

LAC → **D** ←
supports your business

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



Financial Results for 1Q ended June 30, 2019

August 8, 2019

LAC Co., Ltd.

1. Outline of Financial Results for 1Q ended June 30, 2019

2. Forecasts for the year ending March 31, 2020

3. References

Net sales up but profit down sharply mainly due to investments to improve operational efficiency, including revamp of internal IT systems

(Million yen)

Subjects	2019/3 1Q	2020/3 1Q	YoY comparison	
			Difference	Change (%)
Net sales	8,749	9,166	+417	+4.8
Operating income	118	-145	-263	-
<i>Operating income ratio (%)</i>	<i>1.4</i>	<i>-1.6</i>	<i>-3.0p</i>	<i>-</i>
Ordinary income	115	-111	-226	-
<i>Ordinary income ratio (%)</i>	<i>1.3</i>	<i>-1.2</i>	<i>-2.5p</i>	<i>-</i>
Net income attributable to owners of parent	17	-74	-92	-

Business Results by Segment (YoY comparison)



SSS Business sales up but profit down; both sales and profit fell in SIS Business
Investments such as revamp of internal IT systems and office openings
drove up corporate common expenses

(Million yen)

Sales	2019/3 1Q	2020/3 1Q	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	3,194	3,653	+459	+14.4
System Integration Services (SIS) business	5,555	5,513	-41	-0.8
Total	8,749	9,166	+417	+4.8

(Million yen)

Segment margin	2019/3 1Q	2020/3 1Q	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	364	293	-70	-19.4
System Integration Services (SIS) business	548	526	-21	-3.9
Company-wide common expenses	-794	-965	-171	-
Total	118	-145	-263	-

*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, but profit down due to higher depreciation from launch of new services

● Consulting Services

Emergency response service contracts increased due to incidents involving cyberattacks, but contracts declined for internal solutions team support services.

● Monitoring Services

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

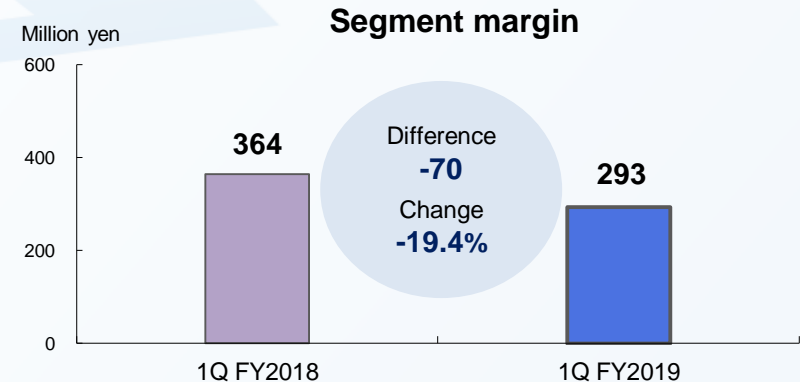
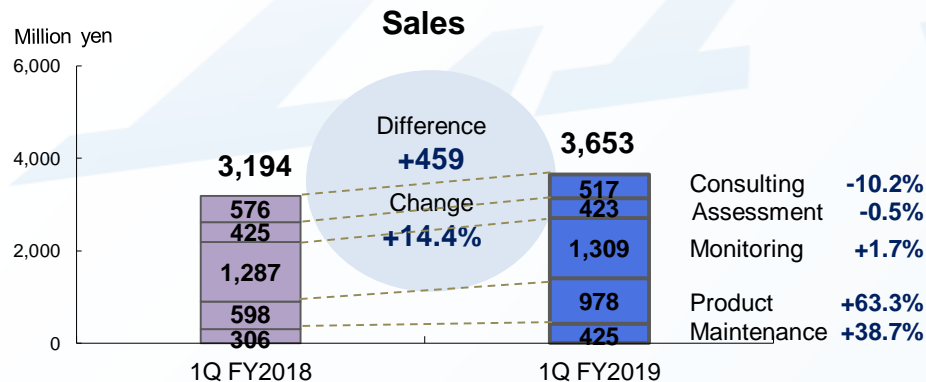
● Assessment Services

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 higher depreciation and amortization associated with the launch of new services



Hardware and Software Sales grew but both sales and profit down due to decrease in development services

● Development Services

Although projects for the information services industry were solid, no large projects were booked in 1Q unlike in the 1Q of last FY and newly ordered projects were also lagging.

● IT Maintenance Services

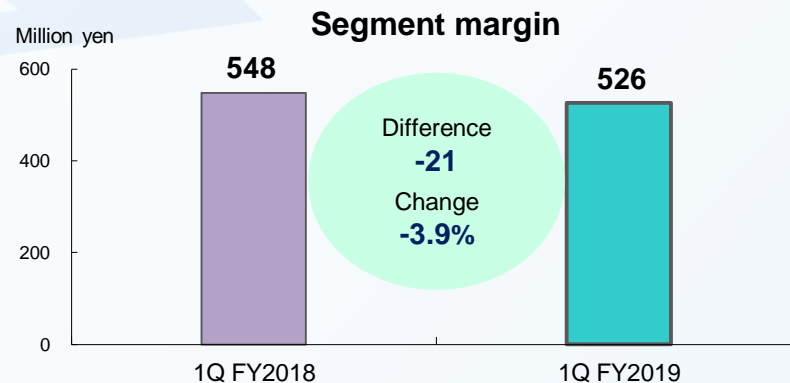
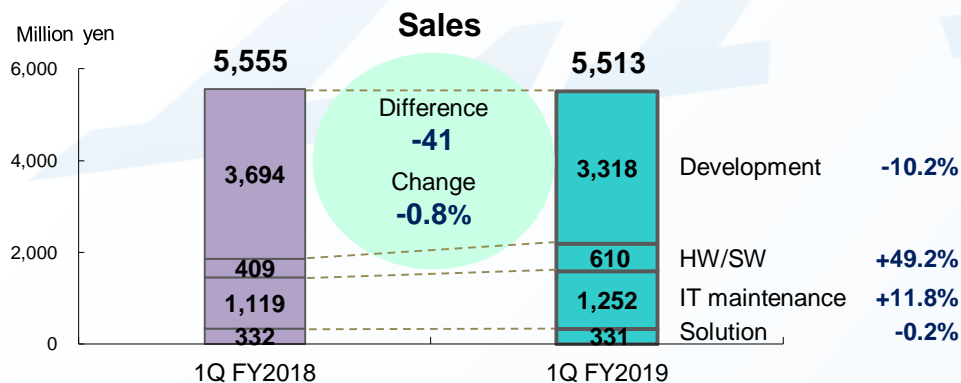
Although Hardware and Software Sales were weak in the 1Q of last FY, contract renewals have increased.

● 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 provided by subsidiary Japan Current struggled.



Highlights of Consolidated Balance Sheet at the end of 1Q



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

(Million yen)

Subjects	As of March 31, 2019	As of June 30, 2018	Change
Total Assets	22,613	20,278	-2,335
Current assets	16,464	13,699	-2,765
Noncurrent assets	6,148	6,578	+430
Total Liabilities	11,308	9,183	-2,124
Current liabilities	9,632	7,514	-2,117
Noncurrent liabilities	1,675	1,668	-6
Total net assets	11,305	11,094	-210
Cash and deposit	4,343	4,628	+285
Interest-bearing debt	2,351	2,326	-25
Shareholders' equity ratio	50.0%	54.7%	+4.7p

Point

Assets

[Current assets]

- Decrease in prepaid expenses included in "other" -2,774
- Decrease in notes and accounts receivable-trade -2,272
- Increase in advance payments included in "other" +790
- Increase in merchandise +695
- Work in process +452

Liabilities

[Current liabilities]

- Decrease in advances received included in "other" -2,543
- Increase in advance payments included in other +759
- Decrease in income taxes payable -449

Net assets

[Net assets]

- Decrease in retained earnings -200

**1. Outline of Financial Results
for 1Q ended June 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>	6.1	5.8	-0.4 p	-
Ordinary income	2,411	2,530	+118	+4.9
<i>Ordinary income ratio (%)</i>	6.2	5.8	-0.4 p	-
Net income attributable to owners of parent	1,547	1,700	+152	+9.9
ROE (%)	14.5	14.0	-0.5 p	-

(Notes)1. LAC decided against disclosing a fiscal first-half forecast because (1) the Japanese information services industry's sales and profits have a seasonal tendency to be disproportionately concentrated in the fiscal second-half and LAC is no exception to this tendency; and (2) LAC's earnings have the potential to fluctuate substantially on a short-term basis.

2. 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

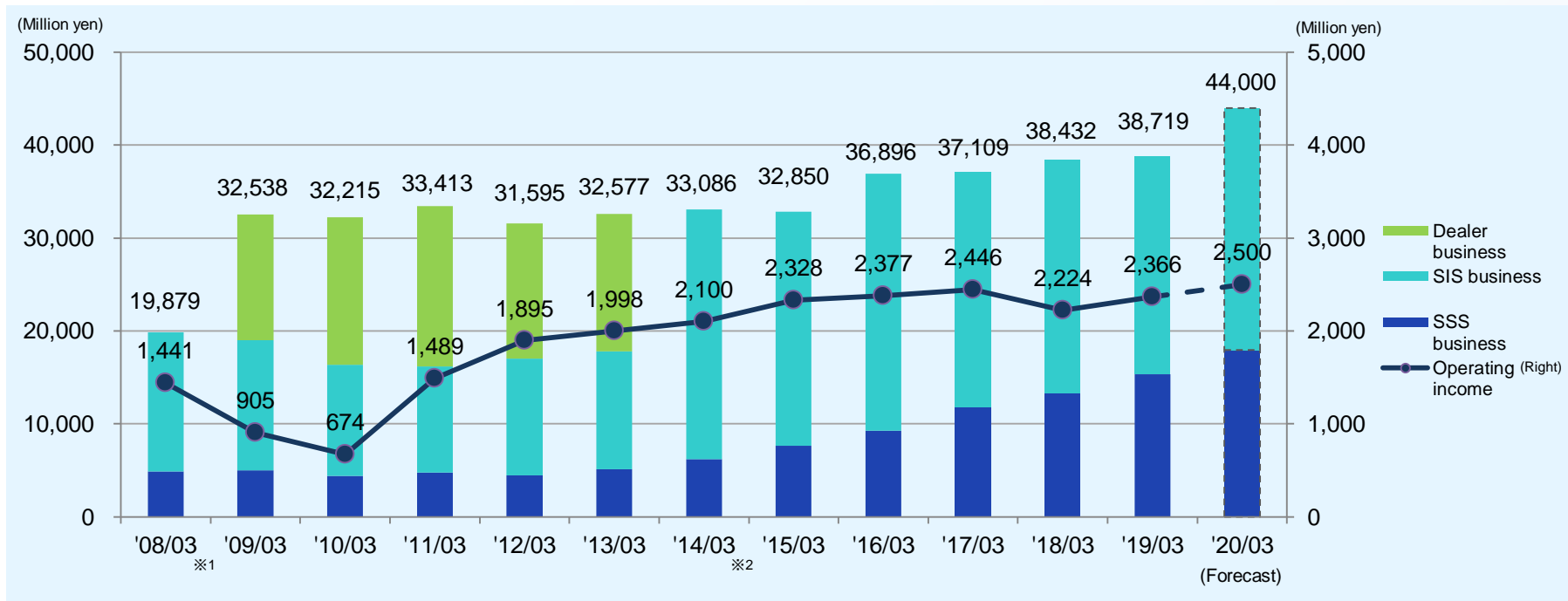
(Million yen)

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

Performance



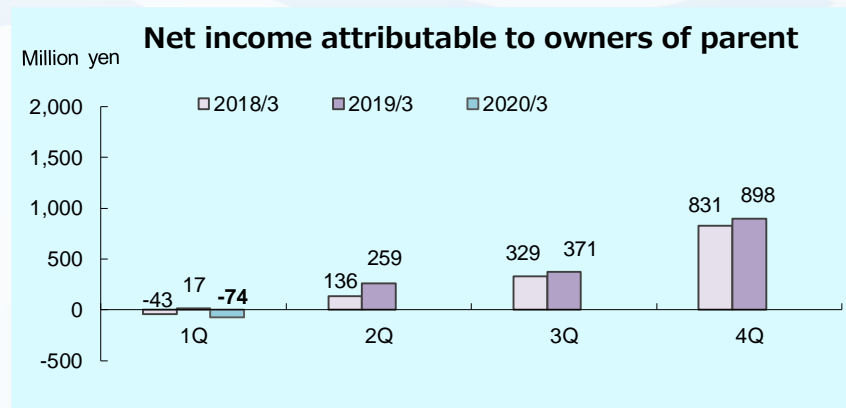
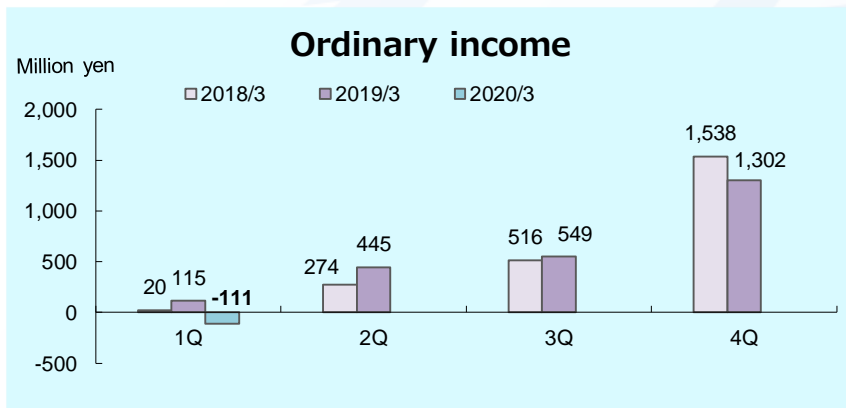
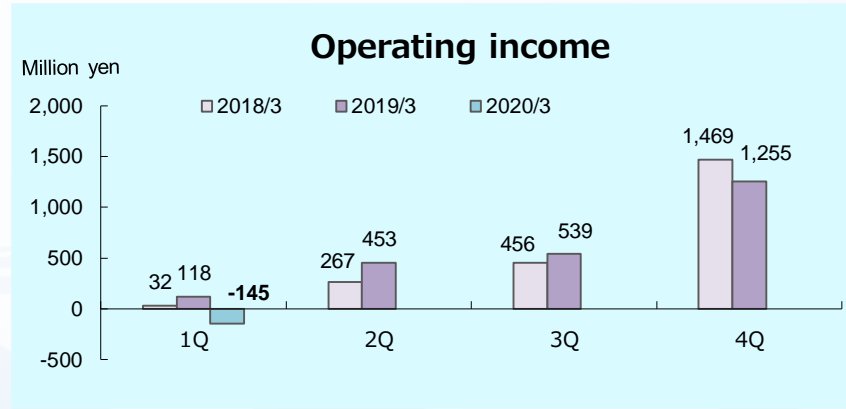
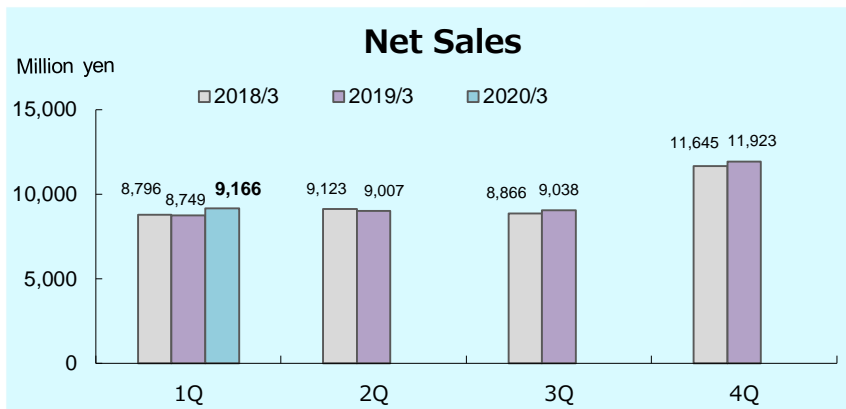
※1 Earnings for the fiscal year ended March 31, 2008, the fiscal year in which Little eArth Corporation Co., Ltd. and A&I System Co., Ltd., initiated their management integration, include Little eArth Corporation's net sales and operating income for the 15 months from January 2007 through March 2008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

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March 31, 2020**

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Financial Results for the year ending March 31, 2019 (Quarterly)



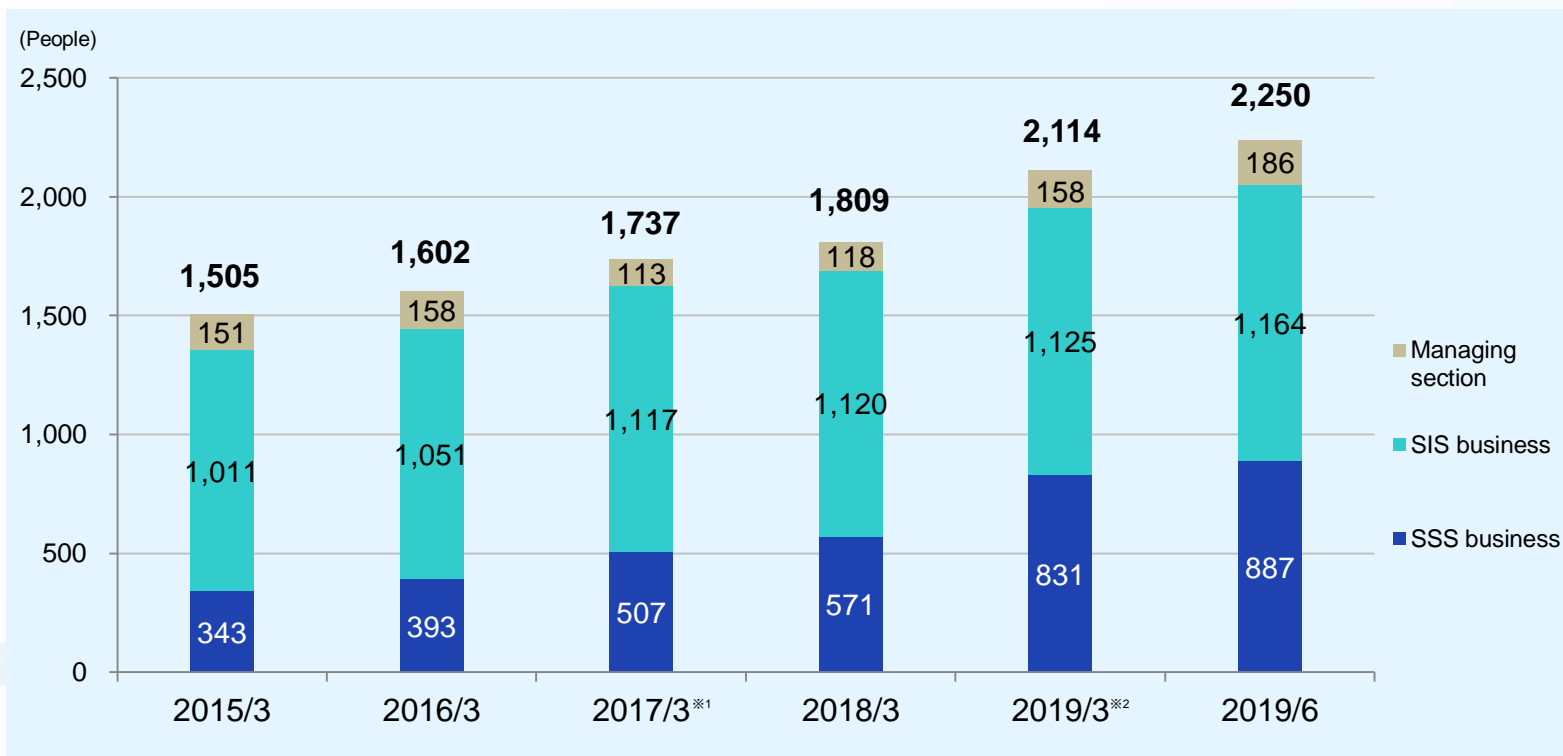
Business Forecasts by Subsegment for 1Q (Apr. - Jun.)



(Million yen)

Sales	2019/3		2020/3		YoY comparison	
	1 Q	Composition (%)	1 Q	Composition (%)	Deference	Change (%)
Security Solutions Services (SSS) business	3,194	36.5	3,653	39.9	+459	+14.4
Security Consulting Services	576	6.6	517	5.6	-58	-10.2
Security Assessment Services	425	4.9	423	4.6	-2	-0.5
Security Monitoring Services	1,287	14.7	1,309	14.4	+22	+1.7
Security Product Sales	598	6.8	978	10.7	+379	+63.3
Security Maintenance Services	306	3.5	425	4.6	+118	+38.7
System Integration Services (SIS) business	5,555	63.5	5,513	60.1	-41	-0.8
Development Services	3,694	42.2	3,318	36.2	-375	-10.2
Hardware and Software Sales	409	4.7	610	6.7	+201	+49.2
IT Maintenance Services	1,119	12.8	1,252	13.7	+132	+11.8
Solutions Services	332	3.8	331	3.5	-0	-0.2
Total	8,749	100.0	9,166	100.0	+417	+4.8

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.





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