

LAC → B ←
supports your business

*We provide IT total solutions
based on advanced security technologies.*



Financial Results for 1H ended September 30, 2019

November 6, 2019

LAC Co., Ltd.

1. Outline of Financial Results for 1H ended September 30, 2019

2. Forecasts for the year ending March 31, 2020

3. References

Highlights of 1H Consolidated Financial Results (YoY comparison)



**Net sales up on increased sales of security products and of hardware and software.
Profit down sharply due to lower sales of SSS Business services and investment in
revamp of in-house IT systems, etc.**

(Million yen)

Subjects	2019/3 1H	2020/3 1H	YoY comparison	
			Difference	Change (%)
Net sales	17,757	18,819	+1,061	+6.0
Operating income	571	57	-514*	-90.0
<i>Operating income ratio (%)</i>	<i>3.2</i>	<i>0.3</i>	<i>-2.9p</i>	<i>-</i>
Ordinary income	560	115	-444	-79.4
<i>Ordinary income ratio (%)</i>	<i>3.2</i>	<i>0.6</i>	<i>-2.5p</i>	<i>-</i>
Net income attributable to owners of parent	276	58	-218	-78.9

* Includes approx. ¥150million in IT investment and investments to improve operational efficiency.

Business Results by Segment (YoY comparison)

SSS Business sales up, profit down; SIS Business sales and profits increased.
Investments such as revamp of internal IT systems and office openings
drove up corporate common expenses.

(Million yen)

Sales	2019/3 1H	2020/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	6,807	7,303	+496	+7.3
System Integration Services (SIS) business	10,949	11,515	+565	+5.2
Total	17,757	18,819	+1,061	+6.0

(Million yen)

Segment margin	2019/3 1H	2020/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	892	655	-237	892
System Integration Services (SIS) business	1,213	1,222	+8	1,213
Company-wide common expenses	-1,534	-1,820	-285	-1,534
Total	571	57	-514	571

*Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

Business Results of Security Solution Service (SSS) segment

Sales up on product sales growth, profit down on depreciation & amortization and lower sales of services

● Consulting Services

In the education field, the number of individual projects targeting companies and organizations expanded, while the number of other projects, such as internal solutions team support services decreased.

● Monitoring Services

New contracts were sluggish but sales of monitoring services for a major manufacturer in the Chubu region increased.

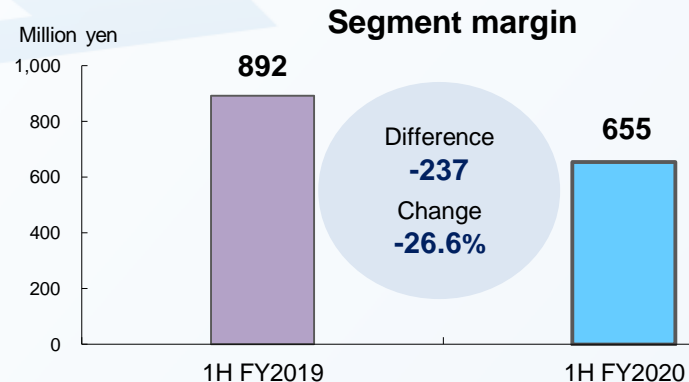
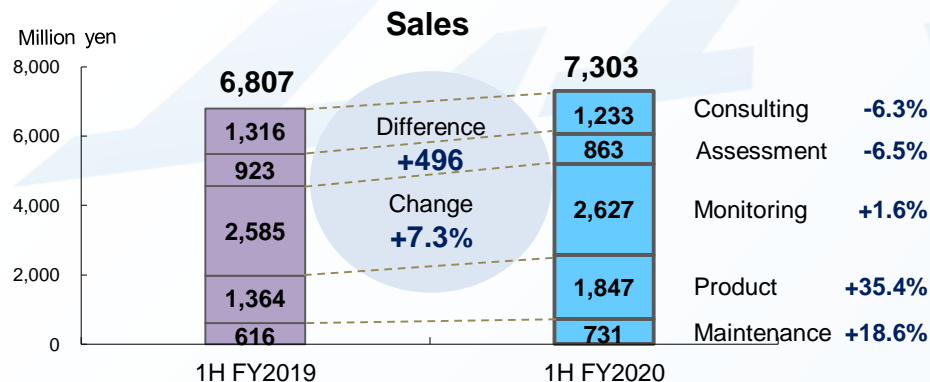
● Assessment Services

Platform assessments that examine companies' internal network vulnerabilities increased, but growth in web application assessments was lackluster.

● Product Sales

Sales of products that prevent denial-of-service attacks grew, while sales contributions also came from products that examine information on potential threats.

Segment margin declined, mainly owing to lower sales of services and depreciation and amortization associated with the launch of new services



Sales and profit up on expansion of Development Services, Hardware and Software Sales

● Development Services

1H results were affected by the absence of sales and work-in-process related to large-scale projects posted in 1H of previous year and delays in acquiring new projects from the financial industry. However, projects for other industries increased, especially those for the IT services industry.

● IT Maintenance Services

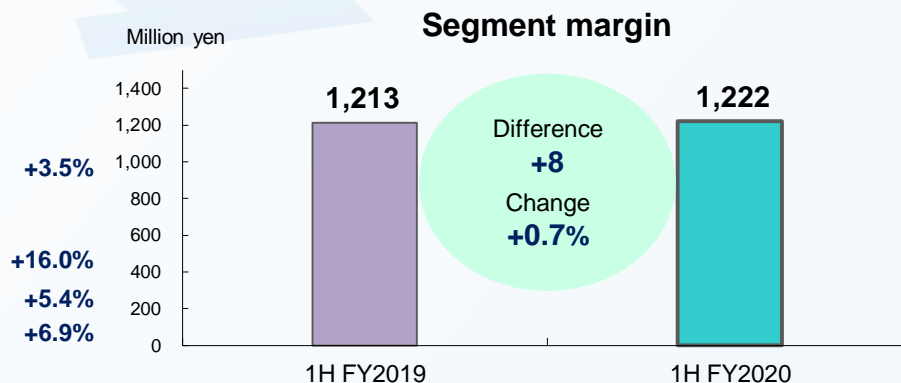
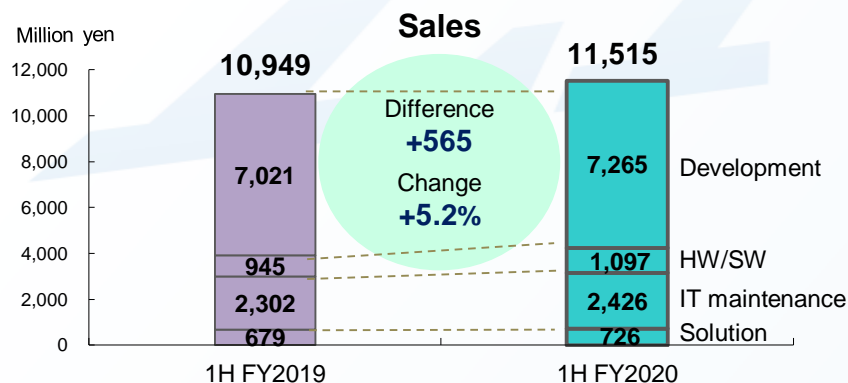
Although Hardware and Software Sales were weak in the 1H of last FY, contract renewals have increased.

● Hardware and Software Sales

Despite shrinking demand due to the rise of cloud services, sales were solid due mainly to contract renewals.

● Solutions Services

Sales of digital marketing services by subsidiary Japan Current were weak, but data center-related services and other services expanded.



Highlights of Consolidated Balance Sheet



Maintaining a stable financial base while retaining adequate funds to meet operational requirements

(Million yen)

Subjects	As of March 31, 2019	As of September 30, 2019	Change
Total Assets	22,613	20,659	-1,953
Current assets	16,464	13,949	-2,514
Noncurrent assets	6,148	6,709	+561
Total Liabilities	11,308	9,447	-1,861
Current liabilities	9,632	8,143	-1,489
Noncurrent liabilities	1,675	1,304	-371
Total net assets	11,305	11,212	-92
Cash and deposit	4,343	4,576	+233
Interest-bearing debt	2,351	2,736	+384
Shareholders' equity ratio	50.0%	54.3%	+4.3p

Point

Assets

[Current assets]

- Decrease in notes and accounts receivable-trade -1,861
- Decrease in prepaid expenses included in "other" -2,859
- Increase in advance payments included in "other" +907
- Increase in merchandise +773

Liabilities

[Current liabilities]

- Increase in short-term debt +800
- Decrease in advances received included in "other" -2,692
- Increase in advance payments included in other +626

Net assets

[Net assets]

- Decrease in retained earnings -67

Highlights of Consolidated Cash Flow

Operating cash flow improved greatly Free cash flow also improved even with aggressive investment

(百万円)

Subject	2018/3 1H	2019/3 1H
Cash Flows from Operating Activities	-523	1,384
Cash Flows from Investing Activities	-390	-1,197
Cash Flows from Financing Activities	317	59
Free Cash Flow	-914	186
Net Increase (Decrease) in Cash and Cash Equivalents	-593	233
Cash and Cash Equivalents at Beginning of Year	5,103	4,343
Cash and Cash Equivalents at End of Year	4,509	4,576

Point

Cash Flows from Operating Activities

• Income before income taxes	114
• Depreciation and amortization	385
• Amortization of goodwill	36
• Income taxes paid	-488
• Decrease in trade receivables	2,171
• Increase in inventories	-794

Cash Flows from Investing Activities

• Purchase of property, plant and equipment	-577
• Purchase of software	-626

Cash Flows from Financing Activities

• Net increase in short-term debt	800
• Repayment of long-term loans payable	-366
• Dividends paid	-311

Business conditions (overall summary)

SSS Business

**Demand for endpoint security solutions
is growing**



**Expansion of demand for security monitoring
and emergency response services has been
pushed back to 2H and beyond**

**Promoting development of
new services, especially
monitoring services**

SIS Business

**Demand for cloud support and
agile development methodologies
is growing**



**Cloud projects expanding, especially for
financial industry
But project acquisition has fallen short of plan**

**Expanding team of engineers responsible for
cloud development and agile development
methodologies**



Focus on catch-up efforts in 2H

Development of services tailored to market needs, from social infrastructure to mid-tier companies and SMEs

- **Expanding monitoring service business targeting major manufacturers in Chubu region**

Continued expansion of services to group companies utilizing our Security Monitoring Services

- **Promoting endpoint security solutions for large corporations**

Introducing and expanding orders for services for Microsoft and CrowdStrike products with superior threat intelligence gathering functions

- **Expanding services and sales channels targeting mid-tier companies and SMEs**

Expanding and enhancing functions of CloudFalcon automated security monitoring system and expanding partner company network

- **Further promotion of collaborative ventures**

Partnering with TIS in cloud and security domains

- Providing services to public sector and private enterprises in financial, manufacturing, and service sectors

Started joint research with Kyushu Institute of Technology on cyber defense systems utilizing AI

Providing IT solutions that support customers' digital transformation

● Promote customer-problem-solving services using killer tools

Providing work-style reform support services

- Remote connectivity solutions that enable real-time information-sharing between remote locations (TeamViewer Japan K.K.)
- Facial Recognition-based Screen Privacy System to prevent information leaks from PC screens (Secure Inc.)

Providing DevSecOps* support service

- Support using the Vault secure development solution for multiple cloud environments (HashiCorp Japan)

● Expanding projects for system development in the cloud environment

Expand projects targeting finance industry and promote creation of a development framework for securing and increasing numbers of cloud engineers

Providing life-extension support service for products for which support has been terminated

- Support for migration of internal corporate servers (Windows Server 2008) to the cloud with security diagnoses

● Supporting customers' digital transformation

Enhance nurturing of agile development engineers, dispatch engineering coaches and encourage permanent staffing

* A method that enables highly secure development without impeding the speed of development and operation

Promoting digital transformation and work-style reforms

● Promoting digital transformation

Renewing and integrating core in-house systems

- Moving forward with basic design and system construction targeting start of operations in FY2020

Promoting business operations making thorough use of the cloud

- Switching all in-house ICT tools (email, chat, etc.) to Office 365 (sequentially from July 2019 onward)

● Thorough strengthening of governance system

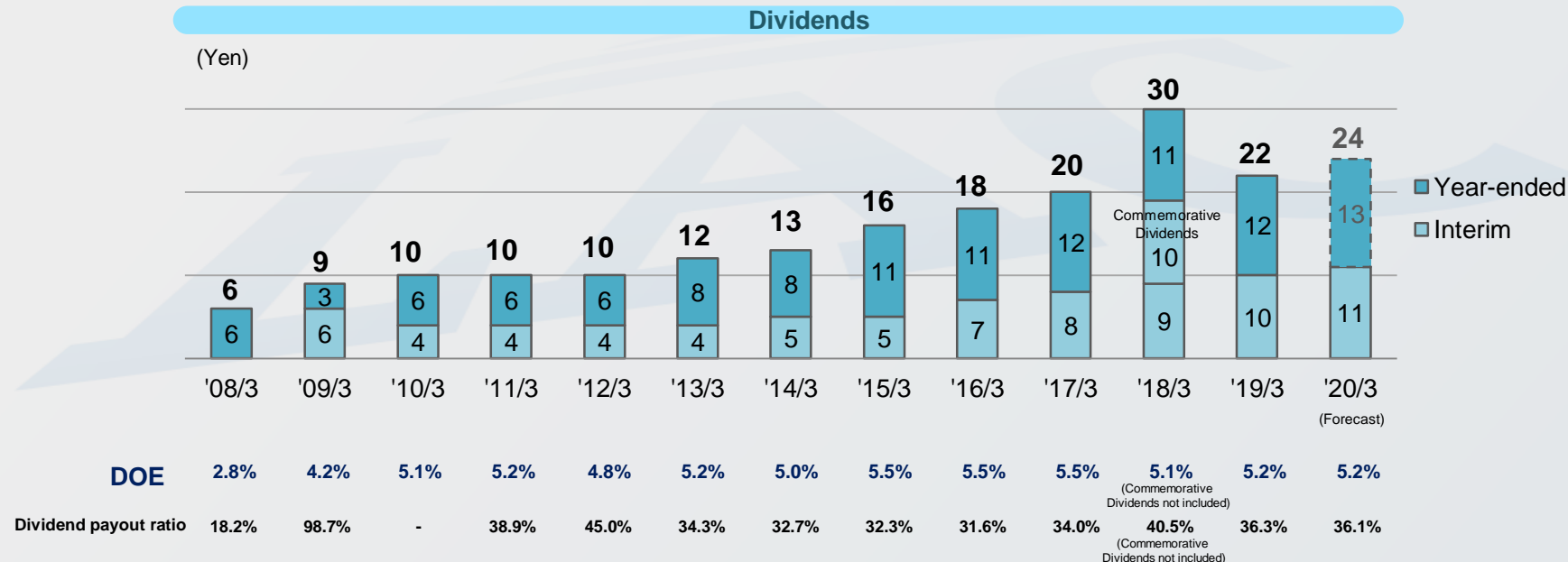
Promoting cross-organizational risk checks by the Risk Management Committee

Strengthening screening of orders by the Business Monitoring Division

Planning to pay interim dividend of ¥11 as 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



**1. Outline of Financial Results
for 1H ended September 30, 2019**

**2. Forecasts for the year ending
March 31, 2020**

3. References

Forecasts for the year ending March 31, 2020 (YoY Comparison)

- Forecasts announced May 13, 2019 remain unchanged -



**Forecasting major top-line growth but modest profit growth.
Profit growth will be constrained by investments in future growth,
including internal core-system upgrades and geographic expansion.**

(Million yen)

Subjects	2019/3 Results	2020/3 Forecasts	YoY comparison	
			Difference	Change (%)
Net sales	38,719	44,000	+5,280	+13.6
Operating income	2,366	2,500	+133	+5.7
<i>Operating income ratio (%)</i>	<i>6.1</i>	<i>5.8</i>	<i>-0.4p</i>	<i>-</i>
Ordinary income	2,411	2,530	+118	+4.9
<i>Ordinary income ratio (%)</i>	<i>6.2</i>	<i>5.8</i>	<i>-0.4p</i>	<i>-</i>
Net income attributable to owners of parent	1,547	1,700	+152	+9.9
ROE (%)	14.5	14.0	-0.5p	-

(Notes) Work-in-process recognized in the fiscal year ended March 31, 2019, in connection with the NEXI contract is not factored into the above earnings forecasts because negotiations with NEXI are ongoing and are expected to be protracted.

Business Forecasts by Segment (YoY Comparison)

- Forecasts announced May 13, 2019 remain unchanged -



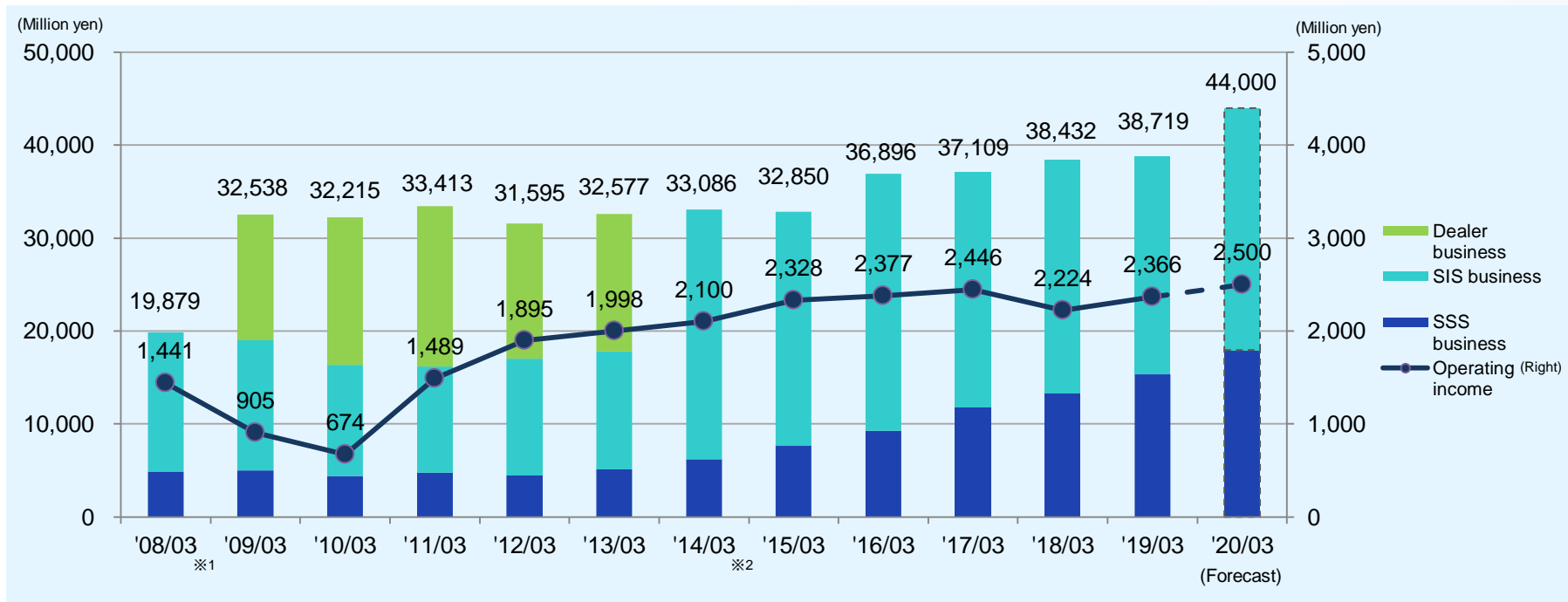
Forecasting sales and profit growth for both SSS and SIS Businesses

(Million yen)

Sales	2018/3 Results	2019/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	15,337	18,000	+2,662	+17.4
System Integration Services (SIS) business	23,381	26,000	+2,618	+11.2
Total	38,719	44,000	+5,281	+13.6

(Million yen)

Segment margin	2018/3 Results	2019/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,632	3,150	+517	+19.7
System Integration Services (SIS) business	2,800	3,500	+699	+25.0
Company-wide common expenses	-3,066	-4,150	-1,083	-35.0
Total	2,366	2,500	+133	+5.7



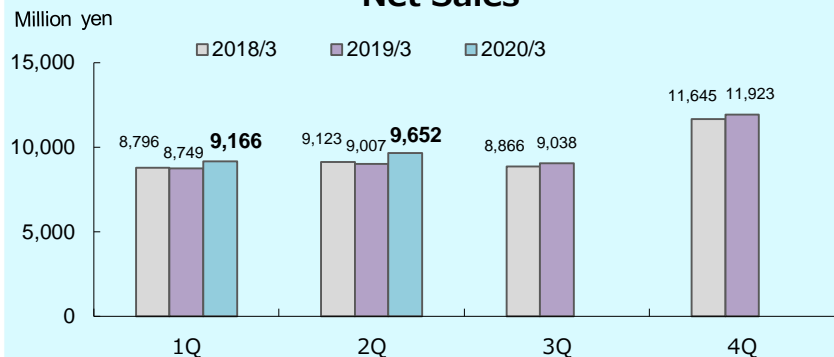
※1 Earnings for the fiscal year ended March 31, 2008, the fiscal year in which Little eArth Corporation Co., Ltd. and A&I System Co., Ltd., initiated their management integration, include Little eArth Corporation's net sales and operating income for the 15 months from January 2007 through March 2008 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.

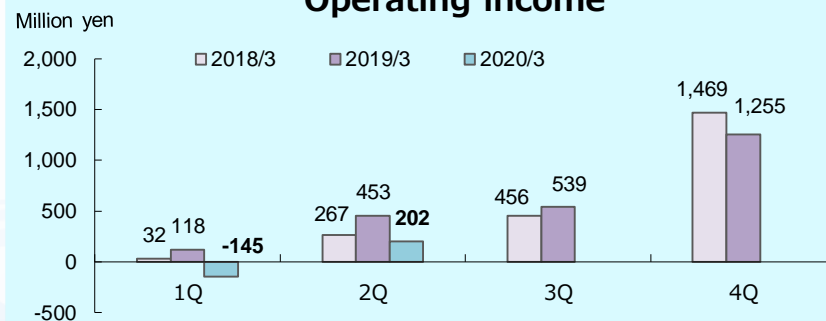
1. Outline of Financial Results
for 1Q ended June 30, 2019
2. Forecasts for the year ending
March 31, 2020
- 3. References**

Financial Results for the year ending March 31, 2020 (Quarterly)

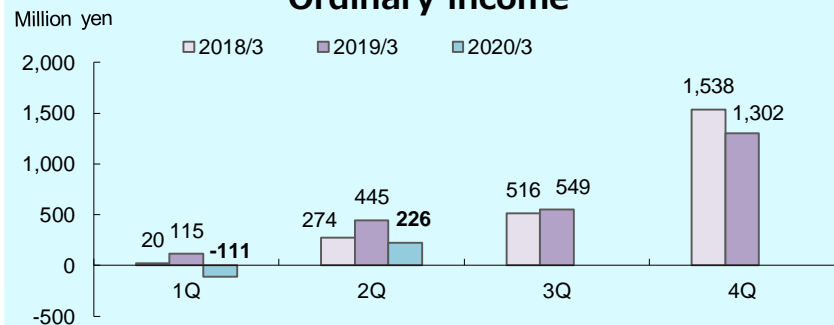
Net Sales



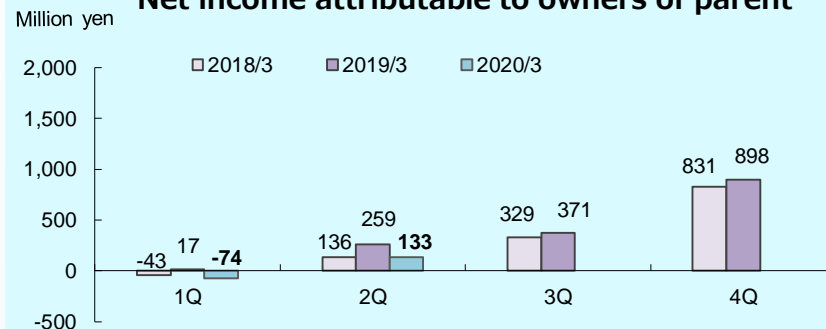
Operating income



Ordinary income



Net income attributable to owners of parent

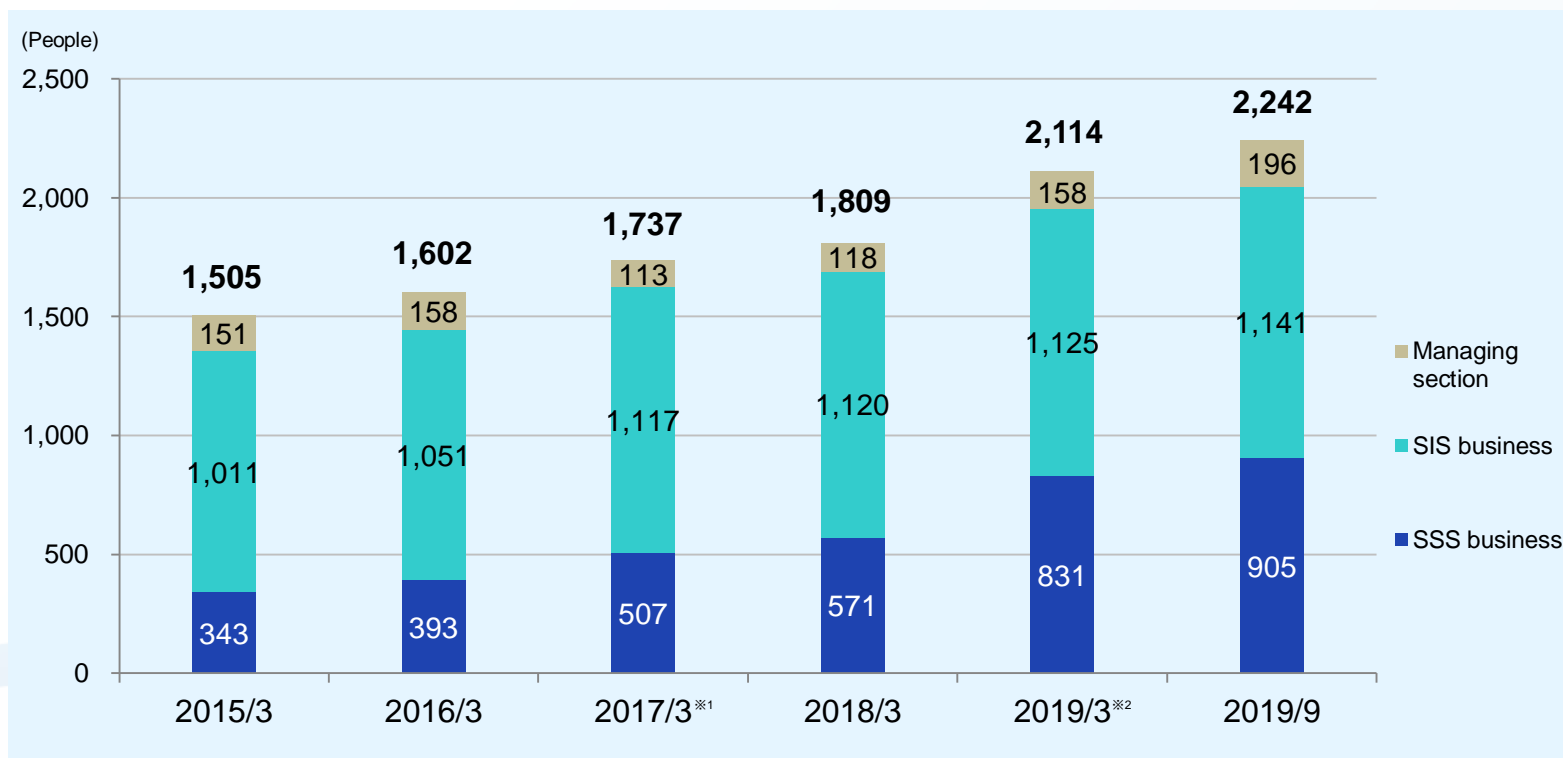


Business Forecasts by Subsegment for 1H (Apr. - Sep.)

(Million yen)

Sales	2019/3		2020/3		YoY comparison	
	1H	Composition (%)	1H	Composition (%)	Deference	Change (%)
Security Solutions Services (SSS) business	6,807	38.3	7,303	38.8	+496	+7.3
Security Consulting Services	1,316	7.4	1,233	6.6	-83	-6.3
Security Assessment Services	923	5.2	863	4.6	-60	-6.5
Security Monitoring Services	2,585	14.6	2,627	14.0	+42	+1.6
Security Product Sales	1,364	7.7	1,847	9.8	+483	+35.4
Security Maintenance Services	616	3.4	731	3.9	+114	+18.6
System Integration Services (SIS) business	10,949	61.7	11,515	61.2	+565	+5.2
Development Services	7,021	39.6	7,265	38.6	+244	+3.5
Hardware and Software Sales	945	5.3	1,097	5.8	+151	+16.0
IT Maintenance Services	2,302	13.0	2,426	12.9	+123	+5.4
Solutions Services	679	3.8	726	3.9	+46	+6.9
Total	17,757	100.0	18,819	100.0	+1,061	+6.0

Consolidated Employees



※1 From the fiscal year ended March 31, 2018, LAC started counting contract workers as employees in light of increased re-hiring of post-retirement-age employees and lengthening of employment contract durations. It also changed how it classifies employees by business segment to better reflect relevant job functions, mainly in the managing section. Employees who work in both the SSS and SIS segments are assigned to a segment based on their predominant role. Headcounts as of March 31, 2017, were retrospectively adjusted in accord with the revised counting method, but headcounts for the fiscal years ended March 31, 2015 and 2016, are based on the previous counting method.

※2 From the fiscal year ended March 31, 2019, the SSS segment's consolidated headcount includes employees of Asian Link, a subsidiary since April 2, 2018.

■ Support via TeamViewer remote connectivity solutions (April 2019)

We entered into a comprehensive partnership agreement and launched an alliance with TeamViewer Japan K.K. to leverage secure and effective remote connectivity solutions to support companies undertaking operational reforms such as business streamlining or workstyle diversification.

The combination of LAC's security expertise and TeamViewer's remote connectivity products facilitates safer remote connectivity solutions.

■ Partnering with TIS in cloud and security fields (May 2019)

We formed an alliance with TIS in the areas of cloud and security services.

LAC and TIS have teamed up to provide services to the public sector, as well as financial institutions, manufacturers, service providers, and other companies, capitalizing on both TIS's extensive multi-cloud track record and know-how and LAC's industry-leading expertise in security.

■ Launch of life-extension support service for products for which support is to end soon (June 2019)

Official support for Windows Server 2008 will soon end. For this reason, we launched a service to help customers migrate their systems to Azure, Microsoft's cloud platform. This service will keep their systems running for an additional three years and also comes with security assessment services.

By providing security assessments of the systems being migrated, this service aims to alleviate security concerns associated with using the cloud.

■ New memory scanning feature added to free audit tool FalconNest (July 2019)

We added and released a new feature to our FalconNest security audit tool. The new feature, called Phantom Seeker, scans PC memory to detect malware.

Phantom Seeker is capable of detecting the method used by malware to stealthily hide its central functionality within the main memory, and together with Live Investigator and Malware Analyzer, should provide enough cover when initially scanning for malware.

■ Announcement of cyber security business tie-up with UK's Assuria (July 2019)

We have formed an alliance mainly in the field of security monitoring with the aim of better supporting the security measures of Japanese firms expanding their operations overseas.

We are teaming up with Assuria to jointly develop security services by leveraging Assuria's products, which have a proven track record in overseas markets, and our cyber security insight and operational know-how honed in Japan. We aim to first launch the services in Japan and the ASEAN region with a view to expanding into other regions based on how we perform in ASEAN.

■ Start of partnership with HashiCorp Japan in authentication/authorization data management solutions (August 2019)

We have launched a partnership with the aim of popularizing the use of authentication/authorization data management solutions.

By using Vault, system developers and administrators can automatically and appropriately manage and safeguard authentication information such as user IDs and passwords for multiple cloud environments under a single unified security policy. This greatly reduces workloads associated with security management.



■ Launched Managed EDR Service for CrowdStrike (Aug. 2019)

Launched “Managed EDR Service for CrowdStrike”, which adds CrowdStrike® to software products covered by our Managed EDR (Endpoint Detection and Response) Service, which is an endpoint security solution.

Among the many EDR products available, we have adopted CrowdStrike's CrowdStrike Falcon®, which has high detection accuracy for unknown threats and superior threat intelligence linkages and threat-hunting functions. Using this EDR system, we handle endpoint monitoring, isolation, and analysis on behalf of customers.

■ Started joint research with Kyushu Institute of Technology on cyber defense utilizing AI (Sep. 2019)

Agreed to start joint research with the Kyushu Institute of Technology (Kyutech), one of Japan's national universities, on September 1, 2019, with the aim of establishing AI-based technology (a next-generation data analysis method) that seeks to prevent attacks on computer systems before they are damaged by what are increasingly complex cyberattacks.

Kyutech possesses extensive knowledge and experience in AI-related research. We will be conducting joint research with Kyutech on next-generation data analysis using AI to detect and defend against hidden threats and signs of potential threats.

■ Launched sales of Facial Recognition-based Screen Privacy System (Sep. 2019)

To increase the security of teleworking, which is spreading rapidly as part of the work-style reforms being promoted by the Japanese government, we entered into a partnership agreement with Secure Inc. and started selling the Facial Recognition-based Screen Privacy System.

The product is terminal-installed software dedicated to protecting information displayed on computer screens. Using facial recognition technologies, the software prevents unauthorized people from viewing screens by locking PC displays when it detects unregistered faces or when it notices that a registered user is away from their computer.



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