

1. Business Highlights for the Three Months of 38th Business Period (Fiscal Year Ending March 31, 2022)

(1) Qualitative Information on Consolidated Results of Operations

During the three months ended June 30, 2021, the outlook for the Japanese economy remains uncertain amid the ongoing impact of the novel coronavirus (COVID-19), with the declaration of a third state of emergency in April 2021, targeted measures to prevent the spread of COVID-19, and significant delays in vaccinations.

In society as a whole, rapid progress is being made in digitization as seen in telework, online diagnosis, and online classes (the GIGA School Program), which has further highlighted the importance of cybersecurity measure products and services that support safety and security in a digital society. Under these circumstances, in the Information Infrastructure Business, our core business, demand remains robust for our cloud-based security measure products. In the Application Services Business, we also steadily expanded the number of users of Personal Health Record (PHR) services for individual customers in the Healthcare field, accelerated our AI medical image diagnosis support services, made efforts to accelerate the CRM field business development in the ASEAN market, and steadily promoted our full launch of the training services, our new business, from the outset. Demand for testing tools that ensure the quality of embedded software and IT systems for corporations have started to recover.

With a mission statement of being “the IT professional group who create a better future,” the Company announced the new Medium-term Management Plan “BEYOND THE NEW NORMAL” on May 10, 2021. In the future, as “digital” is built into every corner of society and digital transformation (DX), which reforms business models using digital technology, advances rapidly, the Company sees this rapid shift to digitization and the dramatic restructuring of industry as a new growth opportunity and aims to contribute to the creation of a sustainable society by providing services to solve social issues. The spread of COVID-19 has prompted us to shift to a new mode of life called the “New Normal.” In the new Medium-term Management Plan, we will accelerate businesses oriented toward domains that will be essential to society, incorporating an SDG perspective with an eye on the new society to come after the “New Normal.”

The new Medium-term Management Plan “BEYOND THE NEW NORMAL” states seven key strategies to be achieved while carrying on with the core business strategies of the previous Medium-term Management Plan “GO BEYOND 3.0.”

- The core business strategies (continued)
 - Strategic and accelerated promotion of cloud-related businesses
 - Pursuit of security and safety
- The seven key strategies
 - 1) Expanding portfolio of products and services
 - 2) Accelerated servicization (increasing service ratio)
 - 3) Utilization of data (including use of AI)
 - 4) Diverse alliances/M&A (Expansion of existing business, Creation of new business)
 - 5) Expanding business in the overseas market
 - 6) Creation of synergies by strengthening group collaboration
 - 7) Human resource development/Organizational development (including promotion of diversity)

Our Group implemented the following initiatives in accordance with the above business strategies.

◇ Information Infrastructure Business

First quarter ended June 30, 2021

- CROSS HEAD launched a remote support service for transitioning to the cloud version of Cybozu’s Office.
- CROSS HEAD launched a plugin that links the workflow functions of Cybozu’s Garoon with kintone.
- Awarded the “Best Distributor of the Year” from McAfee Co., Ltd.
- Started sales of Vectra AI “Cognito Platform,” a next-generation network AI security product that

visualizes potential threats in networks and achieves early detection by utilizing AI.

◇ Application Services Business

First quarter ended June 30, 2021

- Healthcare field: NOBORI Ltd. started linking its PHR application developed in-house with MCI Screen® provided by MILLENNIA Corporation.
- CRM field: Started linking CRM system for call centers “FastHelp5” with RevComm’s voice analysis AI telephone service “MiiTel.”
- Software Quality Assurance field: Started sales of solutions for establishing software development infrastructure, which support CI/CD, software configuration management, and cloud infrastructure construction.
- Software Quality Assurance field: Launched a cloud version of test case management tool “TestRail.”
- Business Solution field: Introduced the cloud service “tsumugino” for Yokohama Soei Junior & Senior High School, educational organization Horii Gakuen.
- Business Solution field: Introduced the cloud service “tsumugino” for Nitobe Bunka Junior & Senior High School, educational organization Nitobe Bunka Gakuen.
- Business Solution field: Development Bank of Japan Inc. adopted TECHMATRIX’s “FINCAD CVA Measurement Service.”
- CASAREAL, Inc. participated in the business partner program of NPO LPI-Japan.

As a result of the above, revenue during the three months ended June 30, 2021 increased ¥97 million (1.3%) year on year to ¥7,612 million, achieving a record high. Gross profit decreased ¥47 million (1.8%) year on year to ¥2,602 million. Selling, general and administrative expenses increased ¥268 million (15.9%) year on year to ¥1,955 million, due to an increase in personnel expenses and other factors. Accordingly, operating profit decreased ¥316 million (32.8%) year on year to ¥647 million.

Consequently, profit before tax decreased ¥317 million (32.9%) year on year to ¥648 million, and profit attributable to owners of parent decreased ¥222 million (34.2%) year on year to ¥427 million.

Results by operating segment were as follows:

1) Information Infrastructure Business

Results of the Information Infrastructure Business for the three months ended June 30, 2021 were strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new large-scale projects. Orders are on the increase for cloud security measure products with subscription-based pricing models. Sales in western Japan have also remained strong from the previous fiscal year.

Meanwhile, growth in revenue and operating profit for the three months ended June 30, 2021 appear to have slowed down year on year because during the three months ended June 30, 2020, there was a special demand for security-related products that support remote working which surged due to the rapid spread of COVID-19, and selling, general and administrative expenses were suppressed due to the cancellation of large-scale exhibitions to acquire new customers and other factors. However, figures including orders received are significantly exceeding internal plans.

By product, with regard to the mainstay next-generation firewalls, demand for cloud-based services is rapidly expanding. Large-scale orders for swift development of a remote working environment and for centralization of security measures in various business locations have contributed to expansion of the business. Storage products for media and entertainment industries also showed steady results.

Orders and sales of integrated security operation and monitoring services were also favorable. In addition, a new generation of security measure products, including “Cloud Access Security Broker (CASB)” that supports security for the era of the cloud, “Secure Access Service Edge (SASE),” “Cyber Hygiene,” and “Software Defined Perimeter (SDP)” are also attracting attention with an increase in adoption.

CROSS HEAD is having some difficulty in receiving new orders for infrastructure development projects.

At Okinawa Cross Head Co., Ltd., sales of security-related products and remote desktop services remained strong owing to adoption of telework. Profitability also improved due to business restructuring.

As a result, revenue of the business increased ¥82 million (1.6%) year on year to ¥5,267 million, achieving a record high, while operating profit decreased ¥130 million (18.1%) year on year to ¥592 million.

2) Application Services Business

As with the Information Infrastructure Business, new orders of the Application Services Business for the three months ended June 30, 2021 were solid. However, the increase in sales revenue was limited, and operating profit paled in comparison to figures from the previous fiscal year as a result of postponing the recording of sales due to delays in receiving orders in some businesses, deferred sales from the increase in subscription-based licenses, an increase in promotional expenses from participating in exhibitions, etc., and reflecting an operating loss from including in the scope of consolidation subsidiaries that are still in the investment stage.

In the Healthcare field, orders for “NOBORI,” a cloud service for healthcare information offered by NOBORI Ltd., have remained strong, and the cumulative number of contracting facilities increased. In addition, service contracts with existing users have been renewed without exception. Meanwhile, upfront investments are continuing in projects such as the development of PHR services targeted at consumers (patients) and the joint development of medical image diagnostic support systems in conjunction with AI venture companies and doctors, and they have achieved strong results. Although Ichigo LLC was affected by the spread of COVID-19 in the previous fiscal year, the performance for the three months ended June 30, 2021 were robust, with health checkup facilities and medical institutions gradually coming back to normal operation since the second half of the previous fiscal year. There has also been a steady increase in orders for a medical radiation dose management system “MINCADI,” which was developed by A-Line Co., Ltd.

In the CRM field, new orders increased steadily thanks to enhanced competitiveness from entry of the next-generation products and functionally enhanced FAQ systems into the market, business collaborations with a major system integrator and telemarketing vendor, expanding demand for cloud services, improved name recognition, and the expansion of business performance. However, orders tend to delay as it has been in the previous fiscal year, and revenue and operating profit paled in comparison to the previous fiscal year.

In the Software Quality Assurance field, although results were impacted by the slowdown in investment in the manufacturing industry due to the spread of COVID-19 in the previous fiscal year, investment has trended toward recovery in the three months ended June 30, 2021. In addition, with the further application of IT in automobiles, there was a strong need for improvement in the quality of embedded software in the manufacturing industry, etc., which develops in-vehicle software. Thus, the order-taking environment has improved significantly compared to the previous fiscal year and is off to a strong start. However, revenue and operating profit tended to struggle as orders of subscription-based licenses are increasing and sales are deferred based on contract periods.

In the Business Solutions field, orders for system development projects were robust for public academic institutions, one of our existing customers. In the field of risk management for financial institutions, we are steadily capturing development demand to accommodate the abolition of LIBOR. Information Design & Architecture Yamazaki Co., Ltd. is having some difficulty in receiving orders for new projects.

CASAREAL, Inc. worked to increase orders for training services through online training courses in tandem with providing face-to-face IT training, but has been considerably affected by the repeated declaration of the state of emergency. Demand has increased for consulting services specializing in cloud-related technologies.

We significantly strengthened sales and marketing activities for the training services, a new business, to fully launch business from the outset. Furthermore, we are continuing active investment in the ASEAN market in the CRM field to accelerate business development in this market.

As a result, revenue of the business increased ¥14 million (0.6%) year on year to ¥2,345 million, achieving

a record high, while operating profit decreased ¥185 million (77.0%) year on year to ¥55 million.

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥1,004 million (3.2%) from March 31, 2021 to ¥32,174 million as of June 30, 2021. The principal factor in this change was an increase of ¥1.7 billion in advance payments to suppliers. Non-current assets stood at ¥8,943 million, an increase of ¥117 million (1.3%) from March 31, 2021. The principal factor in this change was a ¥295 million increase in right-of-use assets (buildings) - acquisition cost in property, plant and equipment. As a result, total assets amounted to ¥41,117 million, an increase of ¥1,121 million (2.8%) from March 31, 2021.

Current liabilities stood at ¥20,132 million, an increase of ¥1,230 million (6.5%) from March 31, 2021. The principal factor in this change was an increase of ¥1,013 million in advances received. Non-current liabilities stood at ¥4,686 million, a ¥52 million (1.1%) decrease from March 31, 2021. The principal factor in this change was a ¥50 million decrease in long-term borrowings. As a result, total liabilities amounted to ¥24,819 million, an increase of ¥1,177 million (5.0%) from March 31, 2021.

Total equity was ¥16,298 million, down ¥55 million (0.3%) from March 31, 2021. The principal factor in this change was a decrease of ¥49 million in retained earnings. As a result, the ratio of equity attributable to owners of parent to total assets was 35.9%.

(3) Qualitative Information on Consolidated Financial Results Forecast and Other Forward-looking Statements

At this point, the financial results forecast is unchanged from the figures announced on May 10, 2021.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and cash equivalents	14,634,332	14,443,995
Trade and other receivables	3,915,018	2,739,009
Inventories	62,650	103,113
Advance payments to suppliers	7,137,765	8,838,533
Advance payment - cost of maintenance service	4,572,454	4,895,906
Other current assets	847,758	1,153,858
Total current assets	31,169,979	32,174,415
Non-current assets		
Property, plant and equipment	4,289,583	4,431,907
Goodwill	164,903	164,903
Intangible assets	1,473,636	1,490,023
Other financial assets	1,564,085	1,517,515
Deferred tax assets	915,097	931,184
Other non-current assets	418,859	408,043
Total non-current assets	8,826,165	8,943,578
Total assets	39,996,145	41,117,994

(Thousand yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Trade and other payables	1,369,188	1,024,745
Borrowings	699,283	697,147
Lease liabilities	758,984	870,039
Income taxes payable	537,902	128,834
Contract liabilities	13,408,115	15,389,201
Other current liabilities	2,128,655	2,022,345
Total current liabilities	18,902,130	20,132,314
Non-current liabilities		
Borrowings	700,000	650,000
Lease liabilities	2,460,621	2,431,455
Retirement benefit liability	1,219,226	1,244,563
Provisions	109,337	109,280
Deferred tax liabilities	10,332	7,623
Other non-current liabilities	239,769	244,010
Total non-current liabilities	4,739,286	4,686,933
Total liabilities	23,641,416	24,819,247
Equity		
Share capital	1,298,120	1,298,120
Capital surplus	4,619,915	4,619,915
Treasury shares	(1,011,805)	(1,011,894)
Retained earnings	9,450,986	9,401,713
Other components of equity	487,548	460,666
Total equity attributable to owners of parent	14,844,764	14,768,522
Non-controlling interests	1,509,964	1,530,225
Total equity	16,354,728	16,298,747
Total liabilities and equity	39,996,145	41,117,994

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

For the three months ended June 30

(Thousand yen)

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
Revenue	7,515,627	7,612,950
Cost of sales	(4,865,361)	(5,010,286)
Gross profit	2,650,265	2,602,664
Selling, general and administrative expenses	(1,687,309)	(1,955,312)
Other income	1,410	785
Other expenses	(659)	(729)
Operating profit	963,708	647,408
Finance income	7,299	4,484
Finance costs	(4,793)	(3,552)
Profit before tax	966,214	648,341
Income tax expense	(304,925)	(197,449)
Profit	661,289	450,891
Profit attributable to:		
Owners of parent	649,755	427,631
Non-controlling interests	11,533	23,260
Earnings per share		
Basic earnings per share (Yen)	16.35	10.76
Diluted earnings per share (Yen)	16.30	10.73

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the three months ended June 30

(Thousand yen)

	For the three months ended June 30, 2020	For the three months ended June 30, 2021
Profit	661,289	450,891
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Equity financial assets measured at fair value through other comprehensive income	43,807	(32,244)
Total of items that will not be reclassified to profit or loss	43,807	(32,244)
Items that may be reclassified to profit or loss		
Cash flow hedges	(214)	3
Total of items that may be reclassified to profit or loss	(214)	3
Other comprehensive income, net of tax	43,593	(32,241)
Comprehensive income	704,883	418,650
Comprehensive income attributable to:		
Owners of parent	693,349	395,389
Non-controlling interests	11,533	23,260

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the three months ended June 30, 2020

(Thousand yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Share acquisition rights	Remeasurements of defined benefit plans
Balance at April 1, 2020	1,298,120	4,619,915	(1,011,553)	7,791,730	77,561	-
Profit	-	-	-	649,755	-	-
Other comprehensive income	-	-	-	-	-	-
Comprehensive income	-	-	-	649,755	-	-
Dividends of surplus	-	-	-	(357,678)	-	-
Purchase of treasury shares	-	-	(78)	-	-	-
Share-based payment transactions	-	-	-	-	6,299	-
Total transactions with owners, etc.	-	-	(78)	(357,678)	6,299	-
Balance at June 30, 2020	1,298,120	4,619,915	(1,011,631)	8,083,807	83,861	-

	Equity attributable to owners of parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of parent		
	Equity financial assets measured at fair value through other comprehensive income	Cash flow hedges	Total			
Balance at April 1, 2020	224,785	2,202	304,548	13,002,761	1,430,438	14,433,200
Profit	-	-	-	649,755	11,533	661,289
Other comprehensive income	43,807	(214)	43,593	43,593	-	43,593
Comprehensive income	43,807	(214)	43,593	693,349	11,533	704,883
Dividends of surplus	-	-	-	(357,678)	-	(357,678)
Purchase of treasury shares	-	-	-	(78)	-	(78)
Share-based payment transactions	-	-	6,299	6,299	-	6,299
Total transactions with owners, etc.	-	-	6,299	(351,457)	-	(351,457)
Balance at June 30, 2020	268,592	1,987	354,441	13,344,653	1,441,972	14,786,626

For the three months ended June 30, 2021

(Thousand yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Share acquisition rights	Remeasurements of defined benefit plans
Balance at April 1, 2021	1,298,120	4,619,915	(1,011,805)	9,450,986	98,152	-
Profit	-	-	-	427,631	-	-
Other comprehensive income	-	-	-	-	-	-
Comprehensive income	-	-	-	427,631	-	-
Dividends of surplus	-	-	-	(476,903)	-	-
Purchase of treasury shares	-	-	(88)	-	-	-
Share-based payment transactions	-	-	-	-	5,359	-
Total transactions with owners, etc.	-	-	(88)	(476,903)	5,359	-
Balance at June 30, 2021	1,298,120	4,619,915	(1,011,894)	9,401,713	103,511	-

	Equity attributable to owners of parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of parent		
	Equity financial assets measured at fair value through other comprehensive income	Cash flow hedges	Total			
Balance at April 1, 2021	386,476	2,919	487,548	14,844,764	1,509,964	16,354,728
Profit	-	-	-	427,631	23,260	450,891
Other comprehensive income	(32,244)	3	(32,241)	(32,241)	-	(32,241)
Comprehensive income	(32,244)	3	(32,241)	395,389	23,260	418,650
Dividends of surplus	-	-	-	(476,903)	(3,000)	(479,903)
Purchase of treasury shares	-	-	-	(88)	-	(88)
Share-based payment transactions	-	-	5,359	5,359	-	5,359
Total transactions with owners, etc.	-	-	5,359	(471,632)	(3,000)	(474,632)
Balance at June 30, 2021	354,232	2,922	460,666	14,768,522	1,530,225	16,298,747