

LAC → D ←
supports your business

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



Financial Results for 1H ended September 30, 2020

November 10, 2020

LAC Co., Ltd.

1. Forecasts for the year ending March 31, 2021

**2. Outline of Financial Results
for 1H ended September 30, 2020**

3. Progress on Priority Measures

4. Shareholders Return

5. References (Data trends)

Disclosed earnings forecast that did not take into account impact of novel coronavirus

Tokyo Olympics & Paralympics expected to boost demand but were postponed

**Clients' economic activities stagnated after state of emergency declared
They remained cautious even after state of emergency lifted**

Expected change in work styles with working at home the new normal

**Security Business sales growth fell short of expected level in anticipation for which
structural reinforcement was implemented**

Recorded extraordinary loss related to consolidation of subsidiaries' offices

Due to above, profits expected to decline, full-year forecast has been revised

Forecasts for the year ending March 31, 2021

(Comparison with Previous Forecasts)

Forecast revised to reflect impact of COVID-19

Sales & profits revised down from start-of-year forecast

(Million yen)

Subjects	2021/3 Forecasts (May 12, 2020)	2021/3 Forecasts (Nov. 10, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Net sales	46,600	44,000	-2,600	-5.6
Operating income	2,150	1,510	-640	-29.8
<i>Operating income ratio (%)</i>	4.6	3.4	-1.2p	-
Ordinary income	2,200	1,620	-580	-26.4
<i>Ordinary income ratio (%)</i>	4.7	3.7	-1.0p	-
Net income attributable to owners of parent	1,580	1,000	-580	-36.7
ROE (%)	12.3	8.2	-4.1p	-

Note: 1. Expected to post extraordinary loss of ¥225 million related to cost of consolidating subsidiaries' offices in Hirakawacho and Toyochō to reduce expenses.

2. The contract with Nippon Export and Investment Insurance is not included in the above forecast as negotiations are ongoing.

Sales & profit below forecast as order growth weaker than expected

(Million yen)

	2021/3 Forecasts (May 12, 2020)	2021/3 Forecasts (Nov. 10, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Sales	19,760	18,700	-1,060	-5.4
Segment margin	3,540	2,200	-1,340	-37.9

Key points

Sales

- Education/training service could not hold group classes after state of emergency was declared
- Olympics postponement curtailed expected growth in demand for assessment services; postponement/cancellation of investment in security measures also curbing demand growth

Segment margin

- Staff shortage led to opportunity loss in previous year, so we expanded workforce through hiring of new graduates & transfers from other departments, but sales have not grown sufficiently to justify the staffing increases and this had a significant impact on profit.

Sales expected to fall short but profit to slightly exceed targets

(Million yen)

	2021/3 Forecasts (May 12, 2020)	2021/3 Forecasts (Nov. 10, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Sales	26,840	25,300	-1,540	-5.7
Segment margin	3,050	3,100	+50	+1.6

Key points

Sales

- Development Services sales affected by COVID-19-related postponement/cancellation of IT investment in some industries, such as travel and temporary staffing, and delaying launch of new solutions

Segment margin

- Development Services on pace with targets due to stronger project monitoring framework and project management
- Curbing of SG&A expenses has segment profit on pace to exceed targets

Forecasting sales growth but profit decline

(Million yen)

Subjects	2020/3 Results	2021/3 Forecasts (Nov. 10, 2020)	YoY comparison	
			Difference	Change (%)
Net sales	40,466	44,000	+3,533	+8.7
Operating income	1,767	1,510	-257	-14.5
<i>Operating income ratio (%)</i>	4.4	3.4	-1.0p	-
Ordinary income	1,869	1,620	-249	-13.4
<i>Ordinary income ratio (%)</i>	4.6	3.7	-0.9p	-
Net income attributable to owners of parent	1,091	1,000	-91	-8.4
ROE (%)	9.4	8.2	-1.2p	-

Note: 1. Expected to post extraordinary loss of ¥225 million related to cost of consolidating subsidiaries' offices in Hirakawacho and Toyocho to reduce expenses.

2. The contract with Nippon Export and Investment Insurance is not included in the above forecast as negotiations are ongoing.

Business Forecasts by Segment (YoY Comparison)



Forecasting sales growth for both segments, but overall profit to fall slightly on lower SSS profit; corporate common expenses up due to in-house IT investment

(Million yen)

Sales	2020/3 Results	2021/3 Forecasts (Nov. 10, 2020)	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	16,446	18,700	+2,253	+13.7
System Integration Services (SIS) business	24,019	25,300	+1,280	+5.3
Total	40,466	44,000	+3,533	+8.7

(Million yen)

Segment margin	2020/3 Results	2021/3 Forecasts (Nov. 10, 2020)	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,438	2,200	-238	-9.8
System Integration Services (SIS) business	2,905	3,100	+194	+6.7
Total	5,344	5,300	-44	-0.8

Company-wide common expenses	-3,577	-3,790	-212	-
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*Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

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Highlights of Consolidated Financial Results (YoY comparison)



1H sales up despite COVID-19 impact, but profit down owing to structural reinforcement of security business, investment in in-house IT systems, and special lump-sum relief payments to employees
 Profit up sharply YoY in 2Q (3mo) (operating income +61.5%)

(Million yen)

Subjects	2020/3 1H	2021/3 1H	YoY comparison	
			Difference	Change (%)
Net sales	18,819	19,504	+685	+3.6
Operating income	57	11	-46	-80.7
<i>Operating income ratio (%)</i>	<i>0.3</i>	<i>0.1</i>	<i>-0.2p</i>	<i>-</i>
Ordinary income	115	2	-113	-98.1
<i>Ordinary income ratio (%)</i>	<i>0.6</i>	<i>0.0</i>	<i>-0.6p</i>	<i>-</i>
Net income attributable to owners of parent	58	43	-14	-25.6

Note: Approximately ¥70 million was booked following special lump-sum relief payments to all employees to cover the costs of working from home, etc.

Business Results by Segment (YoY comparison)



Sales up in both segments; total segment profit up on increase at SIS Business
 SSS Business secured profit growth in 2Q (+20.8% YoY)
 Corporate common expenses up owing to in-house IT systems investment

(Million yen)

Sales	2020/3 1H	2021/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	7,303	7,667	+364	+5.0
System Integration Services (SIS) business	11,515	11,836	+321	+2.8
Total	18,819	19,504	+685	+3.6

Segment margin	2020/3 1H	2021/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	655	492	-162	-24.8
System Integration Services (SIS) business	1,222	1,396	+173	+14.2
Total	1,877	1,888	+11	+0.6

Company-wide common expenses	-1,820	-1,877	-57	-
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Note: 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 increased sales of products and services, profit down owing to spending on structural reinforcement, including workforce expansion

- **Consulting Services**

Contracts increased for mainly security solutions team(CSIRT) support services

- **Assessment Services**

In 2Q, core web application assessment and platform assessment projects increased, as did penetration testing services, such as smartphone application assessment

- **Monitoring Services**

Despite a sales decline at subsidiary Asian Link Co., Ltd., sales of monitoring services for a major manufacturing group in the Chubu region etc. increased

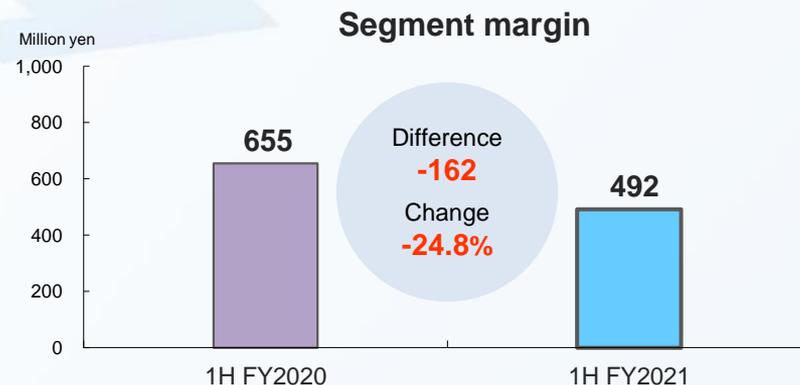
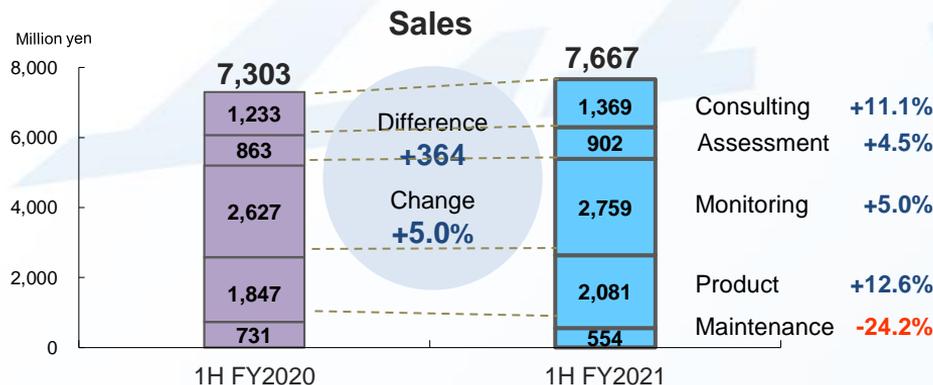
- **Product Sales**

Sales increased for cloud products, such as web security solutions that also prevent denial-of-service attacks

- **Maintenance Services**

Contract renewals decreased amid expansion in cloud-related products

Segment margin down owing mainly to investments in structural reinforcements, incl. workforce expansion



Business Results of System Integration Services (SIS) segment



Sales up on higher HW/SW sales, profit up on Development Services margin improvement

- **Development Services**

Public sector and IT services industry projects increased, but projects for finance industry, including banks and insurance companies, decreased

- **Hardware and Software Sales**

Demand falling amid expansion of cloud services, but sales increased on increased contract renewals

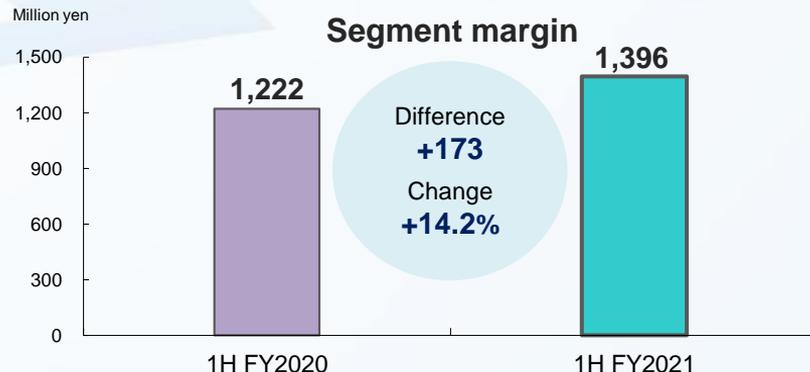
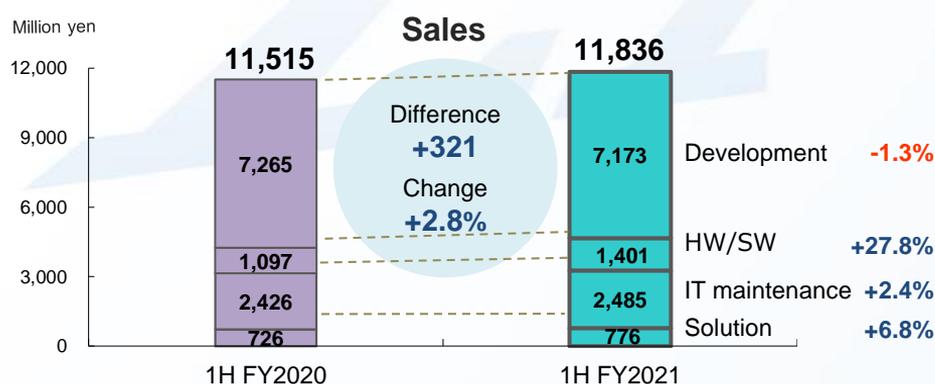
- **IT Maintenance Services**

HW/SW sales were solid last fiscal year (ended March 31, 2020) and contract renewals have increased

- **Solutions Services**

Growth in sales of remote access solutions for teleworking and remote work, and development management solutions for multi-cloud environments

Profit increased thanks chiefly to improvements in profitability in Development Services



Highlights of Consolidated Balance Sheet (YoY comparison)

Ensuring we have sufficient funds on hand to deal with changes in economic environment whilst maintaining a sound financial base

(Million yen)

Subjects	As of March 31, 2020	As of September 30, 2020	Difference
Total Assets	22,383	24,490	+2,106
Current assets	14,976	16,603	+1,626
Noncurrent assets	7,407	7,887	+479
Total Liabilities	10,420	12,823	+2,402
Current liabilities	9,515	12,271	+2,756
Noncurrent liabilities	904	551	-353
Total net assets	11,963	11,667	-296
Cash and deposit	4,653	6,083	+1,429
Interest-bearing debt	3,033	5,040	+2,006
Shareholders' equity ratio	53.4%	47.6%	-5.8p

Point	
Assets	
[Current assets]	
• Increase in cash and deposit	+1,429
• Increase in work in process	+398
• Increase in merchandise	+344
• Decrease in notes and accounts receivable-trade	-719
[Noncurrent assets]	
• Increase in software included in other intangible assets	+598
Liabilities	
[Current liabilities]	
• Increase in short-term debt	+2,400
• Increase in accounts receivable-trade	+516
[Noncurrent liabilities]	
• Decrease in Long-term loans payable	-366
Net assets	
[Net assets]	
• Decrease in retained earnings	-295

Highlights of Consolidated Cash Flow



Invested to strengthen business foundation while using borrowings to increase cash on hand

(Million yen)

Subjects	2019/3 1H	2020/3 1H
Cash Flows from Operating Activities	1,406	751
Cash Flows from Investing Activities	-1,219	-985
Cash Flows from Financing Activities	59	1,661
Free Cash Flows	186	-234
Net Increase (Decrease) in Cash and Cash Equivalents	233	1,42
Cash and Cash Equivalents at Beginning of Year	4,343	4,653
Cash and Cash Equivalents at End of Year	4,576	6,083

Point

Cash Flows from Operating Activities

• Income before income taxes	28
• Depreciation and amortization	423
• Amortization of goodwill	36
• Increase in notes and accounts payable-trade	719
• Increase in inventories	-745
• Increase in notes and accounts payable-trade	516
• Income taxes paid	-181

Cash Flows from Investing Activities

• Purchase of property, plant and equipment	-216
• Purchase of software	-774

Cash Flows from Financing Activities

• Net Increase in short-term loans payable	2,400
• Repayment of long-term loans payable	-366
• Cash dividends paid	-337

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Progress on Priority Measures (Security Business)

Steady progress with business portfolio transition, steadily developing services for major corporations, some collaborations with SMEs set back by COVID-19

Business portfolio transition

- Expanded subscription-based sales ratio of Cyber 119 and products
Subscription-based business ratio growing

Developing services for major corporate groups

- Steadily developing services for remote work, cloud environments
Simple assessment service to confirm safety of remote work (trial started in May 2020)
Cloud security settings assessment service (May 2020), etc.

Applying large corporation-oriented business knowhow to business with mid-tier firms & SMEs

- Steady expansion of subsidiary Asian Link's web assessment services
- CloudFalcon expansion delayed by postponement of security investment by mid-tier firms and SMEs

Pursuing collaborative business

- Steady progress in collaborations with strategic partners
Assessment service with cyber insurance for sales partners (Aug. and Oct. 2020)
Supply chain risk evaluation service by SOMPO Risk Management Inc. (October 2020)
- Despite strengthening cooperation with joint ventures, business was sluggish due to major changes in the market environment

Efforts to win cloud infrastructure development projects proceeding as planned Steady adoption of support solutions using killer tools

Further expansion of cloud infrastructure development projects

- Continued expansion of collaborative development projects
- Recruiting more cloud infrastructure development engineers to capture large-scale projects (recruiting also being done through cooperation with Group companies)

Expanding DevSecOps introduction support service

- Expanding use of multi-cloud development management solutions to large corporations (Vault, Terraform)
- Began providing new solution (July 2020)
System monitoring solution with high-speed data search & analysis (Elastic Stack)

Expanding support services in response to changing work styles

- Expansion of remote-work support solutions (TeamViewer, Facial Recognition-based Screen Privacy System)
TeamViewer also being used by JSOC[®] security monitoring center engineers working from home

Train/develop engineers to strengthen response capabilities (2 dojos)

- Agile Development Center expanding projects for finance industry and promoting in-house training and education
- Software Engineering Center now supporting and training development engineers

Pursuing consolidation of offices to reduce costs
Integration and renewal of in-house backbone systems, with launch now rescheduled to April 2021

Consolidate subsidiaries' offices based on telework system

Software Services Corporation,
Japan Current Co., Ltd.



Nagatacho



LAC
(Hirakawacho & Toyochō)



Efficient use of space

(scheduled for 1Q FY2021)

Asian Link Co., Ltd.



Tennozu

(Former) Net Agent Co., Ltd.



Kinshicho



Renewal and integration of in-house backbone systems

Progressing with construction of new backbone system (SAP) to facilitate digital transformation
(scheduled start of operations rescheduled from October 2020 to April 2021)

Progress on Priority Measures (Proactive Management)

Cloud-based work system introduced last year now fully utilized
Operations have continued without significant impact and internal communications have been stimulated

Promoting work style centered on telework for all employees



Holding various in-house online events that all employees can participate in



Groupwise meetings



SIS internal broadcast



President's internal radio station



SSS internal broadcast



Training/study group sessions

Assuming telework to be new normal, we will create a working environment in which all employees remain motivated and can continue to grow

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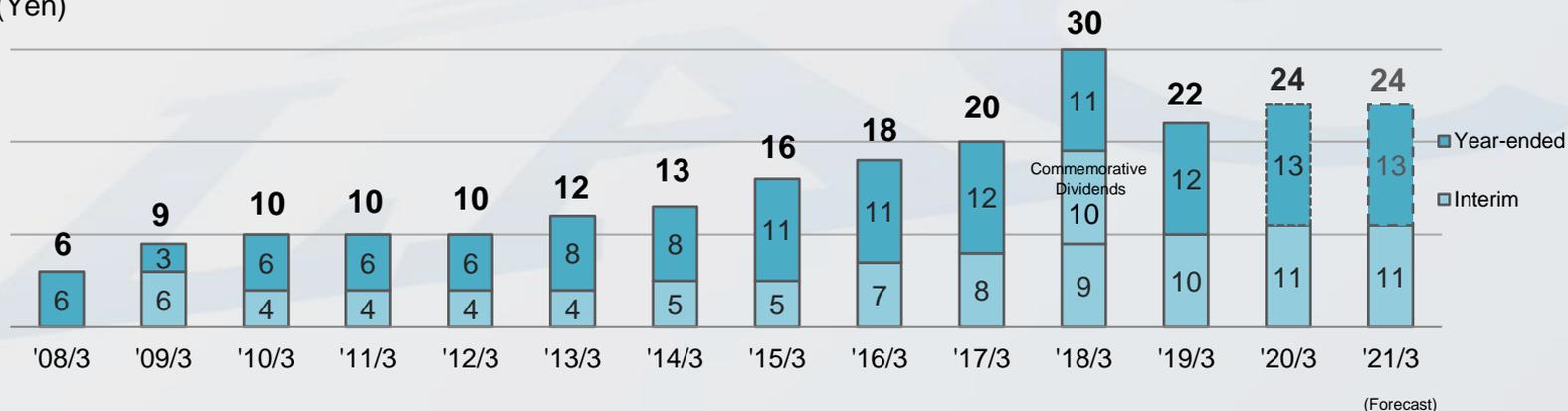
Planning to pay interim dividend of ¥ 11 per share, as forecast

Dividend Policy

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

Dividends

(Yen)



	'08/3	'09/3	'10/3	'11/3	'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3	'21/3
DOE	2.8%	4.2%	5.1%	5.2%	4.8%	5.2%	5.0%	5.5%	5.5%	5.5%	5.1% <small>(Commemorative Dividends not included)</small>	5.2%	5.3%	4.9%
Dividend payout ratio	18.2%	98.7%	-	38.9%	45.0%	34.3%	32.7%	32.3%	31.6%	34.0%	40.5% <small>(Commemorative Dividends not included)</small>	36.3%	56.2%	38.8%

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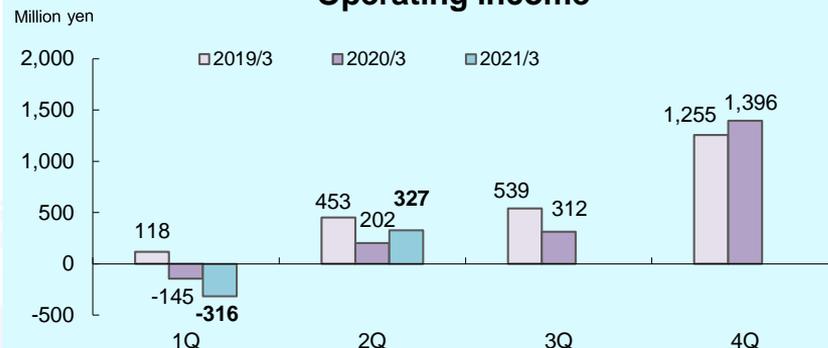
Consolidated Financial Results (Quarterly)



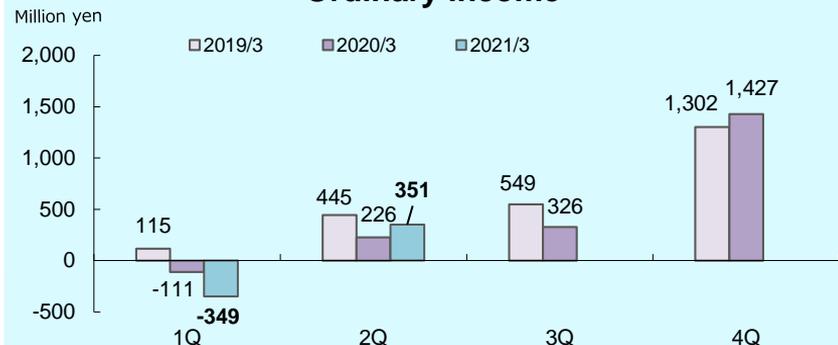
Net Sales



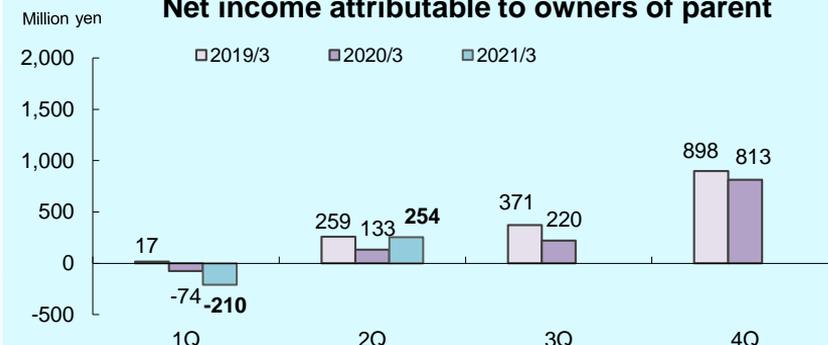
Operating income



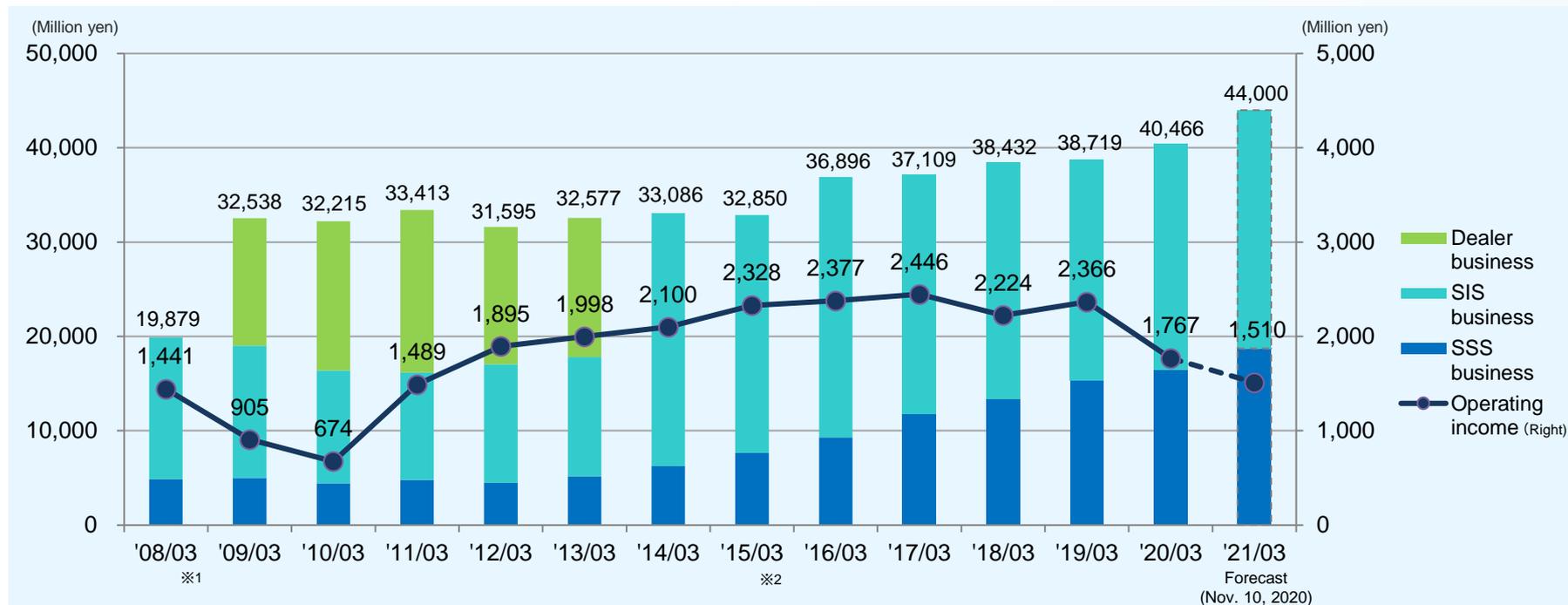
Ordinary income



Net income attributable to owners of parent



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.

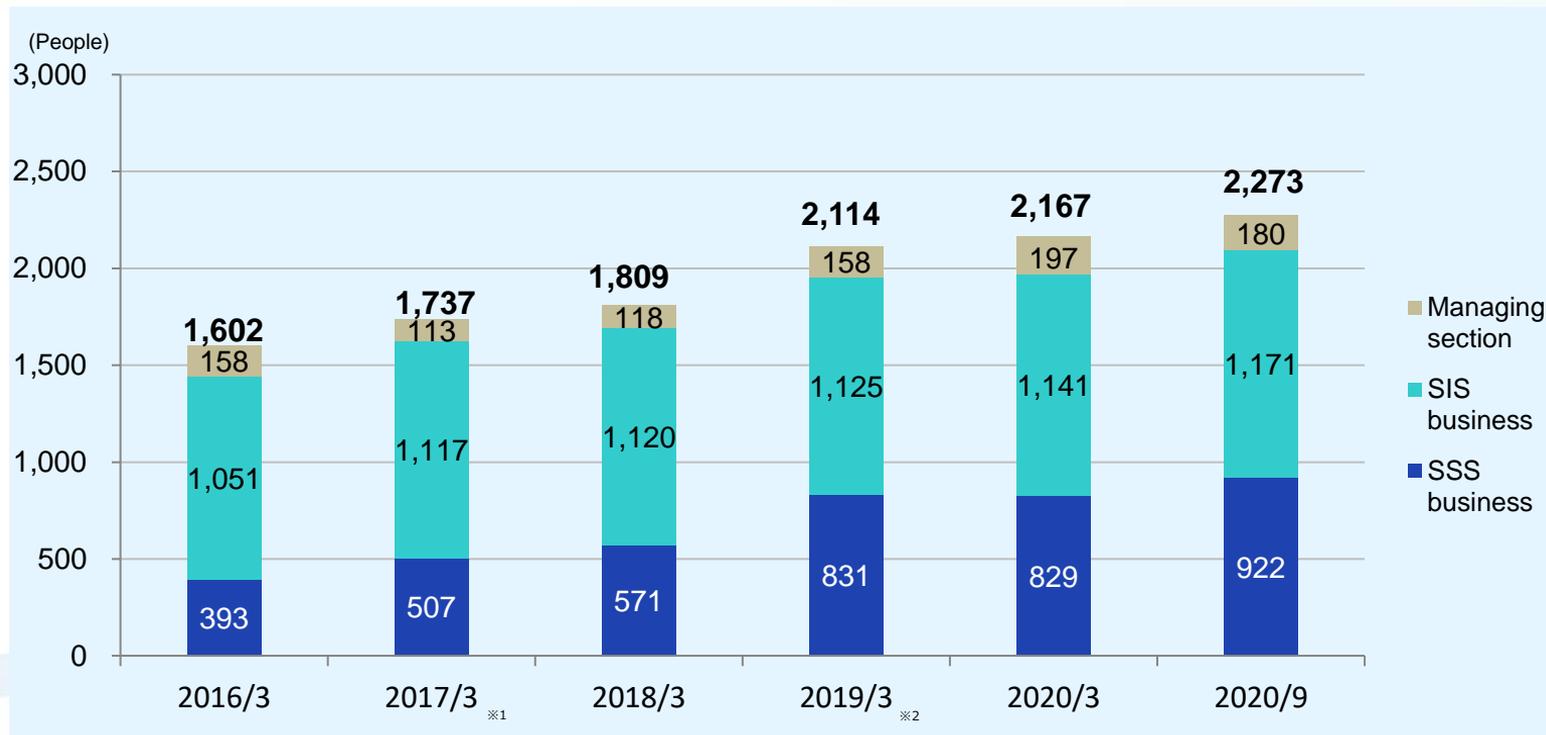
Business Forecasts by Subsegment for the year ending March 31, 2021



(Million yen)

Net Sales	2020/3		2021/3		YoY comparison	
	Results	Composition (%)	Forecasts (Nov. 10, 2020)	Composition (%)	Deference	Change (%)
Security Solutions Services (SSS) business	16,446	40.6	18,700	42.5	+2,253	+13.7
Security Consulting Services	3,145	7.8	3,360	7.6	+214	+6.8
Security Assessment Services	2,331	5.8	2,650	6.0	+318	+13.7
Security Monitoring Services	5,759	14.2	6,110	13.9	+350	+6.1
Security Product Sales	3,845	9.5	5,320	12.1	+1,474	+38.3
Security Maintenance Services	1,364	3.3	1,260	2.9	-104	-7.7
System Integration Services (SIS) business	24,019	59.4	25,300	57.5	+1,280	+5.3
Development Services	15,286	37.9	15,610	35.5	+323	+2.1
Hardware and Software Sales	2,561	6.3	2,830	6.4	+268	+10.5
IT Maintenance Services	4,669	11.5	4,600	10.5	-69	-1.5
Solutions Services	1,502	3.7	2,260	5.1	+757	+50.4
Total	40,466	100.0	44,000	100.0	+3,533	+8.7

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, 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.



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