



LAC Co., Ltd.

Financial Results for 1H ended September 30, 2023

November 9, 2023

Agenda

- 1. Outline of Financial Results for 1H ended September 30, 2023**
- 2. Forecasts for the year ending March 31, 2024**
- 3. Shareholders Return**
- 4. References**

Outline of Financial Results for 1H ended September 30, 2023



Sales and profits increased as the Security Business saw growth in product sales and operational monitoring services, and the SI Business saw growth in development services and hardware and software sales

Both the Security Business and the SI Business proceeded steadily with the major measures set forth at the beginning of the fiscal year

Regarding measures common to management and operations, the efforts for generative AI were enhanced, and the direction of the office strategy was mostly determined

**The interim dividend was determined to be 12 yen per share as planned
There has been no change to the full-year forecast from the initial forecast**

Net sales up on growth of Security Business and SI Business Sharp increase in operating income, ordinary income, and net income attributable to owners of parent

(Million yen)

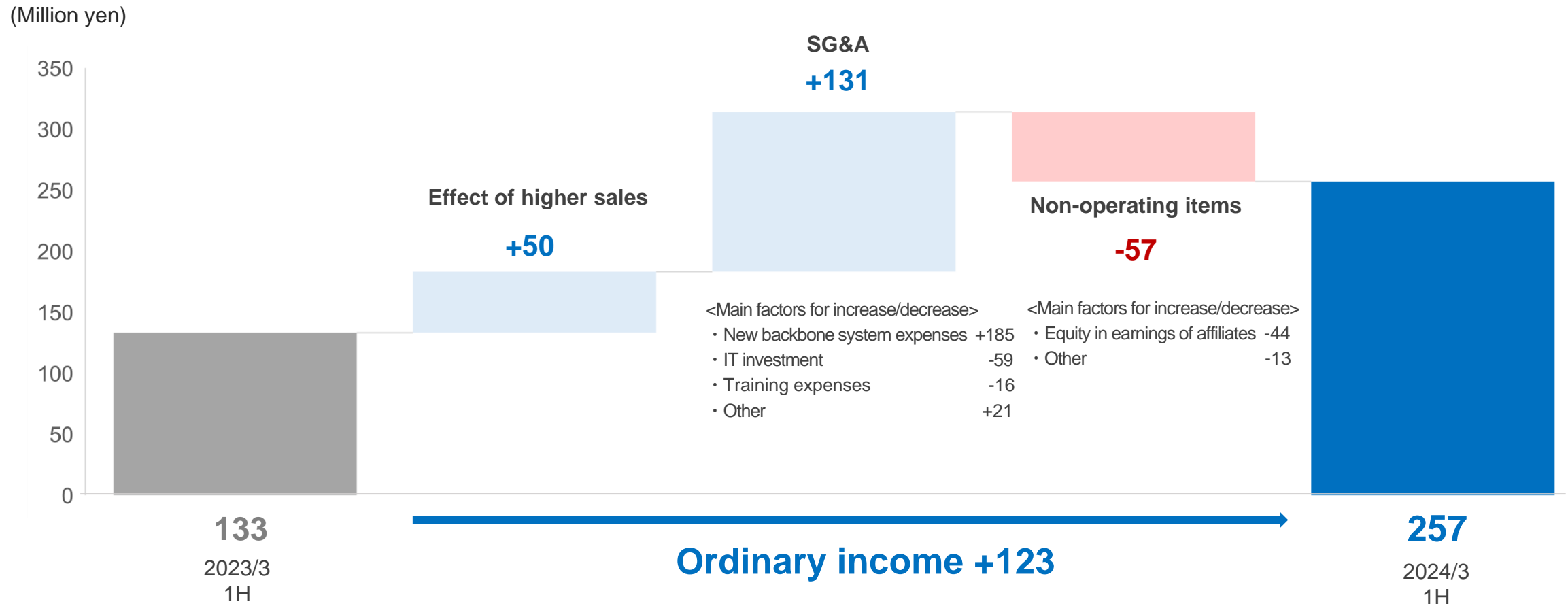
Subjects	2023/3 1H	2024/3 1H	YoY comparison	
			Difference	Change (%)
Net sales	20,382	22,648	+2,266	+11.1
Operating income	133	314	+181	+135.8
<i>Operating income ratio (%)</i>	<i>0.7</i>	<i>1.4</i>	<i>+0.7p</i>	<i>-</i>
Ordinary income	133	257	+123	+92.8
<i>Ordinary income ratio (%)</i>	<i>0.7</i>	<i>1.1</i>	<i>+0.5p</i>	<i>-</i>
Net income attributable to owners of parent	20	139	+119	+589.0

Note: One characteristic of the Group's business is that earnings in the first half tend to be relatively low because the booking of sales, particularly in the Security business, is skewed significantly towards the fourth quarter.

Ordinary Income: Analysis of Factors for Change (YoY comparison)



Ordinary income increased thanks to the effect of a sales increase and decrease in company backbone system expenses, despite an increase in IT investment and an increase in equity-method investment loss



Notes: Equity method affiliates are two companies; KDDI Digital Security, Inc. and Nuligen Security Co., Ltd.

**Security Business sales up, profit down SI Business sales up, profit up
Company-wide common expenses fell mainly
because of a decrease in company backbone system expenses**

(Million yen)

Sales	2023/3 1H	2024/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	8,999	9,772	+772	+8.6
System Integration Services (SIS) business	11,383	12,876	+1,493	+13.1
Total	20,382	22,648	+2,266	+11.1

Segment margin	2023/3 1H	2024/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	725	557	-167	-23.1
System Integration Services (SIS) business	1,500	1,663	+163	+10.9
Total	2,226	2,221	-4	-0.2

Company-wide common	-2,092	-1,906	+185	-
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Note: Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

**Sales increased thanks to growth in product sales, operational monitoring services, etc.
Profit decreased as a result of early commencement of large-scale projects and upfront investment to strengthen the business structure**

Security Consulting Services

Sales fell due to a decrease in the number of emergency response service contracts, despite expansion in consulting services and growth in educational services such as targeted email attack training.

Security Assessment Services

Sales increased due to an increase in orders for penetration testing for potential threats, despite the impact of the sales of year-round, large-scale projects being collectively recorded at the fiscal year-end.

Security Monitoring Services

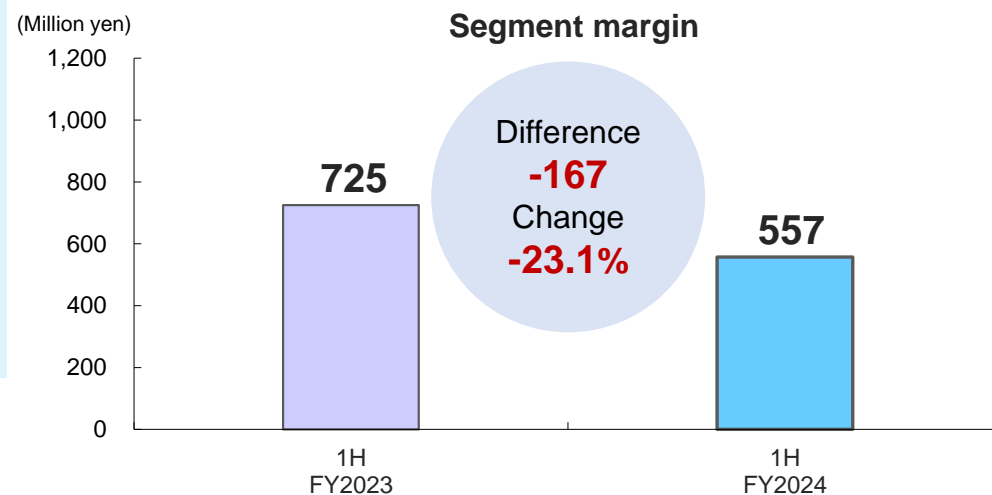
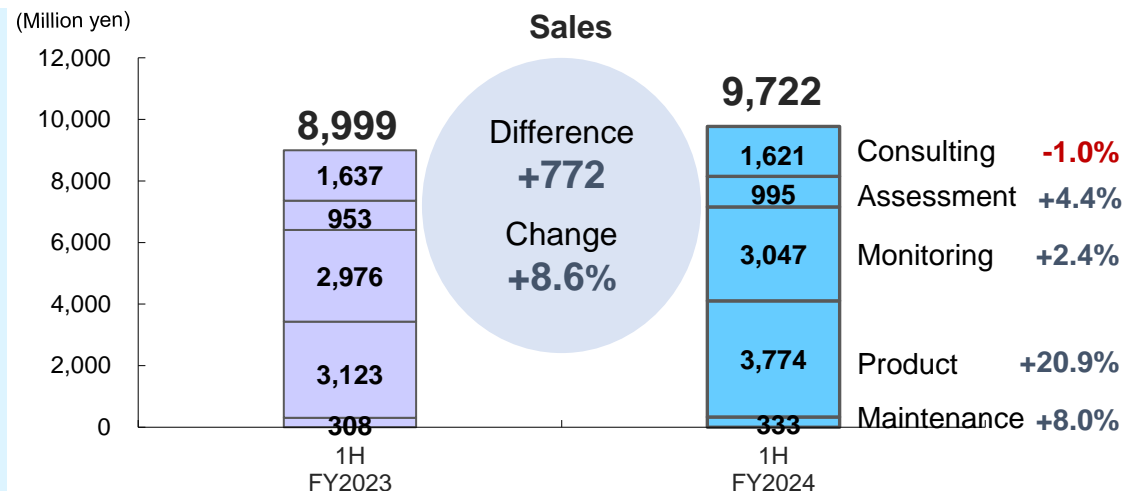
Sales increased thanks to the growth of individual monitoring services, which provide advanced security measures for specific companies, and internal fraud monitoring services, and thanks to the expansion of endpoint security support services.

Security Product Sales

Sales increased thanks to significant growth in cloud products for endpoint security and for web security that can protect against denial-of-service attacks, as well as log management products.

Security Maintenance Services

Sales increased thanks to growth in existing projects, despite the impact of weaker demand due to the expansion of cloud products.



Note: From the first quarter of the fiscal year under review, businesses were reclassified among subsegments as shown below.

Then, the figures for the same period of the previous fiscal year were also reclassified to conform to this change.

- Endpoint security support services: Consulting services → Monitoring services
- Targeted mail training services: Assessment services → Consulting services

Sales and profit increased thanks to growth in sales of development services and hardware/software

Development Services

Sales increased thanks to significant growth in public-sector projects as well as projects for financial business such as major banks and credit cards.

Hardware and Software Sales

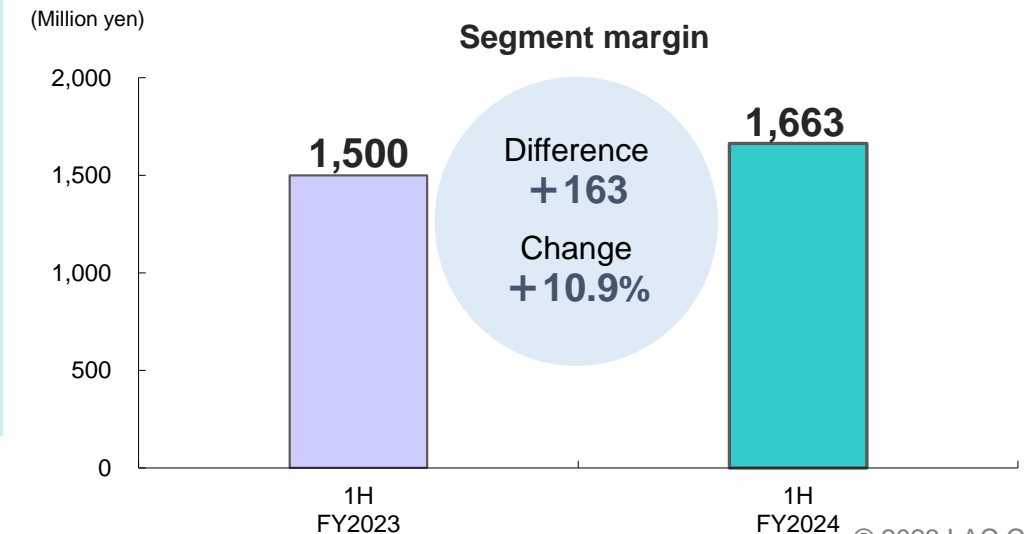
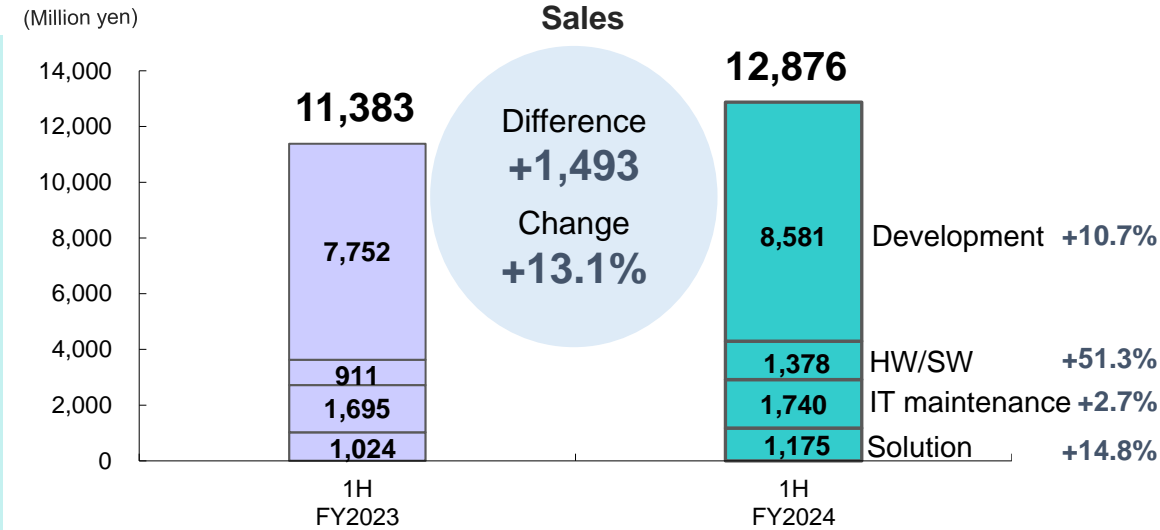
Sales increased thanks to significant growth as a result of winning contract renewals, etc. although demand has been shrinking partly due to the expansion of cloud services.

IT Maintenance Services

Sales increased as contract renewals, etc. remained strong and grew.

Solutions Services

Sales grew thanks to an increase in sales of cloud solution products that also contribute to cybersecurity.



Maintaining stable financial base to enable sustained investment in growth

(Million yen)

Subjects	As of March 31, 2023	As of September 30, 2023	Difference
Total Assets	22,572	21,094	△1,478
Current assets	15,931	14,304	△1,627
Noncurrent assets	6,640	6,789	+148
Total Liabilities	7,752	6,477	△1,274
Current liabilities	7,410	5,887	△1,522
Noncurrent liabilities	341	590	+248
Total net assets	14,820	14,616	△203
Cash and deposit	6,144	5,699	△445
Interest-bearing debt	1,460	104	△1,356
Shareholders' equity ratio	65.7%	69.3%	+3.6p

Point
Assets
[Current assets]
Decrease in Notes and accounts receivable - trade, and contract assets -1,450
Liabilities
[Current liabilities]
Decrease in current portion of long-term loans -1,336
Net assets
[Net assets]
Decrease in retained earnings due to year-end dividends -289

Highlights of consolidated Cash Flow



Operating cash flow increased significantly primarily because of an increase in profit and a decrease in working capital Continue investing to expand the security business foundation

(Million yen)

Subjects	2023/3 1H	2024/3 1H
Cash Flows from Operating Activities	231	1,831
Cash Flows from Investing Activities	-1,089	-525
Cash Flows from Financing Activities	-1,104	-1,763
Free Cash Flows	-858	1,305
Net Increase(Decrease) in cash and Cash Equivalents	-1,959	-445
Cash and Cash Equivalents at Beginning of Year	9,785	6,144
Cash and Cash Equivalents at End of Year	7,826	5,699

Point	
Cash Flows from Operating Activities	
Profit before income taxes	257
Depreciation	465
Amortization of goodwill	36
Decrease in notes and accounts receivable Trade	1,452
Increase in Inventories	△816
Cash Flows from Investing Activities	
Purchases Software	△303
Cash Flows from Financing Activities	
Repayment of long-term loans payable	△1,336
Cash dividends paid	△427

Progress status of Key Measures



Expansion of operational monitoring services for individual customers and endpoints

- Introducing individual monitoring services, which provide advanced security measures for specific customers, and promoting increase in projects
 - Started the operation of services for the Digital Agency and major retailers
- Increasing the number of projects for endpoint security support services (introducing about 300,000 units)
 - Additionally supported EDR support services for Trend Micro products that cover small- and medium-sized companies
- Promoting the support for operational services for XDR products
 - Launched services for Palo Alto Networks products

Expansion of diagnostic services

- Expanding web application assessment by Diaforce, an automated diagnostic service
- Made steady progress in large-scale projects for penetration testing (scheduled to be collectively recorded at the end of the fiscal year)

Enhancement of the business structure for rapid response services

- Started the use of Sygnia's (company in Israel) proprietary solutions that allow for rapid and advanced analysis survey (from the third quarter)

Increasing the number of projects for business that supports the introduction and use of cloud-based services

- Steady increase in the number of system development projects for cloud-based services such as EC and ID management
- Expansion of cloud platform building support services
 - Additional provision of Oracle Cloud VMware Solution (OCVS) introduction support services for Oracle core systems

Promoting the reskilling of advanced IT personnel

- Increased the number of personnel certified by Salesforce, Okta, etc. while keeping development services operating

Expanding product and license sales

- Increase in sales of cloud solution products such as box, Okta, Prisma Cloud, and Tanium

Promoting productivity improvement using generative AI such as ChatGPT

- In June 2023, we established GAI CoE*, an organization to support the cross-sectoral use of generative AI
 - Developed lacgai, an interactive generative AI designed specifically for LAC
 - Developed ChottoChat, an AI assistant using ChatGPT

* Generative AI Center of Excellence

Examples of major measures

- Developing guides and rules for the use of generative AI and in-house development
- The company pays the fees for ChatGPT Plus (paid-for version) to applicants
- Providing an original app that allows employees to safely use generative AI
- Providing reference models for use in implementing ChatGPT into a system
- Supporting the promotion of internal use of generative AI (e.g., a study meeting)

Promoting office strategy that supports new ways of working

- Planning complete renewal including reducing the floor space of the Hirakawa-cho Office in consideration of the work style of telework (Hirakawa-cho Office: the lease agreement is scheduled to end in March 2025)
 - We expect a cost reduction of approximately 300 to 400 million yen per year from the fiscal year ending March 2026, despite recording short-term expenses associated with contract renewals, etc.

Approximately 200 million yen is scheduled to be recorded for the current fiscal year mainly as the recording of assets and liabilities for restoration costs and an increase in depreciation and amortization due to changes in estimates of existing assets associated with contract renewals

Recording of expenses is planned for the next fiscal year as well (under examination)

Forecasts for the year ending March 31, 2024

(unchanged from May 12, 2023 announcement)

Both sales and profits are expected to increase

(Million yen)

Subjects	2023/3 Results	2024/3 Forecasts	YoY comparison	
			Difference	Change (%)
Net sales	44,018	46,500	+2,481	+5.6
Operating income	1,775	1,900	+124	+7.0
<i>Operating income ratio (%)</i>	<i>4.0</i>	<i>4.1</i>	<i>+0.1p</i>	<i>-</i>
Ordinary income	1,813	1,900	+86	+4.8
<i>Ordinary income ratio (%)</i>	<i>4.1</i>	<i>4.1</i>	<i>-0.0p</i>	<i>-</i>
Net income attributable to owners of parent	-147	1,250	+1,397	-
ROE (%)	-1.0	8.3	+9.3p	-

Business Forecasts by Segment (YoY Comparison)

unchanged from May 12, 2023 announcement



**Forecast of both sales and profit up in the Security business,
sales up and profit down in the SI business;
Corporate common expenses are expected to decrease**

(Million yen)

Sales	2023/3 Results	2024/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	19,521	21,270	+1,748	+9.0
System Integration Services (SIS) business	24,497	25,230	+732	+3.0
Total	44,018	46,500	+2,481	+5.6

Segment margin	2023/3 Results	2024/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,366	2,520	+153	+6.5
System Integration Services (SIS) business	3,429	3,360	-69	-2.0
Total	5,795	5,880	+84	+1.5

Company-wide common expenses	-4,020	-3,980	+40	-
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Note: Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

Shareholders Return

The background of the slide is a solid dark blue color. Overlaid on this background is a white wireframe illustration of a city skyline. The buildings are represented by a grid of lines, creating a 3D effect. The buildings vary in height and are arranged in a way that suggests a perspective view of a city street. The overall aesthetic is clean, modern, and professional.

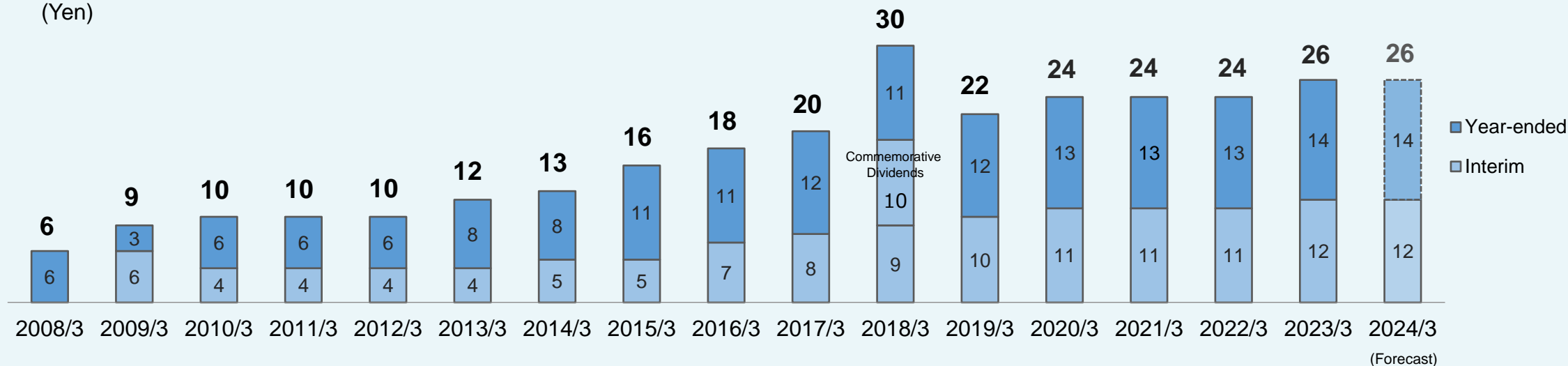
Interim dividend of ¥12 yen/share, forecast year-end dividend of 14 yen/share
(No change from initial forecast)

Dividend Policy

- Maintain stable dividend on ongoing basis to attract stable long-term shareholders
- Target 5% DOE (dividend-to-equity ratio) as core metric

Dividends

(Yen)



DOE	2.8%	4.2%	5.1%	5.2%	4.8%	5.2%	5.0%	5.5%	5.5%	5.5%	5.1%	5.2%	5.3%	5.2%	4.9%	5.1%	5.2%
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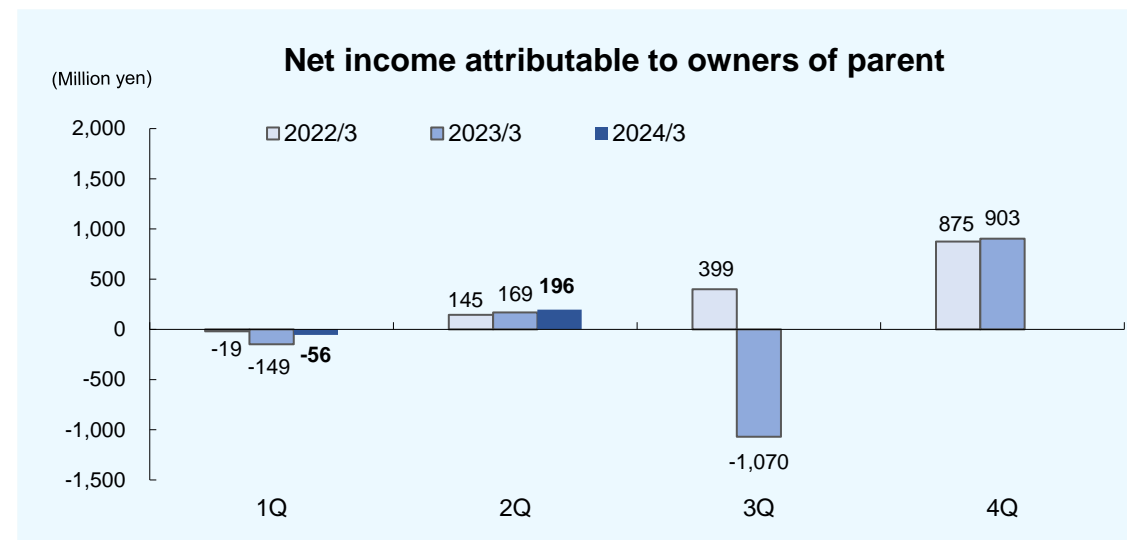
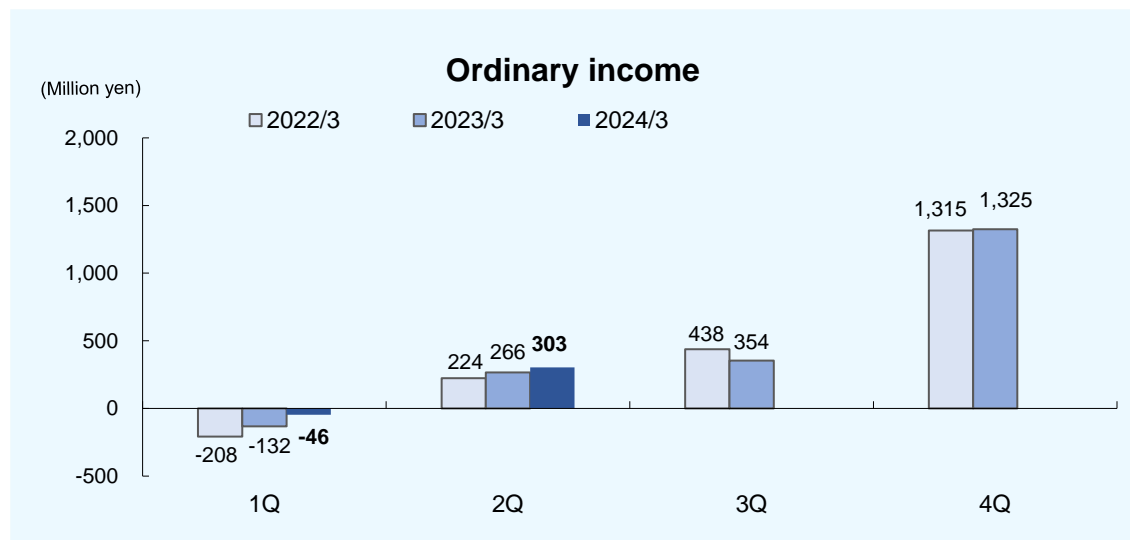
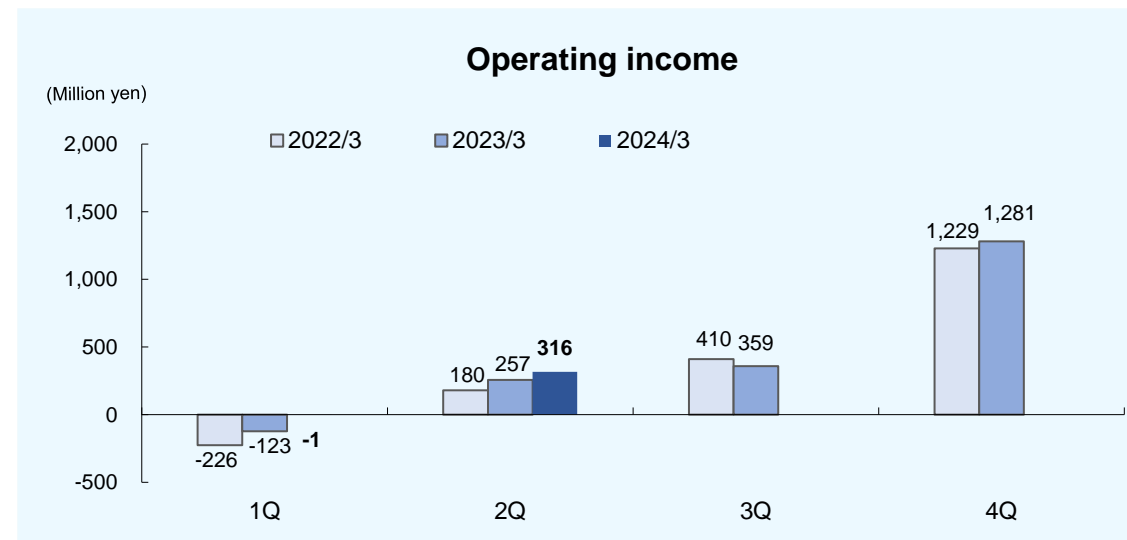
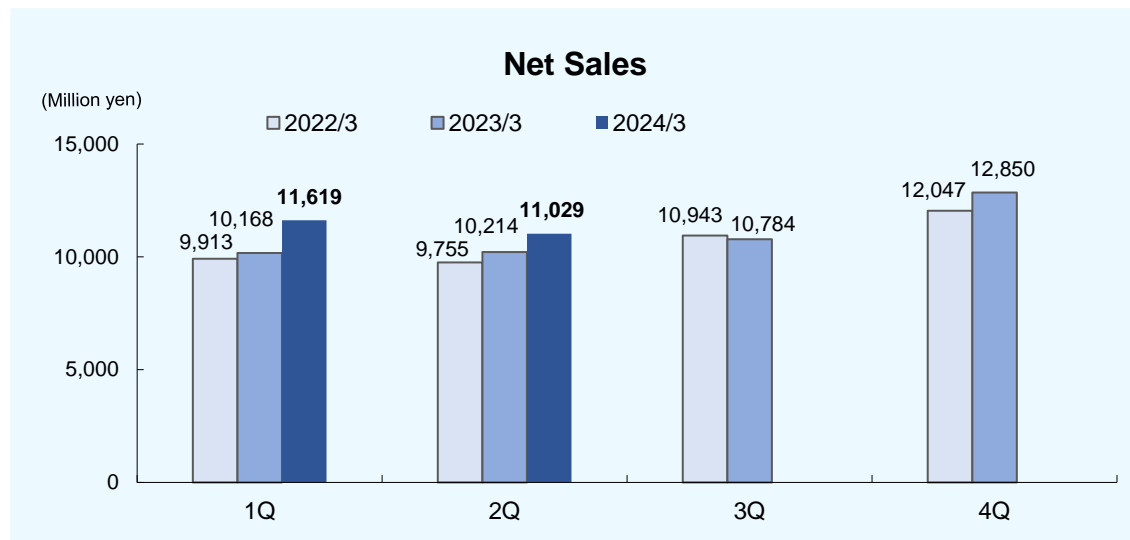
(Commemorative Dividends not included)

Dividend payout ratio	18.2%	98.7%	-	38.9%	45.0%	34.3%	32.7%	32.3%	31.6%	34.0%	40.5%	36.3%	56.2%	201.3%	44.8%	-	62.8%
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(Commemorative Dividends not included)

References





Consolidated Financial Results and Results by Segment (Quarterly)



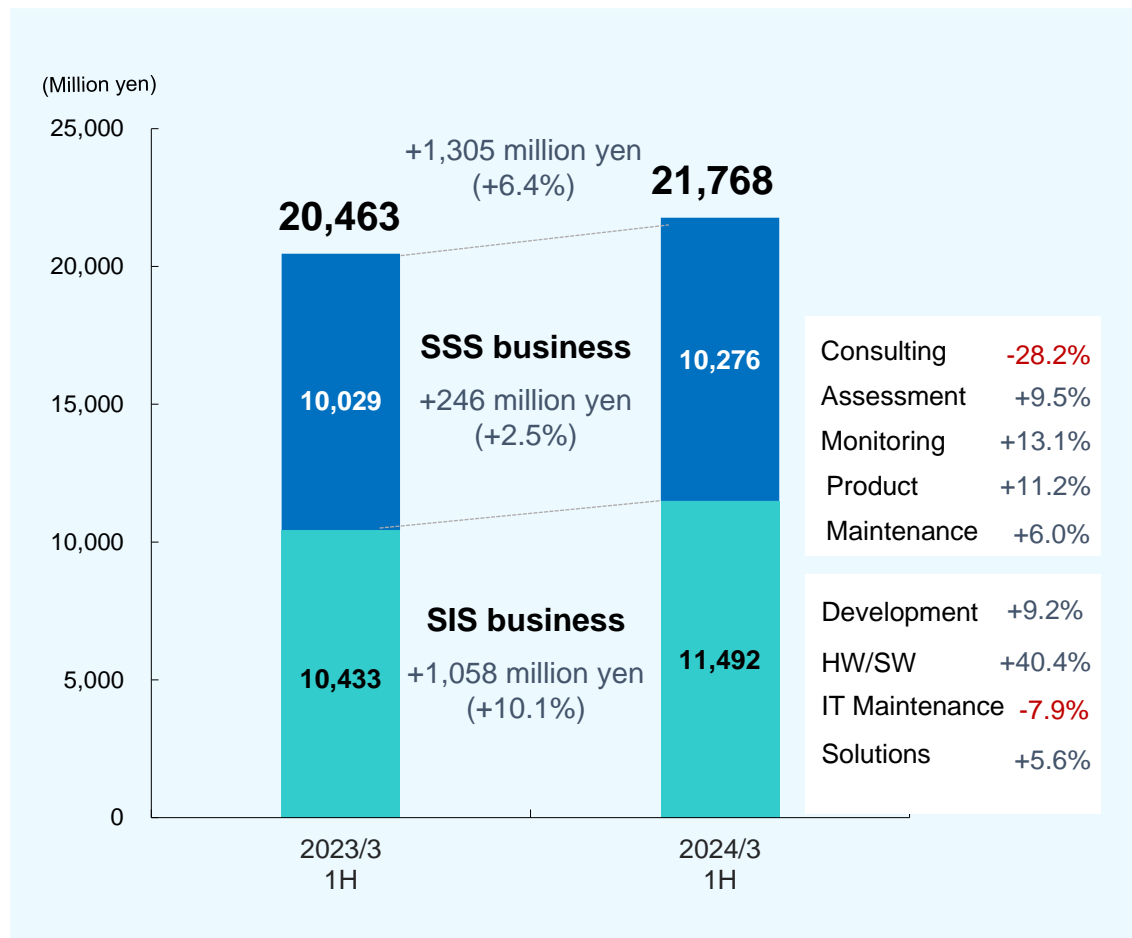
(Million yen)

Consolidated Financial Results		2022/3				2023/3				2024/3			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net sales		9,913	9,755	10,943	12,047	10,168	10,214	10,784	12,850	11,619	11,029		
Cost of sales		8,094	7,670	8,581	8,858	8,292	7,998	8,497	9,619	9,670	8,837		
Cost of sales / net sales (%)		81.7	78.6	78.4	73.5	81.6	78.3	78.8	74.9	83.2	80.1		
Selling, general and administrative expenses		2,045	1,904	1,951	1,959	1,999	1,958	1,927	1,949	1,950	1,876		
Selling, general and administrative expenses / net sales (%)		20.6	19.5	17.8	16.3	19.7	19.2	17.9	15.2	16.8	17.0		
Operating income		-226	180	410	1,229	-123	257	359	1,281	-1	316		
Operating income ratio (%)		-2.3	1.9	3.8	10.2	-1.2	2.5	3.3	10.0	-0.0	2.9		
Net income attributable to owners of parent		-19	145	399	875	-149	169	-1,070	903	-56	196		
Net income attributable to owners of parent ratio (%)		-0.2	1.5	3.6	7.3	-1.5	1.7	-9.9	7.0	-0.5	1.8		
Security Solutions Services (SSS) business													
Net sales	Security Consulting Services	740	905	881	1,209	714	922	956	1,268	740	881		
	Security Assessment Services	411	504	464	1,072	397	556	585	1,036	385	609		
	Security Monitoring Services	1,405	1,385	1,507	1,524	1,460	1,516	1,511	1,730	1,475	1,572		
	Security Product Sales	1,555	1,261	1,570	1,661	1,761	1,361	1,303	1,577	2,285	1,489		
	Security Maintenance Services	311	194	430	381	164	143	280	271	175	157		
	Total		4,425	4,251	4,854	5,849	4,498	4,500	4,638	5,884	5,062	4,709	
Segment margin		208	383	542	1,185	201	523	538	1,102	173	384		
System Integration Services (SIS) business													
Net sales	Development Services	3,343	3,821	4,007	4,184	3,731	4,021	4,158	4,443	4,154	4,427		
	Hardware and Software Sales	440	551	799	701	415	496	603	944	692	685		
	IT Maintenance Services	1,171	711	903	641	961	733	909	696	1,018	722		
	Solutions Services	532	419	378	671	560	463	475	882	690	485		
	Total		5,488	5,503	6,089	6,198	5,669	5,714	6,146	6,966	6,556	6,320	
Segment margin		507	694	778	1,005	731	769	798	1,129	801	861		
Company-wide common		-942	-896	-909	-960	-1,057	-1,035	-977	-950	-976	-930		

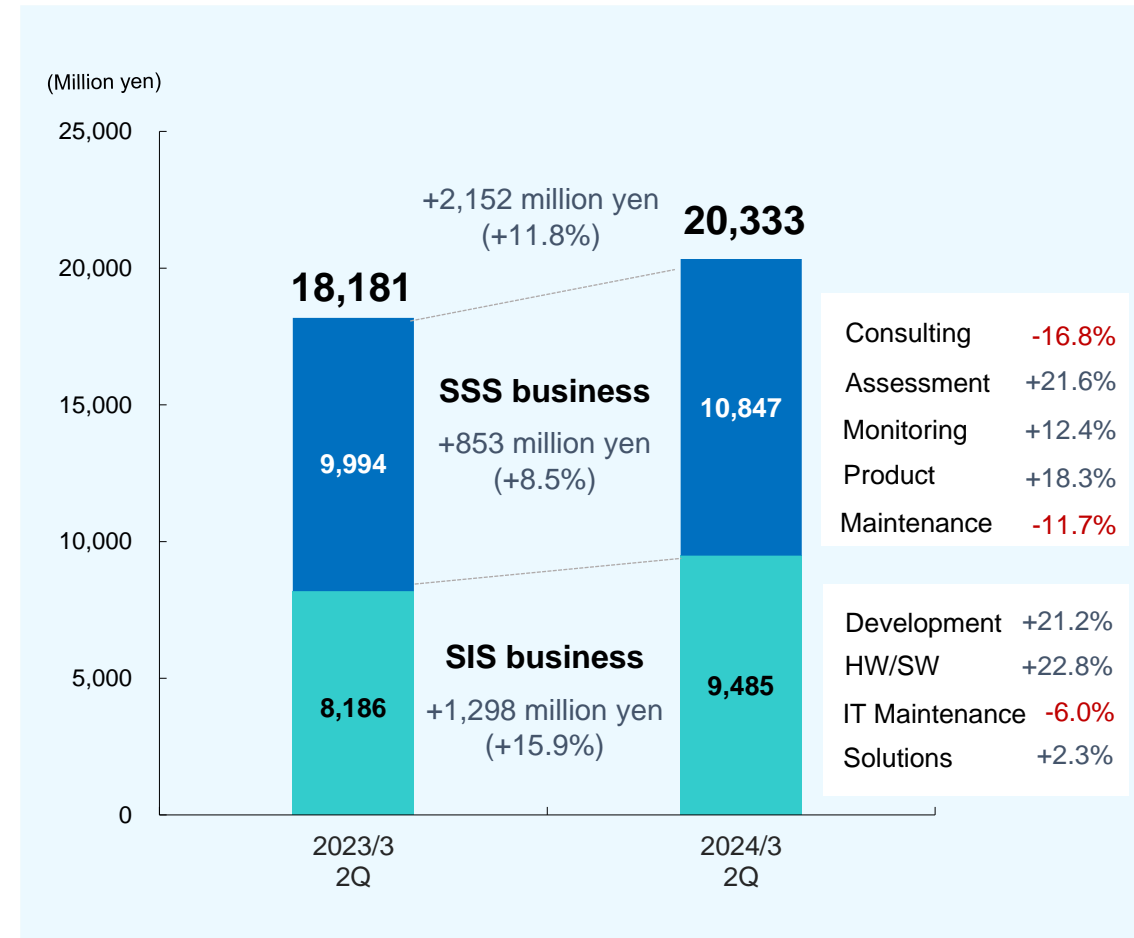
Note : Regarding the reclassification of business among subsegments (consulting, assessment, and monitoring services) of the SSS business from the first quarter of the fiscal year ending March 31, 2024, the figures for the fiscal year ended March 31, 2023, were reclassified, but the figures for the fiscal year ended March 31, 2022, were not.

Orders and Balance of Orders by Segment (YoY comparison)

Order received during first half



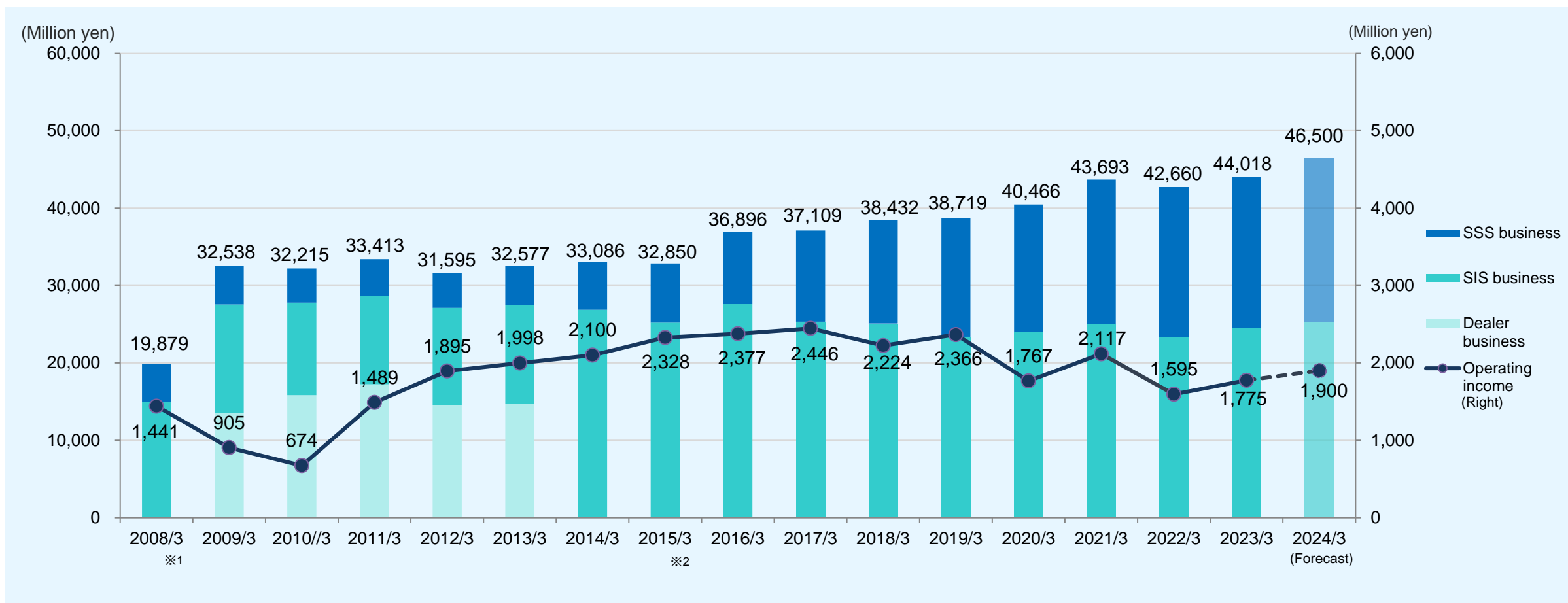
Order backlog at end of second quarters



Notes: 1.Orders and balance of orders are for the parent only.

2. Regarding the reclassification of business among subsegments (consulting, assessment, and monitoring services) of the SSS business from the first quarter, order backlog for the fiscal year ended March 31, 2023 was reclassified, but order received were not.

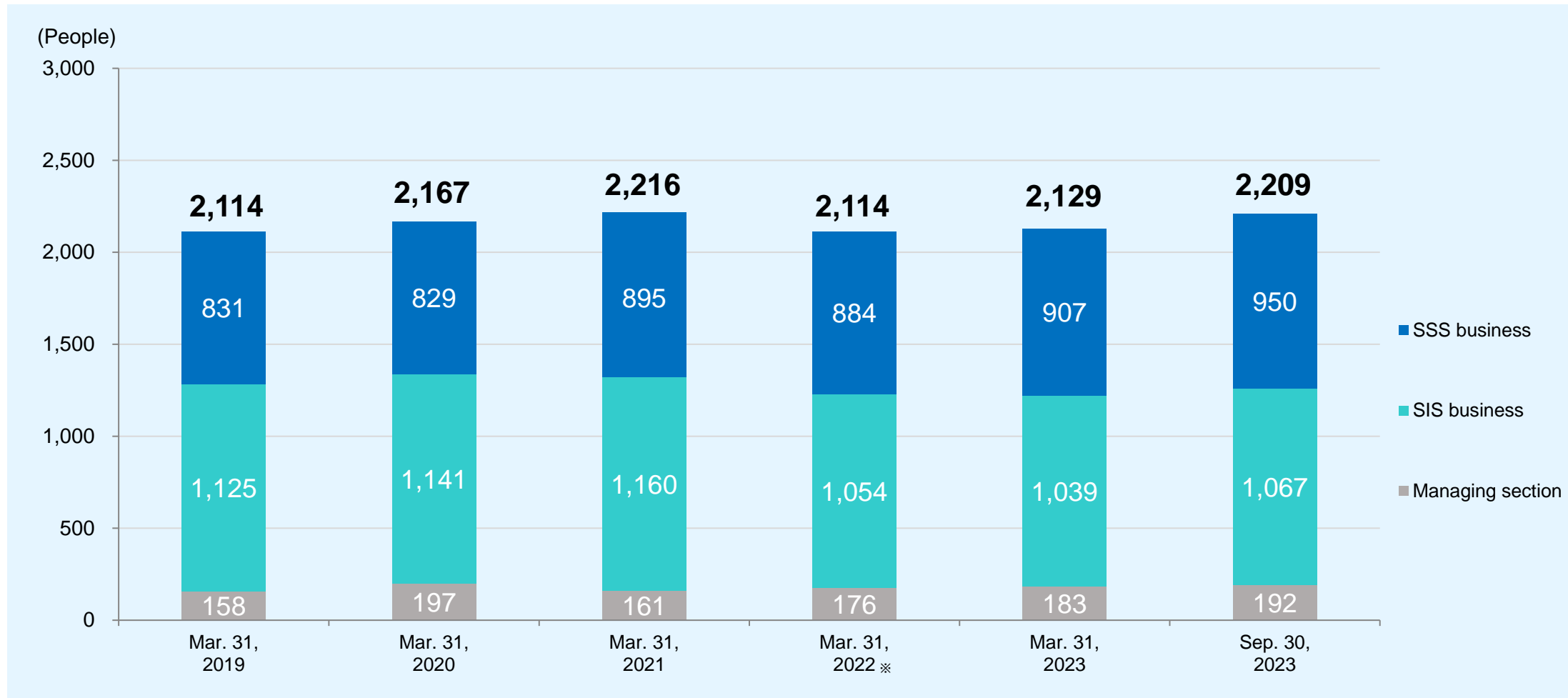
Consolidated Financial Results (Subsegment)



※1 Earnings for the fiscal year ended March 31, 2008, the fiscal year in which Little eArth Corporation Co., Ltd. and A&I System Co., Ltd., initiated their management integration, include Little eArth Corporation's net sales and operating income for the 15 months from January 2007 through March 2008 because Little eArth Corporation changed its fiscal year-end from December to March. Little eArth Corporation's nonconsolidated earnings for the three months ended March 31, 2007, are deducted from the earnings data herein to present annualized pro forma data for the sake of like-for-like comparability.

※2 Business segments were revised from the fiscal year ended March 31, 2015. The data plotted above for the preceding fiscal year (ended March 31, 2014) are adjusted to reflect the re-segmentation to present pro forma data for the sake of segment-by-segment earnings comparability.

Consolidated Employees



Note: There was a decrease of 30 employees (compared to March 31, 2021) in the SSS business, due to the absorption-type merger of Asian Resurrection with LAC CyberLink as the surviving company, in the 1st quarter.

The employees of I Net Rely Corporation (97 employees as of June 30, 2021) were excluded from the number of SIS employees as of September 30, 2021.

This is because I Net Rely Corporation was excluded from the scope of consolidation following the sale of all shares in said company on June 28, 2021.



- ※ This document was prepared based on information available as of November 9, 2023 and is subject to change without notice.
- ※ The earnings targets, future forecasts, and other statements presented in this document are based on forecasts or assumptions based on information available at the time this document was prepared by the Group and are subject to direct or indirect impacts from various changes in the operating environment, including economic conditions and social trends. Accordingly, actual results, strategies, or other information may differ considerably from the forecasts or assumptions
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