



LAC Co., Ltd.
Financial Results for the Year
Ended March 31, 2022

May 13, 2022



Outline of Financial Results for the Year Ended March 31, 2022

Changes in the business environment impacted progress

- Intensified competition for Assessment Services due to an increase in the number of new entrants into the security market
- Despite continued steady performance of Monitoring Services for major manufacturers, delayed product deliveries caused by semiconductor shortages had an impact
- Development Services were affected by delays in some system development projects for major financial institutions and the conclusion of large projects

Group reorganization to focus on security business, review of shareholdings

- Conversion of LAC CyberLink into security subsidiary, strategic downsizing of non-core business (temporary staffing business)
- I Net Rely Corporation business transfer and share selloff
- Partial sale of Japan Current shares (percentage held reduced from 97% to 30%, convert to non-consolidated/non-equity method subsidiary) and partial sale of securities

Strengthening ties on way to expansion of cybersecurity business

- Entered into capital and business alliance with Nomura Research Institute, Ltd. and established a joint venture (involving KDDI Corporation through a third-party allotment of new shares)
- KDDI Digital Security Inc. (equity method affiliated company) performing well

Despite net sales and operating income being sluggish due to business environment changes, Group reorganization, and other factors, ROE recovered to the 10% range due to booking of extraordinary income. Implemented measures for future business expansion such as the capital and business alliance with Nomura Research Institute, Ltd.

Highlights of Consolidated Financial Results (YoY comparison)



Net sales down on impact from subsidiary business transfer*1

Operating income fell due to sales capability reinforcement and other initiatives aimed at business expansion

Net income attributable to owners of parent increased significantly due to booking of extraordinary income*2 in the fiscal year under review in contrast to booking of extraordinary losses in the previous fiscal year

(Million yen)

	2021/3 Results	2022/3 Results	YoY comparison	
			Difference	Change (%)
Net sales	43,693	42,660	-1,033	-2.4
Operating income	2,117	1,595	-522	-24.7
<i>Operating income ratio (%)</i>	4.8	3.7	<i>-1.1p</i>	-
Ordinary income	2,242	1,769	-472	-21.1
<i>Ordinary income ratio (%)</i>	5.1	4.1	<i>-1.0p</i>	-
Net income attributable to owners of parent	304	1,401	+1,096	+359.8
ROE(%)	2.6	10.2	+7.6p	-

*1 Impact of I Net Rely Corporation sales: Net sales: approx. -¥1,070 million, operating income: approx. -¥100 million

*2 Gain on sale of subsidiary shares of ¥219 million and gain on sale of investment securities of ¥224 million were booked as extraordinary income (valuation loss on slow-moving work in process of 1,248 million was booked as extraordinary loss in the previous fiscal year).

Business Results by Segment (YoY comparison)



**Security Business sales up, profit down; SI Business sales down, profit down
Corporate common expenses increased due to IT investment, etc.**

(Million yen)

Sales	2021/3 Results	2022/3 Results	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	18,659	19,380	+720	+3.9
System Integration Services (SIS) business	25,033	23,279	-1,754	-7.0
Total	43,693	42,660	-1,033	-2.4

Segment margin	2021/3 Results	2022/3 Results	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,541	2,319	-222	-8.8
System Integration Services (SIS) business	3,172	2,985	-187	-5.9
Total	5,714	5,304	-409	-7.2

Company-wide common expenses	-3,597	-3,709	-112	-
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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 due to expansion of consulting services and product sales but profits fell due to sales capability reinforcement

Consulting Services

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

Assessment Services

Sales of targeted email attack prevention training services and platform assessment services increased, but web application assessment services declined owing to the impacts of intensified competition and customer system development delays resulting from the state of emergency

Monitoring Services

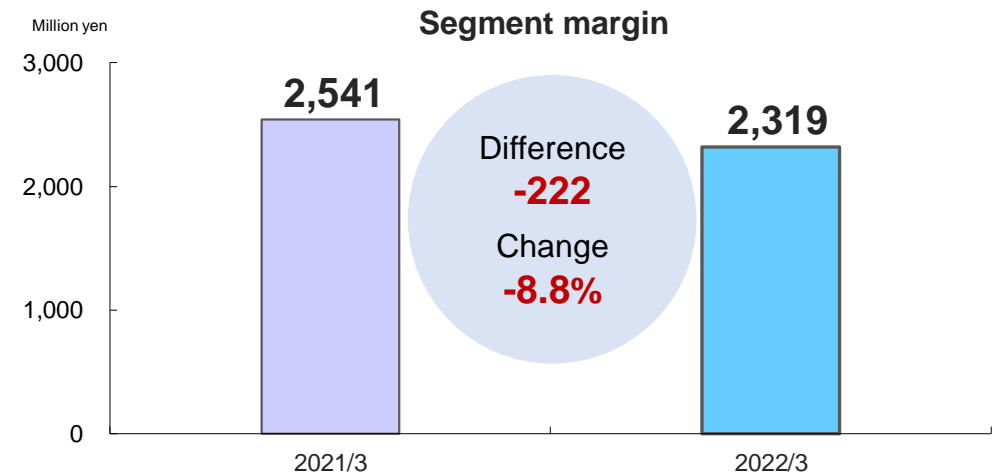
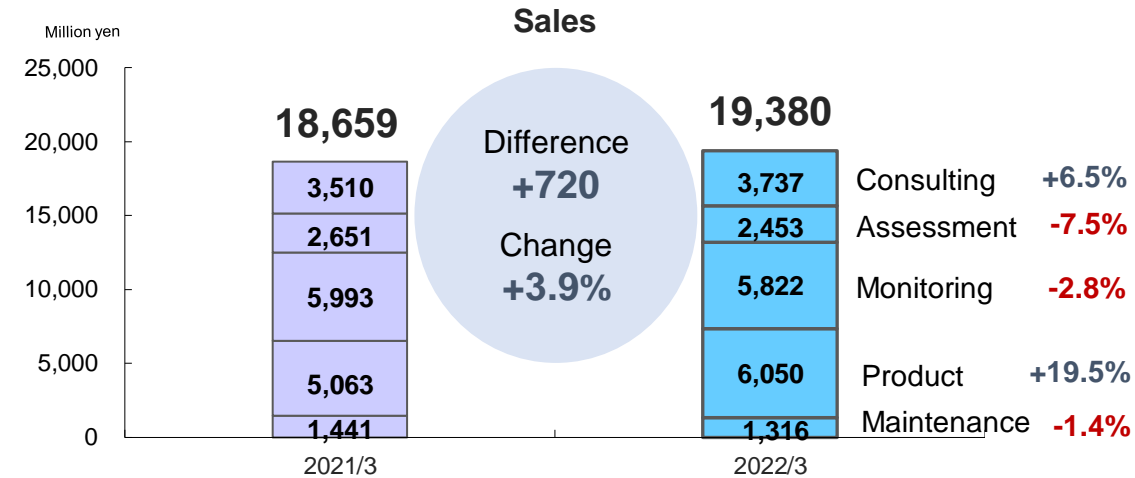
Solid progress in security monitoring services with existing and new customers
Decrease due to strategic downsizing of temporary staffing business at subsidiary LAC CyberLink

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



Highlights of Consolidated Balance Sheet (YoY comparison)



Significant increase in net assets and cash and deposits due to third party allocation of shares, strengthening of financial base for investment

(Million yen)

Subjects	As of March 31, 2021	As of March 31, 2022	Difference
Total Assets	24,626	25,306	+679
Current assets	16,349	17,873	+1,524
Noncurrent assets	8,277	7,433	-844
Total Liabilities	12,965	9,537	-3,428
Current liabilities	10,032	7,957	-2,074
Noncurrent liabilities	2,933	1,579	-1,353
Total net assets	11,661	15,769	+4,108
Cash and deposit	6,367	9,785	+3,418
Interest-bearing debt	4,843	2,746	-2,096
Shareholders' equity ratio	47.3%	62.3%	+15.0p

Point	
Assets	
Current assets	
Increase in cash and deposit	+3,418
Decrease in accounts receivable	-1,144
Decrease in merchandise	-449
Liabilities	
Current liabilities	
Decrease in current portion of long-term	-736
Decrease in other payables included in "other"	-574
Noncurrent liabilities	
Decrease in Long-term loans payable	-1,332
Net assets	
Net assets	
Increase in capital stock and capital surplus	+3,296
Increase in retained earnings	+778

Increase in operating cash flow due to profit growth and improved working capital, significant increase in free cash flow partly due to investment securities sales

(Million yen)

Subjects	2021/3 Results	2022/3 Results
Cash Flows from Operating Activities	1,969	2,956
Cash Flows from Investing Activities	-1,358	-105
Cash Flows from Financing Activities	1,091	562
Free Cash Flows	610	2,850
Net Increase (Decrease) in Cash and Cash Equivalents	1,713	3,418
Cash and Cash Equivalents at Beginning of Year	4,653	6,367
Cash and Cash Equivalents at End of Year	6,367	9,785

Point	
Cash Flows from Operating Activities	
Profit before income taxes	2,020
Depreciation	950
Amortization of goodwill	72
Decrease in notes and accounts receivable-trade	979
Decrease in inventories	452
Income taxes paid	-756
Cash Flows from Investing Activities	
Purchase of property, plant and equipment	-596
Purchases of software	-341
Proceeds from sales of investment securities	671
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	253
Cash Flows from Financing Activities	
Repayment of long-term loans payable	-2,068
Proceeds from issuance of shares	3,296
Cash dividends paid	-622

Net sales, operating income, and ordinary income were lower than forecast Net income attributable to owners of the parent slightly exceeded forecast

(Million yen)

Subjects	2022/3 Forecasts (May 12, 2021)	2022/3 Results	Difference from forecast	
			Difference	Change (%)
Net sales	47,200	42,660	-4,539	-9.6
Operating income	2,100	1,595	-504	-24.0
<i>Operating income ratio (%)</i>	4.4	3.7	-0.7p	-
Ordinary income	2,075	1,769	-305	-14.7
<i>Ordinary income ratio (%)</i>	4.4	4.1	-0.2p	-
Net income attributable to owners of parent	1,390	1,401	+11	+0.8
ROE (%)	11.2	10.2	-1.0p	-

Note: Impact of I Net Rely Corporation sales: Net sales: approx. -¥970 million, operating income: approx. -¥30 million

Sales and profit by segment were also lower than forecast Corporate common expenses were lower than forecast due to cost containment

(Million yen)

Sales	2022/3 Forecasts (May 12, 2021)	2022/3 Results	Difference from forecast	
			Difference	Change (%)
Security Solutions Services (SSS) business	20,500	19,380	-1,119	-5.5
System Integration Services (SIS) business	26,700	23,279	-3,420	-12.8
Total	47,200	42,660	-4,539	-9.6

(Million yen)

Segment margin	2022/3 Forecasts (May 12, 2021)	2022/3 Results	Difference from forecast	
			Difference	Change (%)
Security Solutions Services (SSS) business	3,400	2,319	-1,080	-31.8
System Integration Services (SIS) business	3,100	2,985	-114	-3.7
Total	6,500	5,304	-1,195	-18.4
Company-wide common expenses	-4,400	-3,709	+690	-

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



Main Initiatives for Fiscal Year Ending March 31, 2023

Theme of Mid-Term Management Plan



Creating Shared Value and Tackling New Challenges

**Continue to tackle upcoming challenges through business creation
in the security and system integration fields**



**Pursue business domain expansion
through creating shared value**

Expand cybersecurity solutions business through business alliances, etc. Focus on the areas of cloud services, ransom attacks, and internal fraud, where cyber threats and damage are increasing

External threats

Internal threats

Cloud services

Cyber threats are increasing with the expansion of cloud services

Nuligen Security Co., Ltd.

Joint venture with Nomura Research Institute
(established March 14, 2022,
operations launched April 1)



Provides managed security services
using AI



Ransom attacks

Increasing damage as attacks become more sophisticated and malicious

Areas in which LAC has strengths,
including monitoring services and
emergency response services



Deployment of solutions
utilizing AI and systems



Internal fraud

Increase in damage as telework makes organizational matters harder to oversee

Eltes Co., Ltd.

Capital and business alliance
LAC's equity share: 10%*1
(alliance formed April 21, 2022)



Provide internal fraud monitoring
solutions and social media social risk
countermeasures

*1 Payment scheduled for May 17, 2022

Support cloud security operations through the application of LAC and NRI Group's expertise



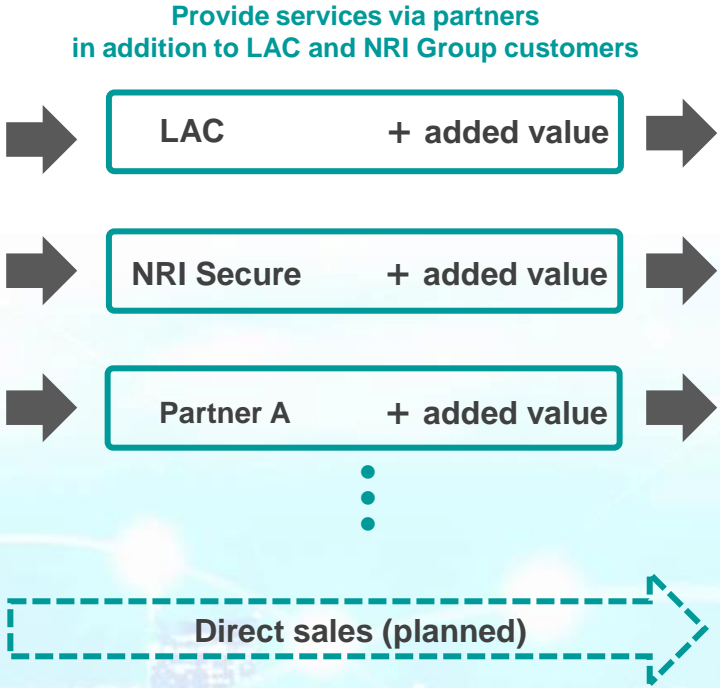
- Security expert
- Latest cyber threat information
- AI and automation expertise

NRI Group

LAC

AI-powered cloud security operation support service

- Multi-cloud platform + cloud-native security
- Prevention + detection and response
- Expert know-how + automated operation



Customers

Providing services combining Eltes' unique services and specialist expertise in internal fraud and LAC's areas of expertise

Eltes

LAC

Internal fraud monitoring



Japan Security Operation Center



Providing services that combine Eltes' internal fraud monitoring and LAC security monitoring services

Social risk management



Cyber Emergency Center



Providing risk control services utilizing Eltes' social risk management services

Development of new business utilizing data analysis technology

Creation of new businesses based on Eltes' AI-powered data analysis technologies and LAC's threat intelligence

Leveraging our strengths as experts in countering cyberattacks to provide ransom attack countermeasure services



Forecasts for the year ending March 31, 2023

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 skyline is composed of several buildings of varying heights and widths, with the tallest building on the right side of the frame. The lines are thin and white, contrasting sharply with the blue background.

Forecasts for the year ending March 31, 2023 (YoY Comparison)



Sales and profit are forecast to increase due to demand for cybersecurity measures to counter ransom attacks, internal fraud, etc., and increased investment in system development

(Million yen)

Subjects	2022/3 Results	2022/3 Forecasts	YoY comparison	
			Difference	Change (%)
Net sales	42,660	50,000	+7,339	+17.2
Operating income	1,595	2,100	+504	+31.6
<i>Operating income ratio (%)</i>	3.7	4.2	+0.5p	-
Ordinary income	1,769	2,100	+330	+18.7
<i>Ordinary income ratio (%)</i>	4.1	4.2	+0.1p	-
Net income attributable to owners of parent	1,401	1,410	+8	+0.6
ROE (%)	10.2	8.8	-1.4p	-

Business Forecasts by Segment (YoY Comparison)

Sales and profit are forecast to increase significantly in both Security business and SI business
Corporate common expenses are forecast to increase due to strengthening of organizational frameworks and internal IT investment etc

(Million yen)

Sales	2022/3 Results	2023/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	19,380	24,000	+4,619	+23.8
System Integration Services (SIS) business	23,279	26,000	+2,720	+11.7
Total	42,660	50,000	+7,339	+17.2

Segment margin	2022/3 Results	2023/3 Forecasts	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,319	3,800	+1,480	+63.9
System Integration Services (SIS) business	2,985	3,300	+314	+10.5
Total	5,304	7,100	+1,795	+33.8

Company-wide common expenses	-3,709	-5,000	-1,290	-
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Note: Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

Reference: Forecasts by Subsegment (YoY comparison)



(Million yen)

Sales	2022/3	2023/3	YoY comparison	
	Results	Forecasts	Difference	Change (%)
Security Solutions Services (SSS) business	19,380	24,000	+4,619	+23.8
Security Consulting Services	3,737	4,400	+662	+17.7
Security Assessment Services	2,453	3,150	+696	+28.4
Security Monitoring Services	5,822	7,300	+1,477	+25.4
Security Product Sales	6,050	7,700	+1,649	+27.3
Security Maintenance Services	1,316	1,450	+133	+10.1
System Integration Services (SIS) business	23,279	26,000	+2,720	+11.7
Development Services	15,356	17,300	+1,943	+12.7
Hardware and Software Sales	2,493	2,900	+406	+16.3
IT Maintenance Services	3,428	3,000	-428	-12.5
Solutions Services	2,000	2,800	+799	+39.9
Total	42,660	50,000	+7,339	+17.2

Shareholders Return

The background of the slide is a solid 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 skyline is composed of several buildings of varying heights and widths, with the tallest building on the right side of the frame. The overall aesthetic is clean, modern, and professional.

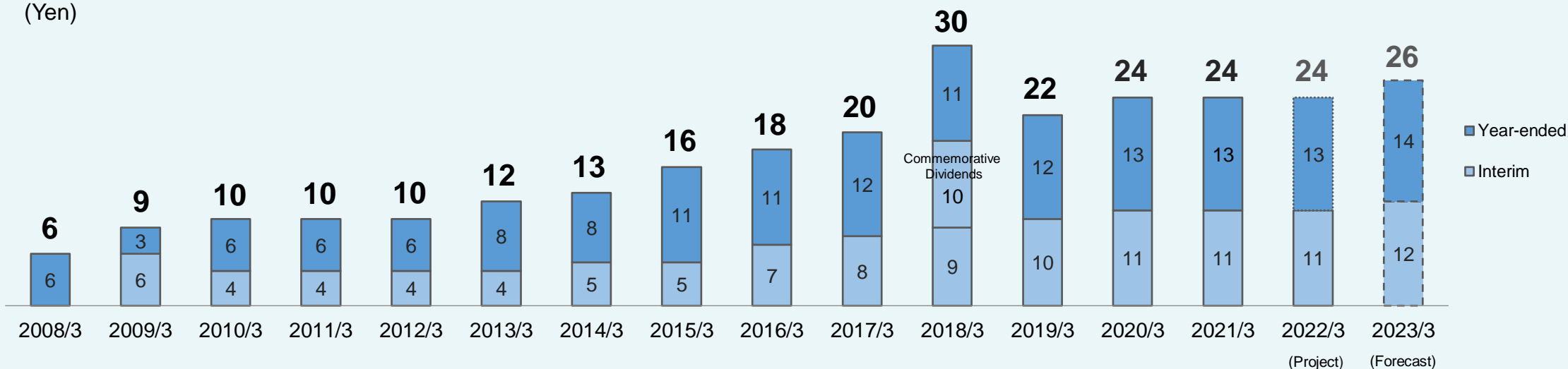
Annual dividends expected to be ¥24 per share for fiscal year ended March 31, 2022, and forecast to be ¥26 per share for fiscal year ended March 31, 2023

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)



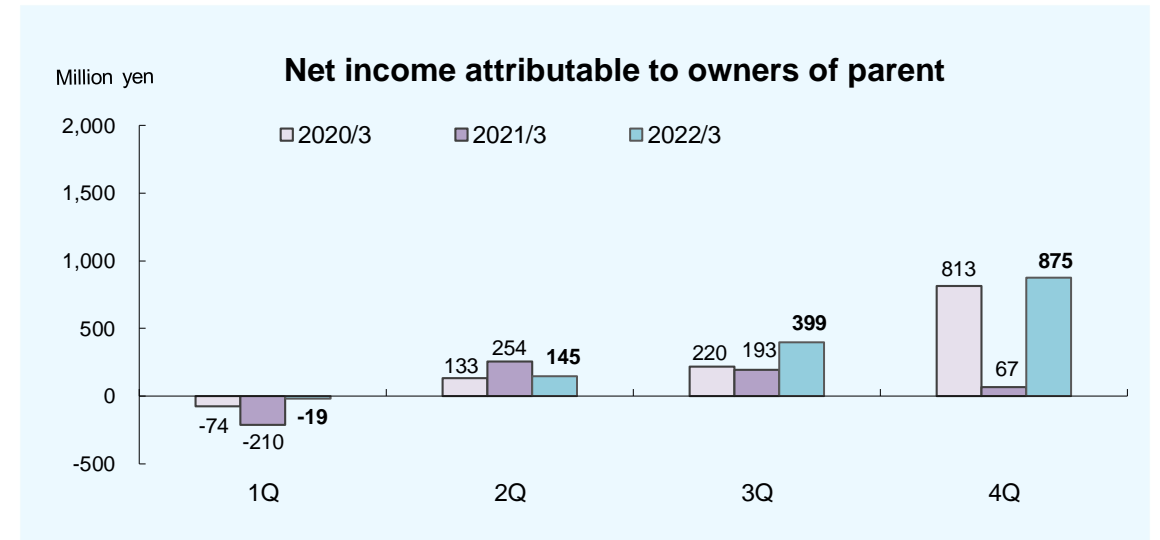
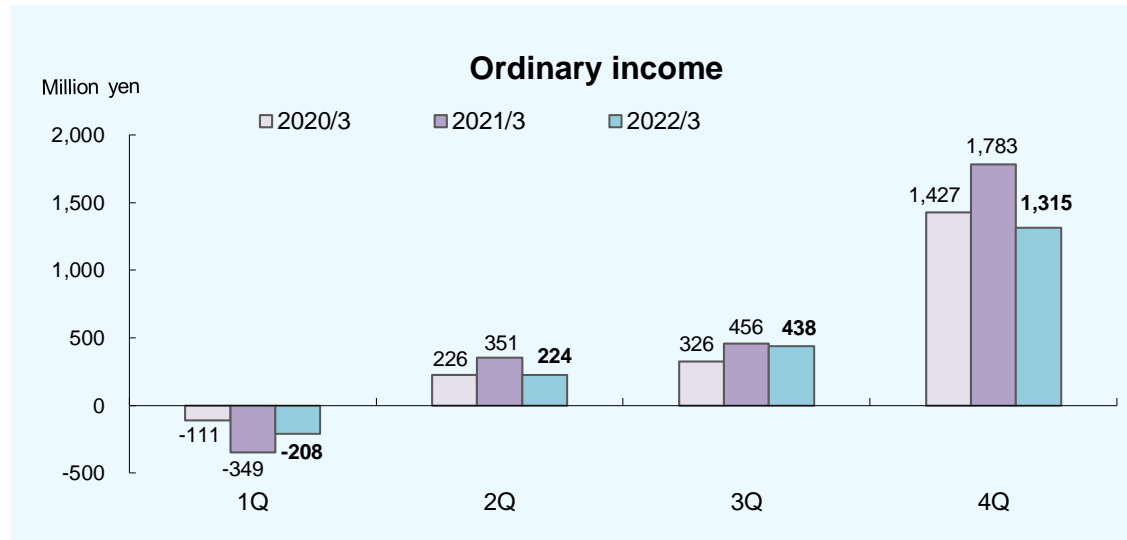
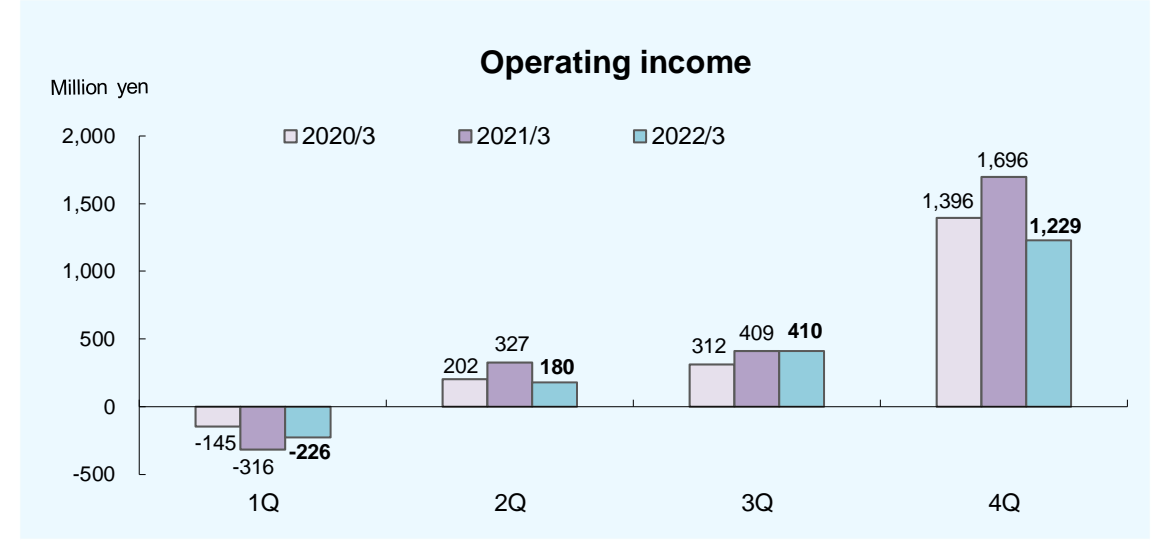
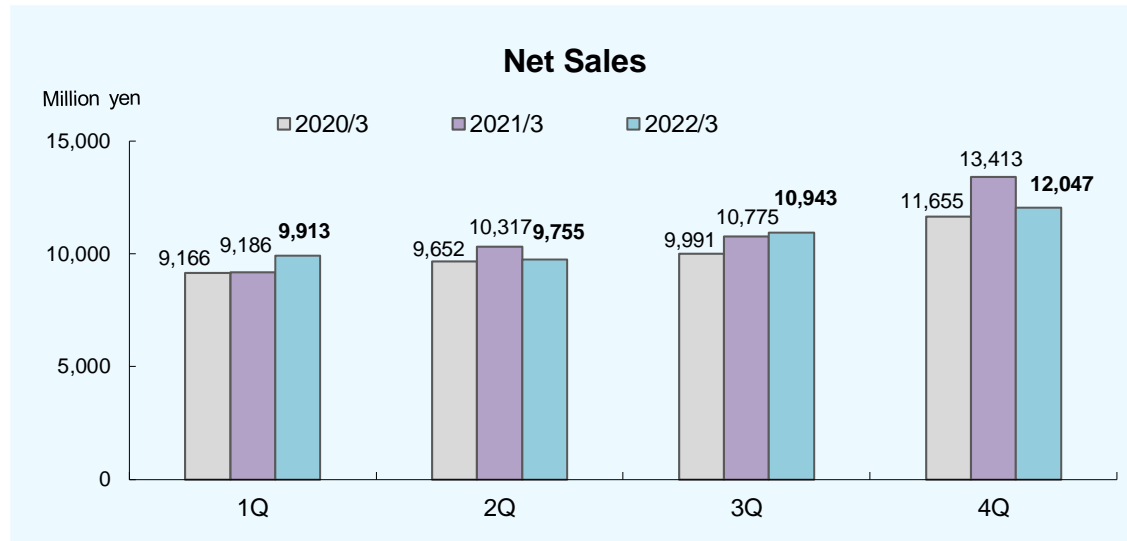
	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3
DOE	2.8%	4.2%	5.1%	5.2%	4.8%	5.2%	5.0%	5.5%	5.5%	5.5%	5.1%	5.2%	5.3%	5.2%	4.9%	4.9%
Dividend payout ratio	18.2%	98.7%	-	38.9%	45.0%	34.3%	32.7%	32.3%	31.6%	34.0%	40.5%	36.3%	56.2%	201.3%	44.8%	55.6%

(Commemorative Dividends not included)

References



Consolidated Financial Results (Quarterly)



Consolidated Financial Results and Results by Segment (Jan-Mar YoY)



(Million yen)

Subjects	4Q 2021/3	4Q 2022/3	YoY comparison	
			Difference	Change (%)
Net sales	13,413	12,047	-1,365	-10.2
Operating income	1,696	1,229	-466	-27.5
<i>Operating income ratio (%)</i>	12.7	10.2	-2.4p	-
Ordinary income	1,783	1,315	-467	-26.2
<i>Ordinary income ratio (%)</i>	13.3	10.9	-2.4p	-
Net income attributable to owners of parent	67	875	+807	+1,193.4
Sales				
Security Solutions Services (SSS) business	6,267	5,849	-418	-6.7
System Integration Services (SIS) business	7,145	6,198	-947	-13.3
Total	13,413	12,047	-1,365	-10.2
Segment margin				
Security Solutions Services (SSS) business	1,538	1,185	-353	-23.0
System Integration Services (SIS) business	1,039	1,005	-34	-3.3
Total	2,578	2,190	-388	-15.0
Company-wide common expenses	-881	-960	-78	-

Consolidated Financial Results and Results by Segment (Quarterly)



(Million yen)

Consolidated Financial Results	2020/3				2021/3				2022/3			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net sales	9,166	9,652	9,991	11,655	9,186	10,317	10,775	13,413	9,913	9,755	10,943	12,047
Cost of sales	7,433	7,714	7,897	8,476	7,571	8,117	8,565	9,860	8,094	7,670	8,581	8,858
Cost of sales / net sales (%)	81.1	79.9	79.0	72.7	82.4	78.7	79.5	73.5	81.7	78.6	78.4	73.5
Selling, general and administrative expenses	1,878	1,735	1,781	1,781	1,931	1,873	1,800	1,855	2,045	1,904	1,951	1,959
Selling, general and administrative expenses / net sales (%)	20.5	18.0	17.8	15.3	21.0	18.2	16.7	13.8	20.6	19.5	17.8	16.3
Operating income	-145	202	312	1,396	-316	327	409	1,696	-226	180	410	1,229
Operating income ratio (%)	-1.6	2.1	3.1	12.0	-3.4	3.2	3.8	12.7	-2.3	1.9	3.8	10.2
Net income attributable to owners of parent	-74	133	220	813	-210	254	193	67	-19	145	399	875
Net income attributable to owners of parent ratio (%)	-0.8	1.4	2.2	7.0	-2.3	2.5	1.8	0.5	-0.2	1.5	3.6	7.3

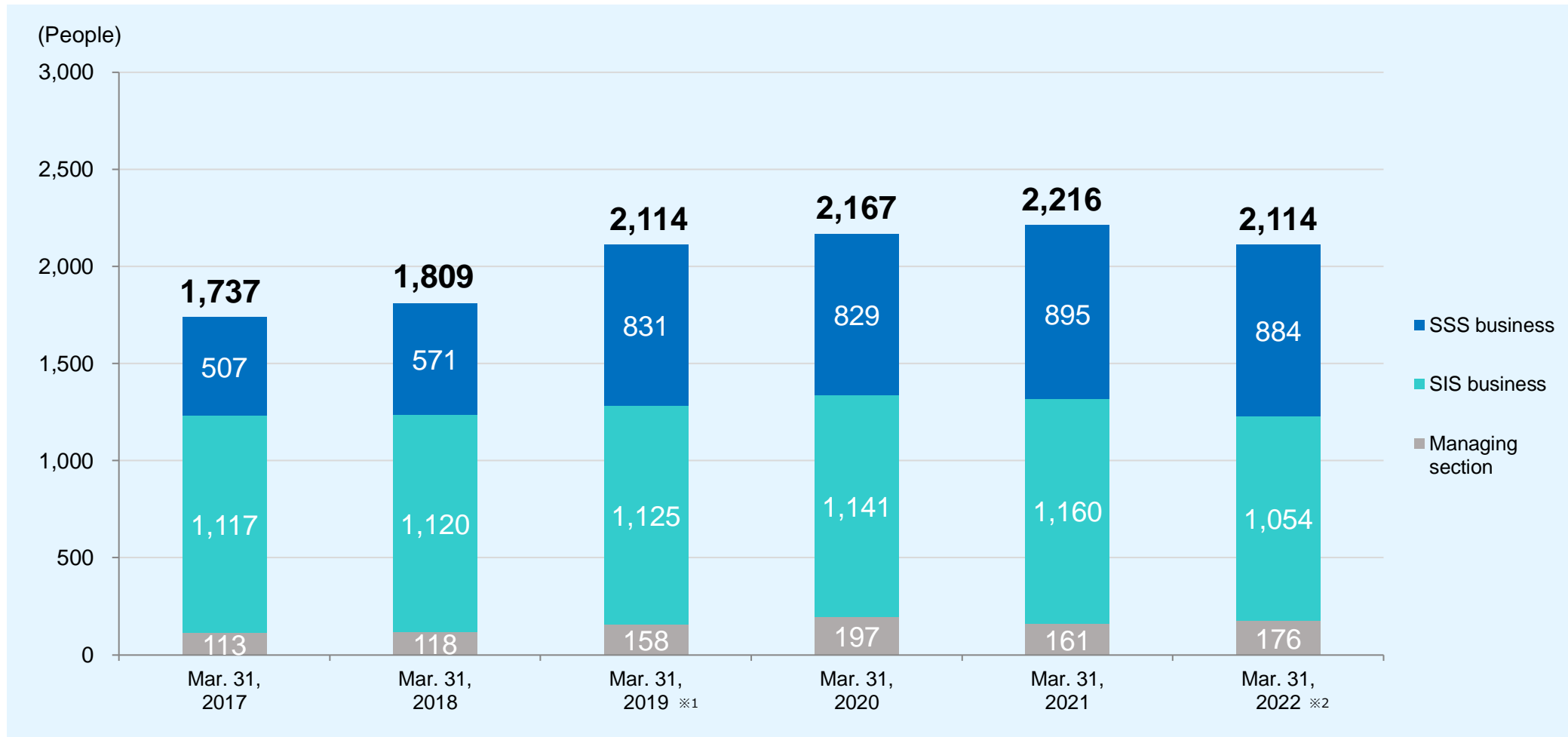
Security Solutions Services (SSS) business

Net sales	Consulting Services	517	715	688	1,224	592	777	825	1,315	740	905	881	1,209
	Assessment Services	423	440	525	941	310	591	512	1,236	411	504	464	1,072
	Monitoring Services	1,309	1,318	1,526	1,604	1,352	1,407	1,409	1,823	1,405	1,385	1,507	1,524
	Product Sales	978	869	1,113	884	1,120	960	1,601	1,380	1,555	1,261	1,570	1,661
	Maintenance Services	425	305	306	326	328	225	374	511	311	194	430	381
Total	3,653	3,650	4,160	4,981	3,704	3,963	4,724	6,267	4,425	4,251	4,854	5,849	
Segment margin	293	361	423	1,359	55	436	510	1,538	208	383	542	1,185	

System Integration Services (SIS) business

Net sales	Development Services	3,318	3,947	3,565	4,455	3,318	3,855	3,791	4,351	3,343	3,821	4,007	4,184
	Hardware and Software Sales	610	486	749	715	451	950	526	713	440	551	799	701
	IT Maintenance Services	1,252	1,173	1,188	1,054	1,335	1,149	1,357	975	1,171	711	903	641
	Solutions Services	331	394	327	448	376	399	376	1,105	532	419	378	671
Total	5,513	6,002	5,831	6,673	5,482	6,354	6,051	7,145	5,488	5,503	6,089	6,198	
Segment margin	526	695	764	919	587	808	736	1,039	507	694	778	1,005	

Company-wide common expenses	-965	-854	-875	-881	-959	-918	-837	-881	-942	-896	-909	-960
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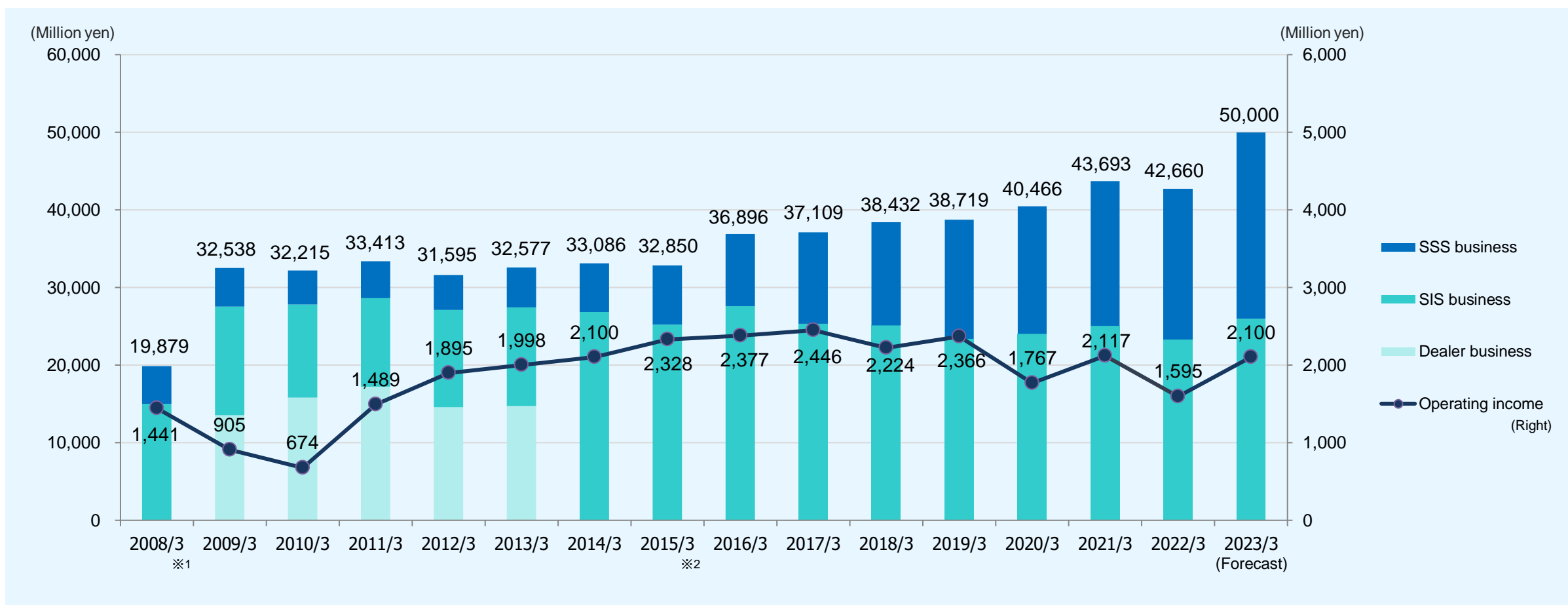
※1 From the fiscal year ended March 31, 2019, the SSS segment's consolidated headcount includes employees of Asian Link(present: LAC CyberLink), a subsidiary since April 2, 2018.

※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 May 13, 2022 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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