



LAC Co., Ltd.

Financial Results for 1H ended September 30, 2021

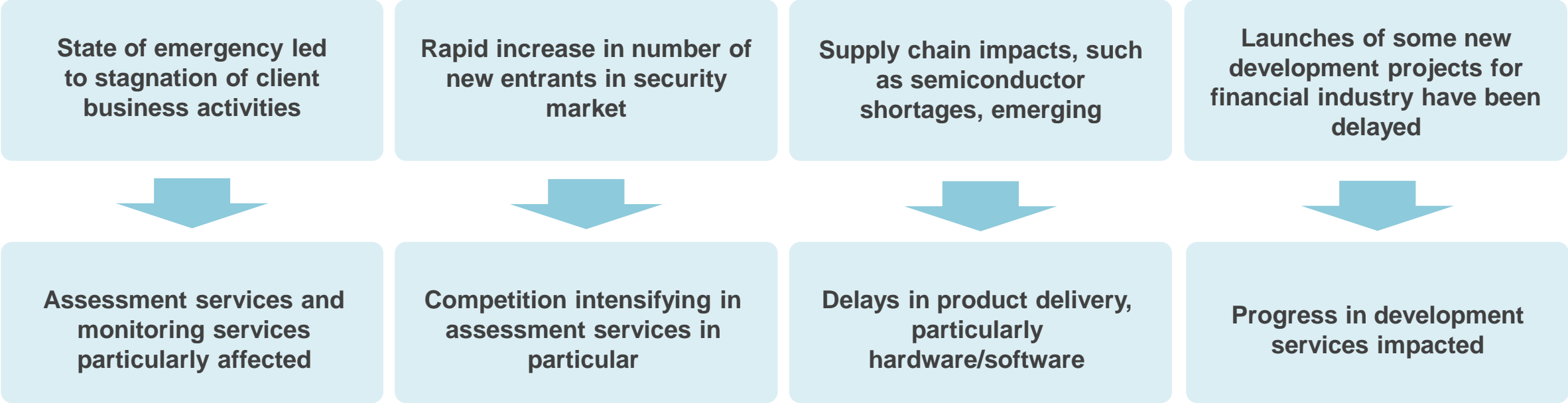
November 10, 2021

Outline of Financial Results for 1H ended September 30, 2021



Overall, IT investment remains firm and security solutions investment is growing.

However...



The lifting of the state of emergency and restarting of business activities expected to lead to recovery from the 3rd quarter onward.

Concerns remain, however, about the ongoing impact of COVID-19 not only on semiconductors but on a variety of different supply chains.

Respond to competition with consolidating of low-priced service subsidiaries, digitalization of services, and strategic alliances.

Highlights of Consolidated Financial Results (YoY comparison)



Security business growth boosted sales

Operating income down due to sales capability reinforcement and other initiatives to respond business growth

Ordinary income up due to booking of equity method investment gains

Net income up due to booking of gains from sale of subsidiary shares

(Million yen)

Subjects	2021/3 1H	2022/3 1H	YoY comparison	
			Difference	Change (%)
Net sales	19,504	19,668	+163	+0.8
Operating income	11	-45	-56	-
<i>Operating income ratio (%)</i>	0.1	-0.2	-0.3p	-
Ordinary income	2	15	+13	+604.4
<i>Ordinary income ratio (%)</i>	0.0	0.1	+0.1p	-
Net income attributable to owners of parent	43	126	+82	+191.0

Note: 1. ¥219 million gain on the sale of subsidiary shares booked as extraordinary income

2. 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.

Business Results by Segment (YoY comparison)

Sharp growth in sales and profit in Security business;
sales and profit down in the SI business;
progress being made with controlling corporate common expenses

(Million yen)

Sales	2021/3 1H	2022/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	7,667	8,676	+1,008	+13.2
System Integration Services (SIS) business	11,836	10,991	-844	-7.1
Total	19,504	19,668	+163	+0.8
Segment margin	2021/3 1H	2022/3 1H	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	492	591	+99	+20.1
System Integration Services (SIS) business	1,396	1,201	-194	-13.9
Total	1,888	1,793	-95	-5.1
Company-wide common expenses	-1,877	-1,839	+38	-

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

Significant sales increase driven by product sales and consulting, sharp profit growth largely due to improved profitability

Sales

Consulting Services

Sales of rapid response services grew sharply as cyberattacks against companies continued to run rampant

Assessment Services

Although web assessment services slumped due to impact of customer system development postponements and intensifying competition, targeted email attack prevention training services and platform assessment services were up, leading to a slight overall increase

Monitoring Services

Despite a decline in sales from the strategic reduction of the staffing business of subsidiary LAC CyberLink, solid progress was made on existing and new contracts for monitoring services

Product Sales

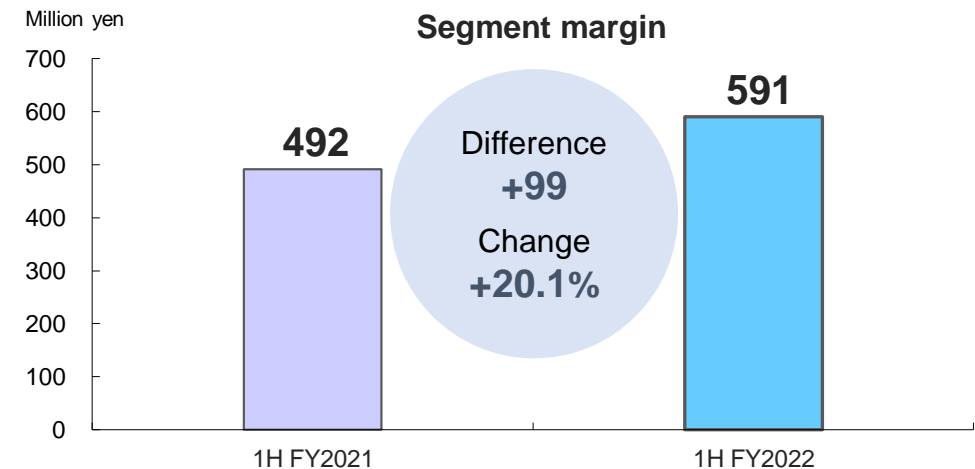
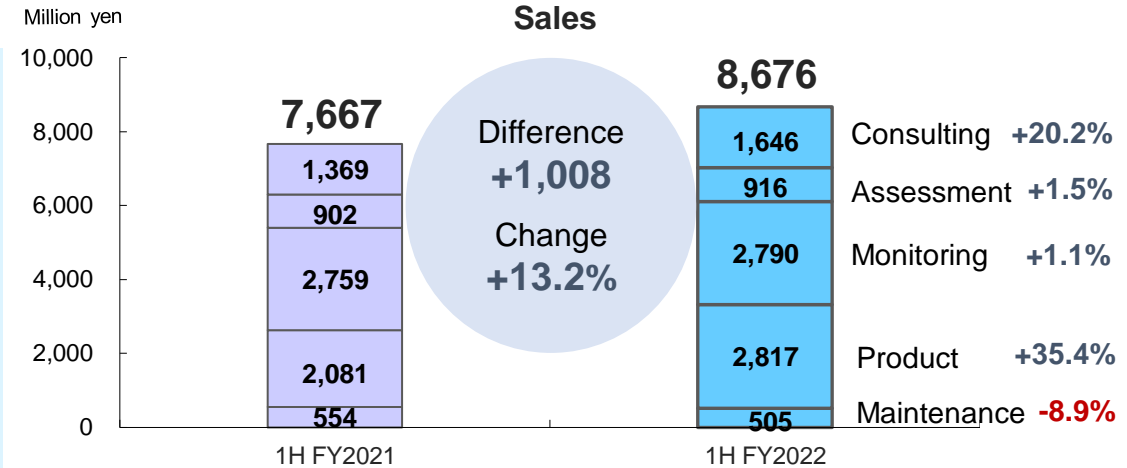
Sales increased for cloud products, such as endpoint security solutions and web security solutions that also prevents denial-of-service attacks

Maintenance Services

Contract renewals decreased amid expansion in cloud-related products

Segment margin

Profit grew sharply partly as a result of improved profitability



Business Results of System Integration Services (SIS) segment



Sales down on weak hardware/software and IT maintenance performance, income down due to sales capability reinforcement and other initiatives

Sales

Development Services

Despite growth in contracts for the service and manufacturing industries, sales were flat due to delays in some new development contracts for the financial industry and the termination of large-scale public sector-related projects

Hardware and Software Sales

Down due to shrinking demand mainly due to the rise of cloud services, a decline in contract renewals, and impact of semiconductor delivery delays from 3rd quarter onward

IT Maintenance Services

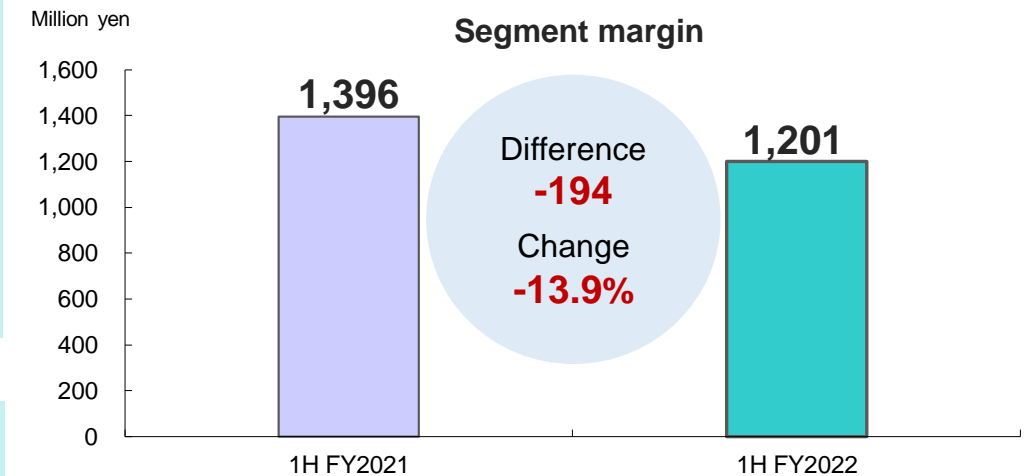
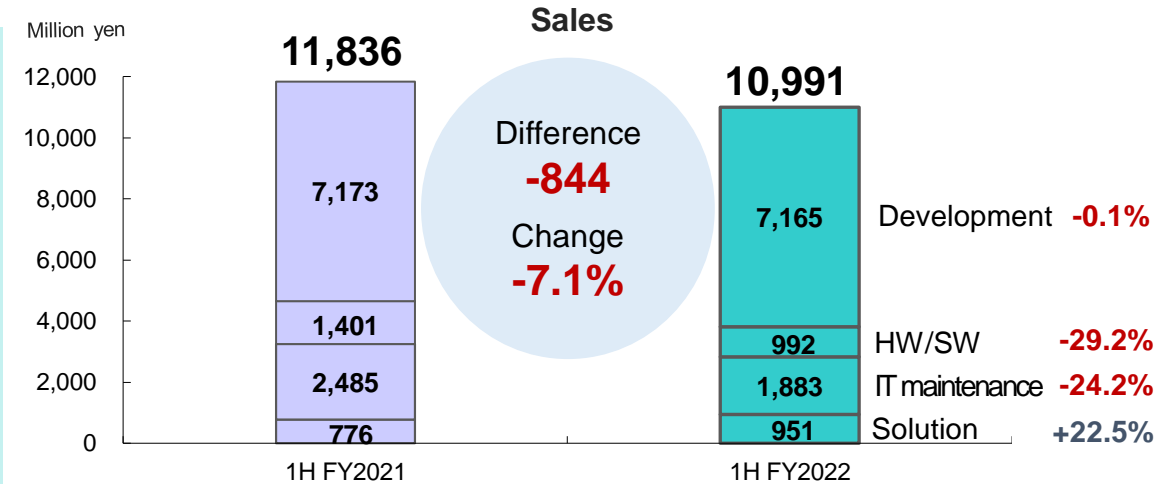
Despite some major hardware/software-related maintenance contracts in the year-earlier period, no such contracts materialized this year, while other contract renewals also declined, also impacted by transfer of business of subsidiary company

Solutions Services

Sales of cloud-based solutions, mainly development and management for multi-cloud environments, were brisk

Segment margin

Income down due to sales capability reinforcement and other initiatives



Maintaining a stable financial base while retaining the necessary funds for business operations

(Million yen)

Subjects	As of March 31, 2021	As of September 30, 2021	Difference
Total Assets	24,626	22,373	-2,252
Current assets	16,349	14,007	-2,341
Noncurrent assets	8,277	8,366	+88
Total Liabilities	12,965	10,518	-2,447
Current liabilities	10,032	8,202	-1,830
Noncurrent liabilities	2,933	2,316	-617
Total net assets	11,661	11,855	+194
Cash and deposit	6,367	5,833	-533
Interest-bearing debt	4,843	3,795	-1,047
Shareholders' equity ratio	47.3%	53.0%	+5.6p

Difference	
Assets	
[Current assets]	
Decrease in Notes and accounts receivable - trade, and contract assets	-2,364
Increase in cash and deposit	-533
[Noncurrent assets]	
Increase in investment securities included in "other" under "investments and other assets"	+606
Liabilities	
[Current liabilities]	
Decrease in other payables included in "other"	-602
Decrease in current portion of long-term	-366
[Noncurrent liabilities]	
Decrease in Long-term loans payable	-666
Net assets	
[Net assets]	
Decrease in retained earnings due to year-end dividends	-210
Increase in valuation difference on available-for-sale securities	+408

Operating cash flow increased, free cash flow also improved

(Million yen)

Subjects	2020/3 1H	2021/3 1H
Cash Flows from Operating Activities	751	1,095
Cash Flows from Investing Activities	-985	-234
Cash Flows from Financing Activities	1,661	-1,390
Free Cash Flows	-234	860
Net Increase (Decrease) in Cash and Cash Equivalents	1,429	-533
Cash and Cash Equivalents at Beginning of Year	4,653	6,367
Cash and Cash Equivalents at End of Year	6,083	5,833

Point

Cash Flows from Operating Activities

Profit before income taxes	234
Depreciation	476
Amortization of goodwill	36
Decrease in notes and accounts receivable-trade	2,217
Increase in inventories	-849
Income taxes paid	-427

Cash Flows from Investing Activities

Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	242
Purchase of property, plant and equipment	-474
Purchases of software	-141

Cash Flows from Financing Activities

Repayment of long-term loans payable	-1,032
Cash dividends paid	-337

Progress with Key Initiatives





Expansion of endpoint security solutions business

Expanding sales of EDR product CrowdStrike

Operations service expansion: Cooperation with Mitsubishi Electric Information Network Corporation



Expansion of security monitoring services business

Expansion of monitoring lineup for cloud systems

(Started offering Prisma Access)

Launched operation of latest version of LAC Falcon® with greater processing speeds/scalability



Business promotion with digital innovation

Assessment services + Digitalization

Partnering with Aeye Security Lab to promote new business models
Aiming at digitalization incorporating LAC's knowhow into the "AeyeScan" cloud assessment tool



Training services + Digitalization

Partnering with DOCOMO gacco to offer online academy courses
Also planning to promote usage of other platforms





Expanding cloud development/operational solutions products

Expanded HashiCorp product lineup, achieved top reseller ranking and boosted sales

"Consul", which enables automatic interconnectivity of apps built in separate cloud environments

"Nomad", which unifies the operating environments of containers, etc. to support deployment to large-scale environments



Business promotion through SI + Security

Launched Financial Crime Control Center (May 1)

Promotion of support for introduction of effective financial crime countermeasure solutions, consulting, etc.

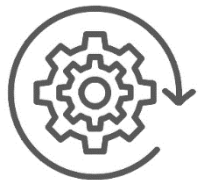
Merged knowhow gained from system development at major financial institutions with knowhow gained from implementing crime countermeasures together with investigative agencies



Expanded product lineup/introduced security-related solutions products for cloud environments

"Tanium", a control platform for cyber hygiene management in large corporations

Cloud security control support services with "Prisma®Cloud"



Expansion of DX support solution services

Launched support for Oracle cloud service introduction and database migration services



Promote group company selection and focus

Asian Link renamed LAC CyberLink (April 1)

Aiming to expand security business targeting small- and medium-sized companies under the LAC name

Strategically downscaling non-core businesses (temporary staffing services)



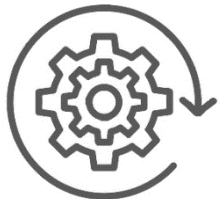
Consolidated offices of subsidiaries, etc. (Completed in May)

Offices of LAC CyberLink, software services, and Japan Current Co., Ltd. consolidated in Hirakawacho/Toyochō

(Projected cost savings: 140 million yen/year)

I Net Rely Corporation share transfer (June 28)

Transferred business to other company based on consideration of synergies with our businesses (booked as extraordinary income: 219 million yen)



Promoted in-house DX in preparation for the post-pandemic world


Invigorated communication using "oVice"* virtual office

*Cloud service offered by oVice, Inc.

Continued developing new backbone systems to underpin future growth

(Scheduled to be launched in FY2024)





Forecasts for the year ending March 31, 2022

(unchanged from May 12, 2021 announcement)

Security Business

Orders for assessment services, etc. expected to increase from 3rd quarter onward

Together with product sales expansion, we will aim to capture demand for security solutions for cloud systems, etc.

SI Business

Anticipating 3rd-quarter hardware/software deliveries

There are concerns about the return to growth of currently sluggish financial development services, but we are aiming for deployment using proprietary finance-related solutions as a trigger



Although there is weakness in SI business results coupled with the impact* of the transfer of the business of a subsidiary, there are no changes to the full-year forecast at this time, due to 4th-quarter expansion of the security business and cost controls, etc. resulting from working styles adopted during the pandemic.

*Impact on full-year forecast figures from 2nd quarter; Net sales: approx. -870 million yen; Operating income: approx. -50 million yen

Forecasts for the year ending March 31, 2022 (YoY Comparison)

unchanged from May 12, 2021 announcement



We anticipate sales growth, but forecast flat YoY operating income growth, due mainly increases in IT investments in mostly backbone system upgrades, as well as higher SG&A costs
We forecast sharp growth in net income

(Million yen)

Subjects	2021/3 Results	2022/3 Forecasts	YoY comparison	
			Difference	Change (%)
Net sales	43,693	47,200	+3,506	+8.0
Operating income	2,117	2,100	-17	-0.8
<i>Operating income ratio (%)</i>	4.8	4.4	-0.4p	-
Ordinary income	2,242	2,075	-167	-7.4
<i>Ordinary income ratio (%)</i>	5.1	4.4	-0.7p	-
Net income attributable to owners of parent	304	1,390	+1,085	+356.1
ROE (%)	2.6	11.2	+8.6p	-

Note: We forecast a year-on-year increase of roughly 350 million in in-house IT investment.

Business Forecasts by Segment (YoY Comparison)

unchanged from May 12, 2021 announcement



In Security business we look for sales growth and sharp profit growth;

SI business sales increased but profit declined slightly

We forecast higher corporate common expenses due mainly to in-house IT investments in backbone systems

(Million yen)

Sales	2021/3 Results	2022/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	18,659	20,500	+1,840	+9.9
System Integration Services (SIS) business	25,033	26,700	+1,666	+6.7
Total	43,693	47,200	+3,506	+8.0

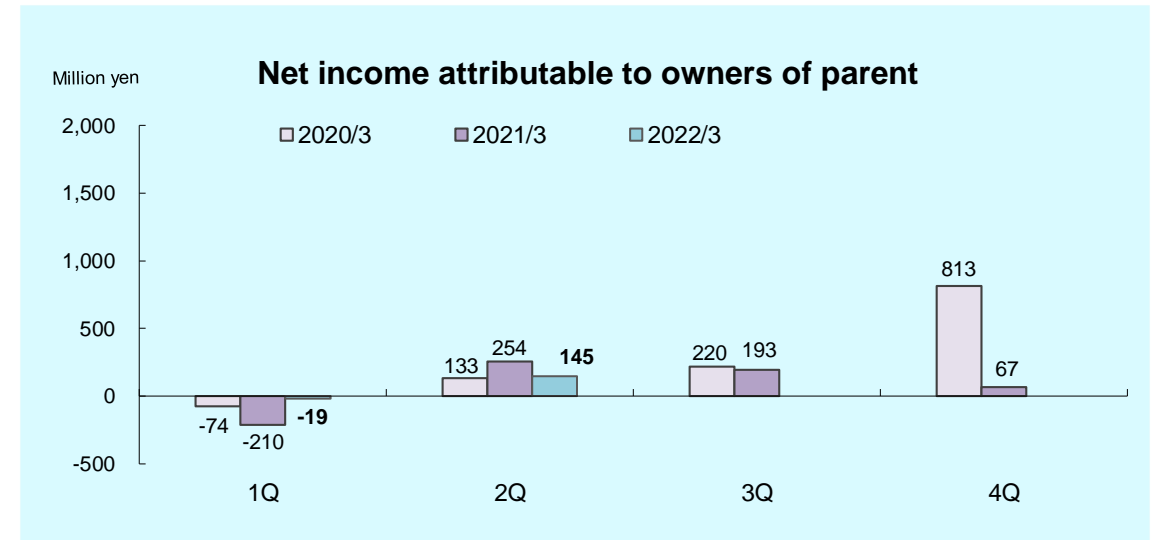
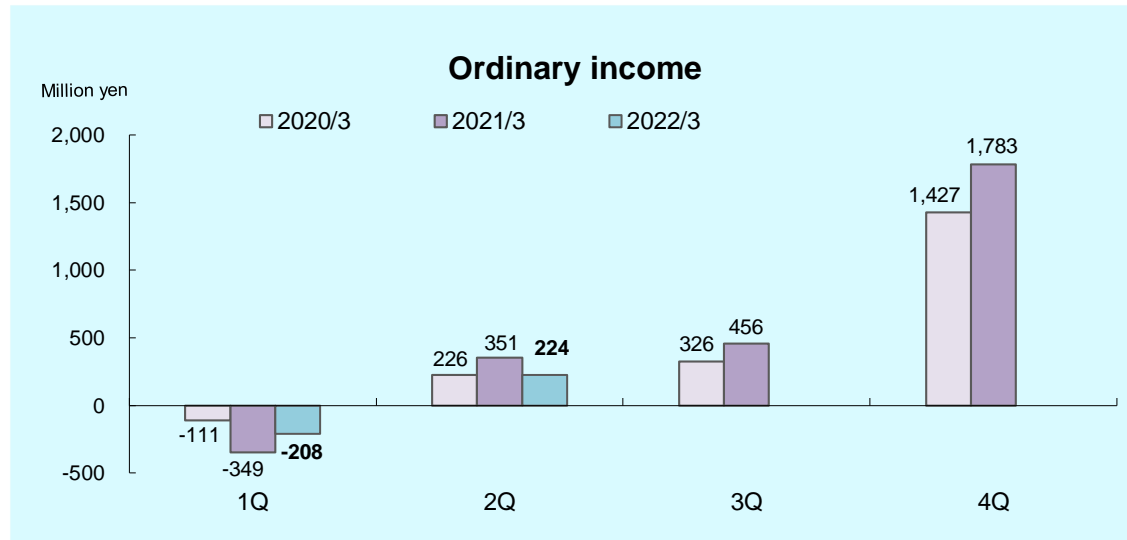
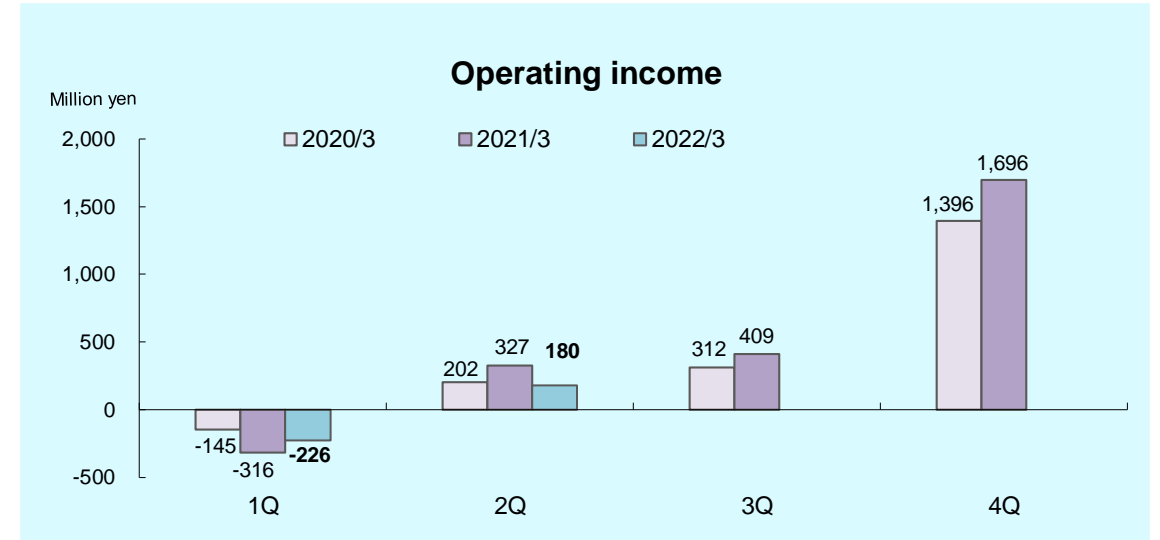
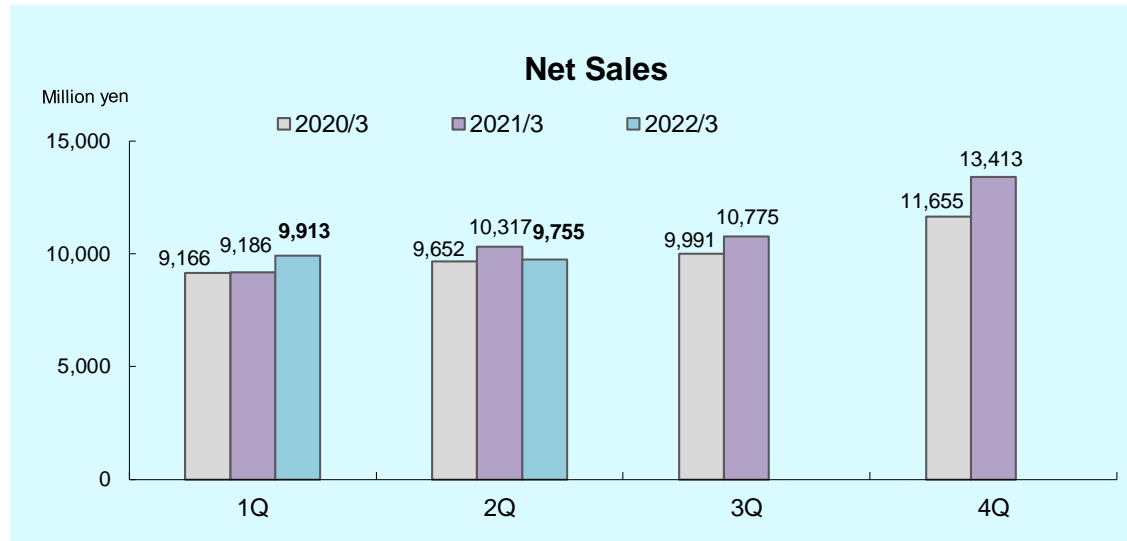
Segment margin	2021/3 Results	2022/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,541	3,400	+858	+33.8
System Integration Services (SIS) business	3,172	3,100	-72	-2.3
Total	5,714	6,500	+785	+13.7

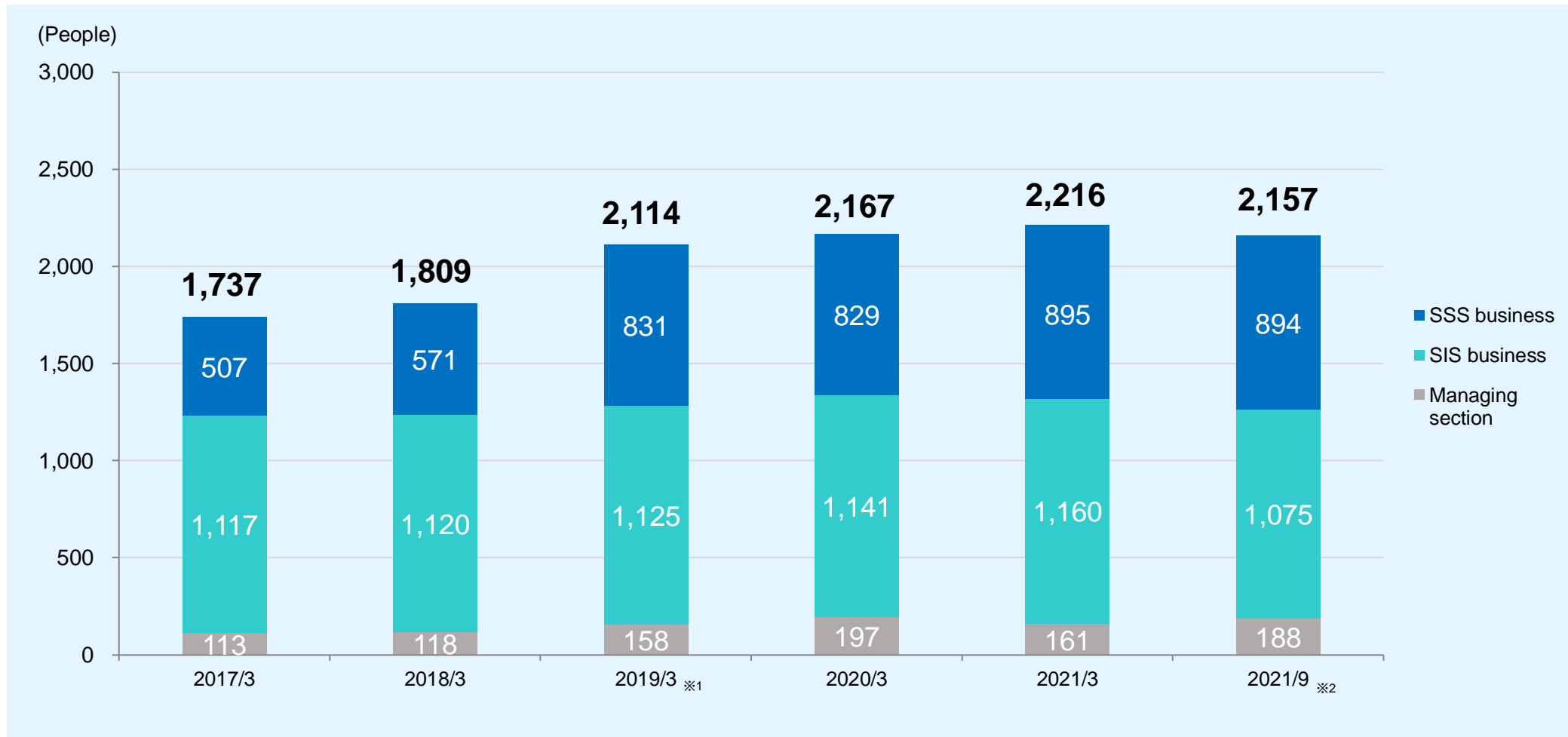
Company-wide common expenses	-3,597	-4,400	-802	-
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Note: Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

References







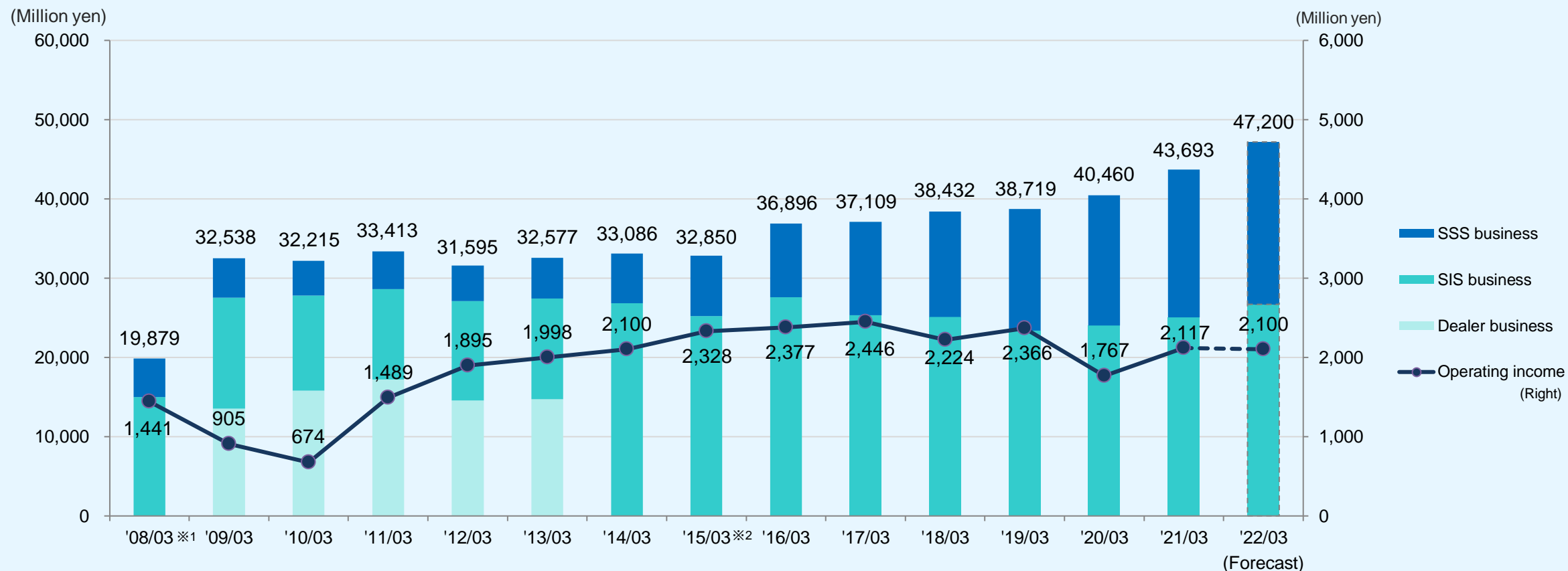
※1 From the fiscal year ended March 31, 2019, the SSS segment's consolidated headcount includes employees of Asian Link(present: LAC CyberLink), a subsidiary since April 2, 2018.

※2 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.

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.



- ※ This document was prepared based on information available as of November 10, 2021 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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