

LAC → **D** ←
supports your business

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



Financial Results for 3Q ended December 31, 2019

February 7, 2020

LAC Co., Ltd.

1. Outline of Financial Results for 3Q ended December 31, 2019

2. Forecasts for the year ending March 31, 2020

3. References

Highlights of 3Q Consolidated Financial Results (YoY comparison)



Net sales up on increased security product and hardware/software sales, which offset lower service sales in SSS business

Profits down considerably mainly due to increased corporate common expenses and upfront investments in structural reinforcement of SSS business

(Million yen)

Subjects	2019/3 3Q	2020/3 3Q	YoY comparison	
			Difference	Change (%)
Net sales	26,795	28,810	+2,015	+7.5
Operating income	1,111	370	-740*	-66.7
<i>Operating income ratio (%)</i>	4.1	1.3	-2.8p	-
Ordinary income	1,109	441	-667	-60.2
<i>Ordinary income ratio (%)</i>	4.1	1.5	-2.6p	-
Net income attributable to owners of parent	648	278	-370	-57.1

*Includes corporate common expenses of ¥403mn. (approx.¥200million 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 3Q	2020/3 3Q	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	10,401	11,464	+1,062	+10.2
System Integration Services (SIS) business	16,393	17,346	+952	+5.8
Total	26,795	28,810	+2,015	+7.5

(Million yen)

Segment margin*	2019/3 3Q	2020/3 3Q	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	1,512	1,078	-433	-28.7
System Integration Services (SIS) business	1,891	1,986	+95	+5.0
Total	3,403	3,065	-337	-9.9
Company-wide common expenses	-2,292	-2,695	-403	-

*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 dented by upfront investments in structural reinforcement and higher depreciation with launch of new services

- Consulting Services**

Contracts declined for internal security solutions team support services

- Assessment Services**

Platform assessments that examine companies' internal network vulnerabilities increased, but ongoing web application assessment projects etc. declined

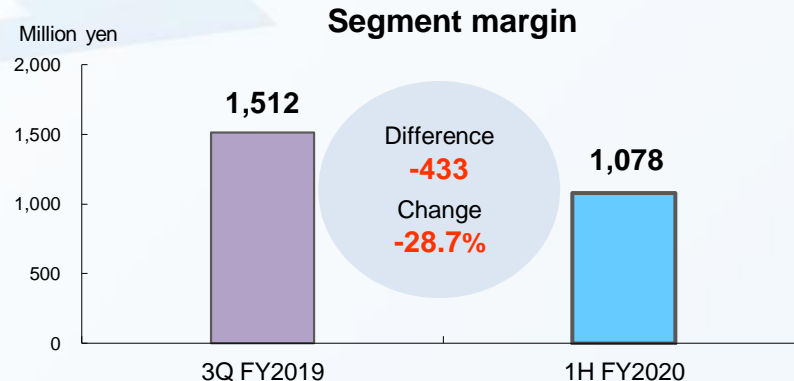
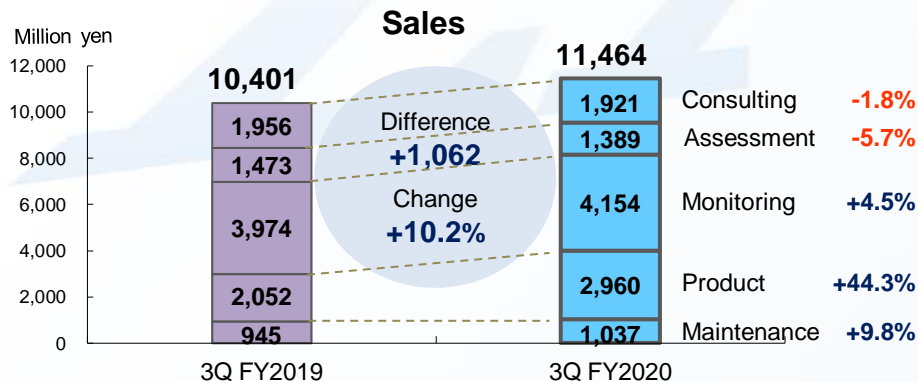
- Monitoring Services**

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

- Product Sales**

Sales of web security products that also prevent denial-of-service attacks continued to grow, while sales contributions also came from products that examine information on potential threats.

Segment margin declined, mainly owing to upfront investments for structural reinforcement such as recruitment and training, as well as higher depreciation and amortization associated with launch of new services



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

● Development Services

3Q results were affected by the absence of sales and work-in-process related to large-scale projects posted in 3Q 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.

● Hardware and Software Sales

HW/SW sales were weak last FY, but have increased in the first three months thanks mainly to a rise in contract renewals etc.

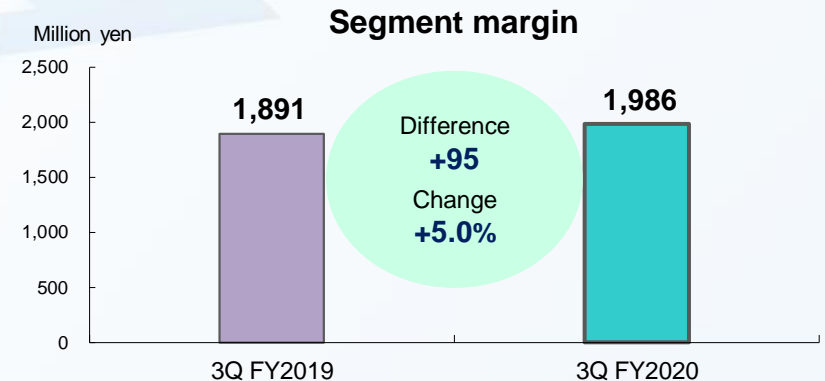
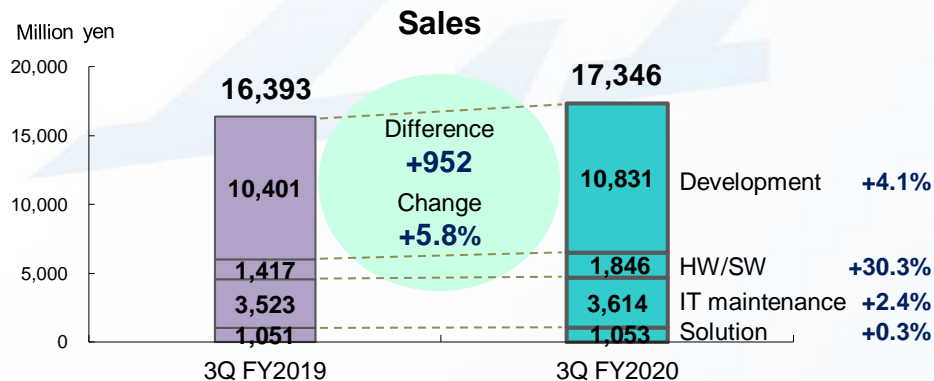
● IT Maintenance Services

HW/SW sales were weak last FY, but have increased in the first three months thanks mainly to a rise in contract renewals etc.

● Solutions Services

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

Segment profit up due to impact of increased sales (primarily the increase in hardware/software sales)



Highlights of Consolidated Balance Sheet)



Ensuring a stable financial base while continuing to maintain adequate funds to meet operational requirements

(Million yen)

Subjects	As of March 31, 2019	As of December 31, 2019	Change
Total Assets	22,613	21,758	-854
Current assets	16,464	14,692	-1,771
Noncurrent assets	6,148	7,065	+917
Total Liabilities	11,308	10,603	-704
Current liabilities	9,632	9,283	-349
Noncurrent liabilities	1,675	1,320	-355
Total net assets	11,305	11,154	-150
Cash and deposit	4,343	4,699	+356
Interest-bearing debt	2,351	3,922	+1,570
Shareholders' equity ratio	50.0%	51.3%	+1.3p

Point

Assets

[Current assets]

- Decrease in notes and accounts receivable-trade -1,624
- Decrease in prepaid expenses included in "other" -2,816
- Increase in advance payments included in "other" +745
- Increase in merchandise +667

[Noncurrent assets]

- Increase in software included in "other" +724

Liabilities

[Current liabilities]

- Increase in short-term debt +2,000
- Increase in advance payments included in other" +552
- Decrease in advances received included in "other" -2,779

Net assets

[Net assets]

- Decrease in retained earnings -133

**1. Outline of Financial Results
for 3Q ended December 31, 2019**

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

3. References

Revising our earnings estimates to reflect conditions in first 3 quarters

Key points

- **We expect both net sales and profits in the SSS business to fall short of plan due to delays in establishing a sales system for the CloudFalcon monitoring system for mid-tier firms and SMEs and delays in the launch of endpoint security solutions and other services.**
- **We expect both net sales and profits in the SIS business to fall short of plan owing to the discontinuation of new development projects factored in to our forecasts, in addition to difficulty securing new orders because some large contracts required unexpected additional work.**
- **Furthermore, costs have increased because we have actively stepped up investments in the recruitment and training of employees and the development of new services with the aim of bolstering the business platform for future growth.**

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



Expecting net sales to fall short of our forecast
Expecting profits to substantially undershoot our forecasts as service sales in both business segments fall short of plan

(Million yen)

Subjects	2020/3 Forecasts (May 13, 2019)	2020/3 Forecasts (Feb. 7, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Net sales	44,000	40,500	-3,500	-8.0
Operating income	2,500	1,650	-850	-34.0
<i>Operating income ratio (%)</i>	5.8	4.0	-1.7 p	-
Ordinary income	2,530	1,700	-830	-32.8
<i>Ordinary income ratio (%)</i>	5.8	4.1	-1.6 p	-
Net income attributable to owners of parent	1,700	1,000	-700	-41.2
ROE (%)	14.0	8.6	-5.4 p	-

(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 (Comparison with Previous Forecasts)

Security Solutions Services (SSS) business



Expecting product sales to beat plan, but service sales expected to fall considerably short

(Million yen)

	2020/3 Forecasts (May 13, 2019)	2020/3 Forecasts (Feb. 7, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Sales	18,000	16,460	-1,540	-8.6
Segment margin	3,150	2,380	-770	-24.4

- Even though the damage from targeted attacks and other types of cyber attacks are still increasing and contracts for emergency response services etc. are growing, we expect net sales to fall short of plan because sales of the CloudFalcon monitoring system for mid-tier firms and SMEs, as well as for endpoint security solutions and other new services, have not increased.
- We expect segment profit to come in much lower than our forecast because we were unable to expand sales commensurate with higher depreciation and amortization costs associated with the launch of new services and an increase in employees for reinforcing our framework in anticipation of demand growth.
- At the same time, we aim to expand sales next fiscal year by leveraging our reinforced framework as we expect to see growth in demand for endpoint security solutions and supply chain measures involving group companies.

Business forecasts by Segment (Comparison with Previous Forecasts) System Integration Services (SIS) business



Expecting hardware/software sales to beat plan, but development services will likely fall considerably short

(Million yen)

	2020/3 Forecasts (May 13, 2019)	2020/3 Forecasts (Feb. 7, 2020)	Comparison with Previous Forecasts	
			Difference	Change (%)
Sales	26,000	24,040	-1,960	-7.5
Segment margin	3,500	2,830	-670	-19.1

- Despite strong IT investment demand fueling inquiries, we expect both net sales and profits to fall short of plan owing to the discontinuance of new development projects factored in to our forecasts, in addition to difficulty securing new orders because some large contracts required unexpected additional work.
- We are currently rolling out new services centering on the Agile Development Center and killer tools with the aim of transitioning to customer problem-solving SI services. We anticipate full-fledged earnings contributions from next fiscal year.
- The additional work on some large projects has wrapped up and having shifted engineers to cloud projects for which inquiries remain brisk, we aim to boost earnings next fiscal year as contracts expand.

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



Forecasting an increase in net sales but a decline in profits due to lower service sales and higher depreciation/amortization in SSS business and investment in companywide operational efficiency improvements

(Million yen)

Subjects	2019/3 Results	2020/3 Forecasts	YoY comparison	
			Difference	Change (%)
Net sales	38,719	40,500	+1,780	+4.6
Operating income	2,366	1,650	-716	-30.3
<i>Operating income ratio (%)</i>	6.1	4.0	-2.1 p	-
Ordinary income	2,411	1,700	-711	-29.5
<i>Ordinary income ratio (%)</i>	6.2	4.1	-2.1 p	-
Net income attributable to owners of parent	1,547	1,000	-547	-35.4
ROE (%)	14.5	8.6	-5.9 p	-

(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)



Forecasting sales increase and profit decline in SSS business,
higher sales and profit in SIS business

(Million yen)

Sales	2018/3 Results	2019/3 Forecasts(Feb. 7, 2020)	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	15,337	16,460	+1,122	+7.3
System Integration Services (SIS) business	23,381	24,040	+658	+2.8
Total	38,719	40,500	+1,780	+4.6

(Million yen)

Segment margin	2018/3 Results	2019/3 Forecasts(Feb. 7, 2020)	YoY comparison	
			Difference	Change (%)
Security Solutions Services (SSS) business	2,632	2,380	-252	-9.6
System Integration Services (SIS) business	2,800	2,830	+29	+1.1
Total	5,433	5,210	-223	-4.1

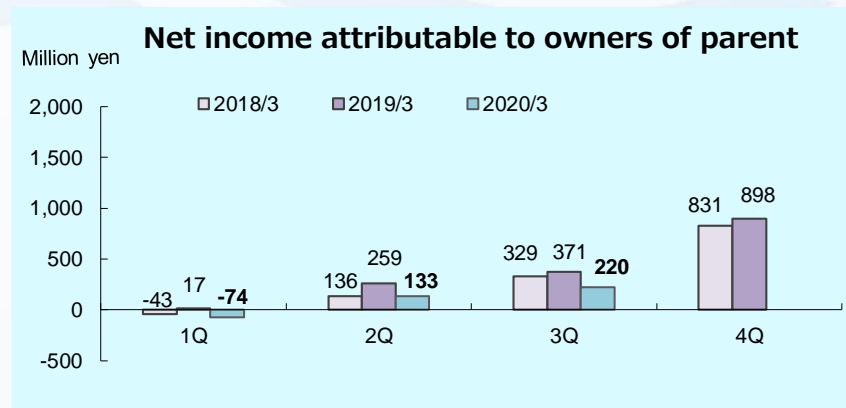
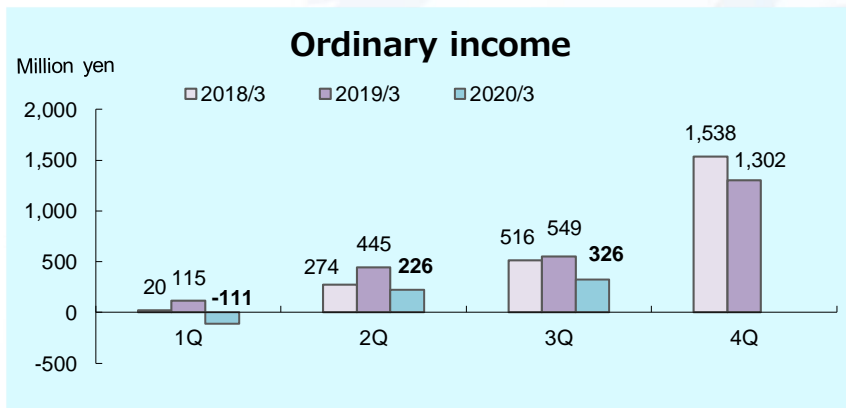
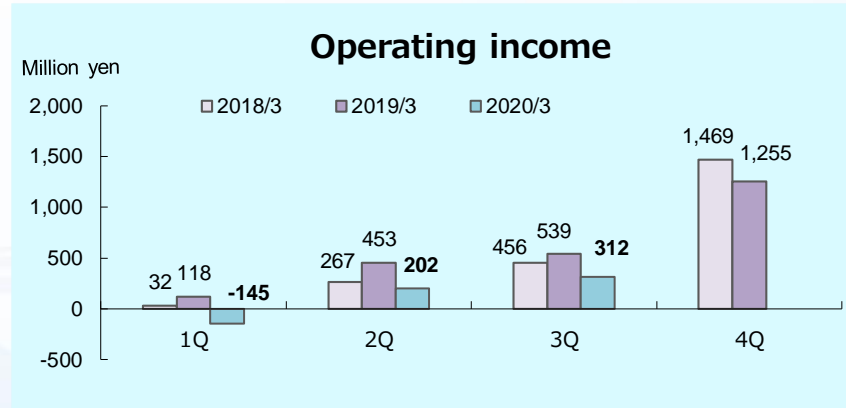
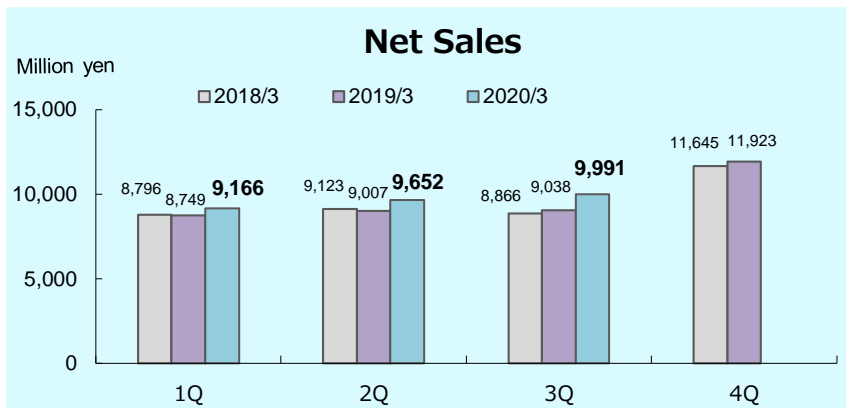
Company-wide common expenses	-3,066	-3,560	-493	-
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*Segment margin is profit that includes business-related SG&A expenses but before the incorporation of corporate common expenses.

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

3. References

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



Business Forecasts by Subsegment for 3Q (3 months)



(Million yen)

Net Sales	2019/3		2020/3		YoY comparison	
	3Q (3 months)	Composition (%)	3Q (3 months)	Composition (%)	Deference	Change (%)
Security Solutions Services (SSS) business	3,594	39.8	4,160	41.6	+566	+15.7
Security Consulting Services	639	7.1	688	6.9	+48	+7.6
Security Assessment Services	549	6.1	525	5.3	-23	-4.3
Security Monitoring Services	1,388	15.4	1,526	15.3	+137	+9.9
Security Product Sales	687	7.6	1,113	11.1	+425	+61.9
Security Maintenance Services	328	3.6	306	3.1	-22	-6.7
System Integration Services (SIS) business	5,443	60.2	5,831	58.4	+387	+7.1
Development Services	3,379	37.4	3,565	35.7	+185	+5.5
Hardware and Software Sales	471	5.2	749	7.5	+277	+58.8
IT Maintenance Services	1,220	13.5	1,188	11.9	-32	-2.6
Solutions Services	371	4.1	327	3.3	-43	-11.8
Total	9,038	100.0	9,991	100.0	+953	+10.5

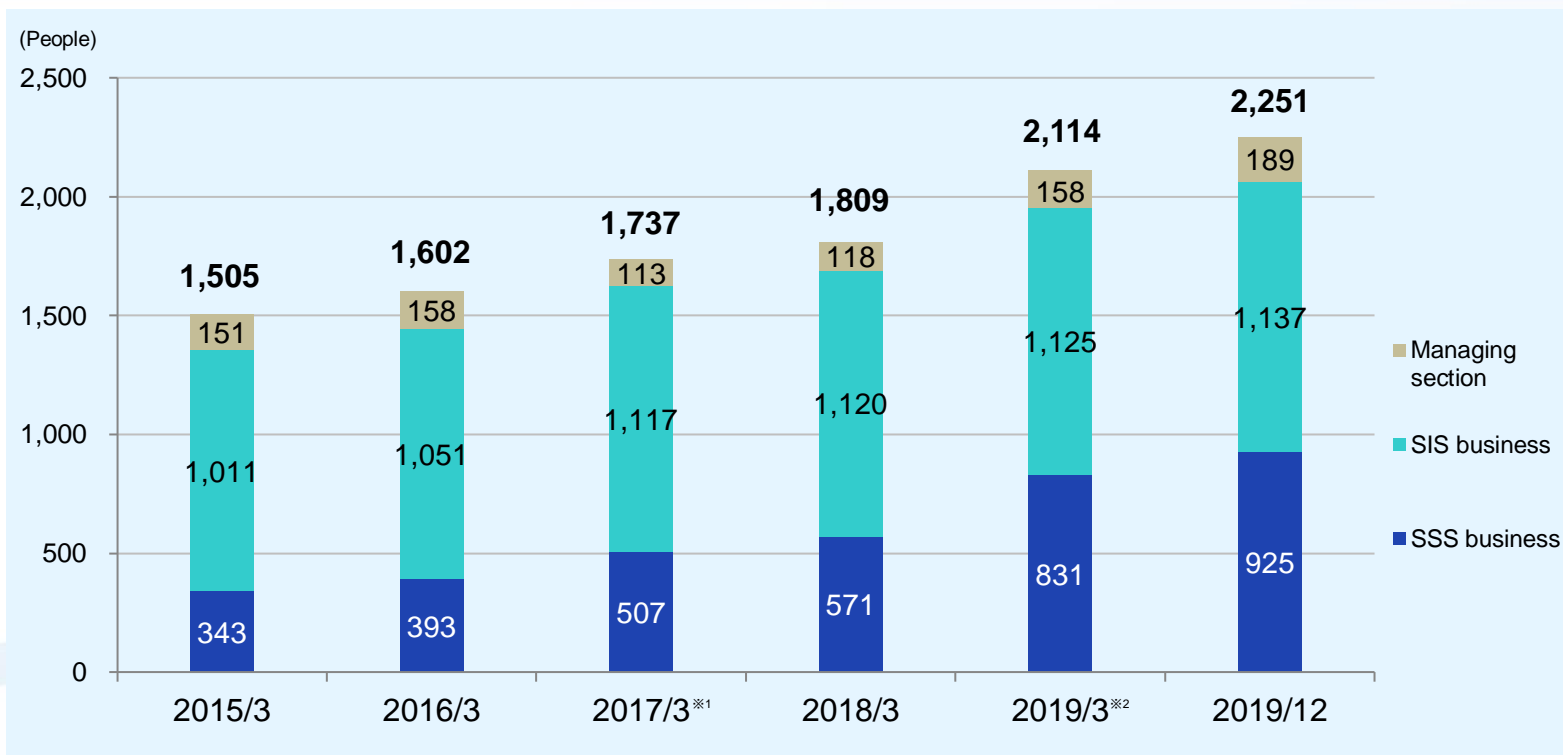
Business Forecasts by Subsegment for 3Q (9 months)



(Million yen)

Net Sales	2019/3		2020/3		YoY comparison	
	3Q (9 months)	Composition (%)	3Q (9 months)	Composition (%)	Deference	Change (%)
Security Solutions Services (SSS) business	10,401	38.8	11,464	39.8	+1,062	+10.2
Security Consulting Services	1,956	7.3	1,921	6.7	-35	-1.8
Security Assessment Services	1,473	5.5	1,389	4.8	-83	-5.7
Security Monitoring Services	3,974	14.8	4,154	14.4	+180	+4.5
Security Product Sales	2,052	7.7	2,960	10.3	+908	+44.3
Security Maintenance Services	945	3.5	1,037	3.6	+92	+9.8
System Integration Services (SIS) business	16,393	61.2	17,346	60.2	+952	+5.8
Development Services	10,401	38.9	10,831	37.6	+429	+4.1
Hardware and Software Sales	1,417	5.3	1,846	6.4	+429	+30.3
IT Maintenance Services	3,523	13.1	3,614	12.5	+91	+2.6
Solutions Services	1,051	3.9	1,053	3.7	+2	+0.3
Total	26,795	100.0	28,810	100.0	+2,015	+7.5

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.

■ Launch of operations at joint venture Red Team Technologies (Dec 2019)

On December 1 we established a joint venture company called Red Team Technologies Co., Ltd. with DIGITAL HEARTS Co., Ltd. and commenced operations.

The joint venture provides cloud-based penetration testing services utilizing some of the world's leading white hat hackers. The company is capable of meeting growing demand with services that are cheaper and faster. Client companies include those that view cyber security as a management issue, such as major financial institutions, large distribution firms, and payment settlement agencies.

■ Offering “Terraform Enterprise” for automation of multi-cloud platform creation and management (Dec 2019)

We started offering HashiCorp Japan’s Terraform Enterprise, a solution that makes the creation and management of cloud-based infrastructure much easier, faster, and more reliable, thanks to the ability to program code directly from traditional GUIs.

Even if the infrastructure needs to span hundreds or thousands of cloud platforms, Terraform Enterprise can get the job done accurately and quickly without human error by automating the building and modification of infrastructure environments without the need for manual GUI-based operations.

■ Plan to start offering Secure Coding Checker under asset transfer agreement (April 2020)

We concluded an asset transfer agreement with Sony Digital Network Applications, Inc., the company that provides the Secure Coding Checker tool for finding security vulnerabilities in Android apps.

Developers can simply upload an app from a web browser and comprehensively scan it for issues. The tool then shows where and why issues exist and provides links to the relevant sections of the JSSEC’s Secure Coding Guidebook, providing a rapid and simple way to gain information on how such issues can be solved.



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