projects for Security Improvements for Local Governments that were recorded in the previous fiscal year. Additionally, due to corporate accounting rules, revenue was not recognized instantly regarding the projects that drove the growth of contracts because these contracts were related mainly to cloud service products. These factors resulted in a decrease in net sales.

As a result, contracts in the public sector market reached 1,160 million yen (up 29.6% year on year), net sales were 999 million yen (down 6.3% year on year). *2

*2: For on-premises products, which are products sold as licenses, most of the contracted amount is recorded as sales in a lump sum at the time of shipment. In contrast, cloud service products, orders for which are received mainly in GIGA School Concept and Next-Generation School Affairs DX projects, are subject to the corporate accounting rules which state that sales are recorded on a monthly prorated basis during the relevant service period.



*Note: DAC: Digital Arts Consulting (a consolidated subsidiary in which shares were transferred in the fiscal year ended March 31, 2024)

Consumer Sector Market

In the consumer sector market, the Group received orders for new projects by strengthening its MVNO distribution channels and relationships with OEM providers, while also stepping up its efforts to promote multi-year package products. Furthermore, in response to the increasing need for security measures to address online security risks such as the hijacking of online securities accounts and phishing scams, which have become social issues in recent years, the Group took steps to enhance its product lines.

As a result, contracts in the consumer sector market totaled 101 million yen (down 1.0% year on year), net sales amounted to 101 million yen (up 8.6% year on year).

(2) Overview of financial position for the fiscal year under review

(Assets)

Total assets at the end of the first three months of the consolidated fiscal year under review decreased 183 million yen from the end of the previous fiscal year to 22,444 million yen. This was due mainly to a decrease of 290 million yen in note and accounts receivable-trade.

(Liabilities)

Total liabilities at the end of the first three months of the consolidated fiscal year under review increased 129 million yen from the end of the previous consolidated fiscal year to 5,391 million yen. This was due mainly to increases of 208 million yen in advances received.

(Net assets)

Net assets at the end of the first three months of the consolidated fiscal year under review decreased 312 million yen from the end of the previous fiscal year to 17,052 million yen. This was mainly due to dividends paid and purchase of treasury shares that outweighed an increase in retained earnings due to the recording of profit attributable to owners of parent.

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

Operating results for the first three months 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, 2026 announced on May 8, 2025.

The Company has determined the results forecasts based on information available on the day of these financial results for the first three months of the year ending March 31, 2026. 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.

Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2025	As of June 30, 2025
Assets		
Current assets		
Cash and deposits	17,952	18,431
Notes and accounts receivable - trade	1,444	1,153
Securities	100	-
Finished goods	2	1
Supplies	1	0
Other	611	319
Total current assets	20,112	19,907
Non-current assets		
Property, plant and equipment	238	229
Intangible assets		
Software	1,472	1,361
Other	311	459
Total intangible assets	1,783	1,821
Investments and other assets	492	486
Total non-current assets	2,515	2,537
Total assets	22,627	22,444
Liabilities		
Current liabilities		
Accounts payable - trade	30	14
Income taxes payable	389	269
Provision for bonuses	148	81
Advances received	4,082	4,291
Other	558	682
Total current liabilities	5,209	5,339
Non-current liabilities		
Asset retirement obligations	49	49
Other	3	3
Total non-current liabilities	52	52
Total liabilities	5,262	5,391
Net assets		
Shareholders' equity		
Share capital	713	713
Capital surplus	955	954
Retained earnings	18,116	18,060
Treasury shares	(2,467)	(2,722)
Total shareholders' equity	17,318	17,006
Accumulated other comprehensive income		
Foreign currency translation adjustment	17	16
Total accumulated other comprehensive income	17	16
Share acquisition rights	29	29
Total net assets	17,365	17,052
Total liabilities and net assets	22,627	22,444

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

For the three months ended June 30, 2025

(Millions of yen)

	For the three months ended June 30, 2024	For the three months ended June 30, 2025
Net sales	2,234	2,270
Cost of sales	726	739
Gross profit	1,508	1,531
Selling, general and administrative expenses	669	735
Operating profit	838	795
Non-operating income		
Interest income	0	5
Gain on forfeiture of unclaimed dividends	0	0
Foreign exchange gains	5	3
Miscellaneous income	1	1
Total non-operating income	8	11
Non-operating expenses		
Miscellaneous losses	0	0
Total non-operating expenses	0	0
Ordinary profit	847	806
Extraordinary income		
Gain on reversal of share acquisition rights	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	847	806
Income taxes	262	250
Profit	584	556
Profit attributable to owners of parent	584	556

Quarterly Consolidated Statement of Comprehensive Income

For the three months ended June 30, 2025

(Millions of yen)

	For the three months ended June 30, 2024	For the three months ended June 30, 2025
Profit	584	556
Other comprehensive income		
Foreign currency translation adjustment	2	(1)
Total other comprehensive income	2	(1)
Comprehensive income	587	555
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	587	555

(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 three months 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 2025 (from April 1, 2024 to June 30, 2024) and first three months of fiscal 2026 (from April 1, 2025 to June 30, 2025)

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 three months of fiscal 2025 (from April 1, 2024 to June 30, 2024)	First three months of fiscal 2026 (from April 1, 2025 to June 30, 2025)
Depreciation	225 million yen	217 million yen