

1. Business Highlights for the Three Months of 37th Business Period (Fiscal Year Ending March 31, 2021)

(1) Qualitative Information on Consolidated Results of Operations

From the first quarter ended June 30, 2020, the Company applied “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition.” As a result of the application, accounting standards concerning revenue recognition differ from those used in the previous first quarter. Qualitative information on the results of operations for the three months ended June 30, 2020 is therefore explained without providing the year-on-year changes in amounts and percentage (%) as compared to the previous first quarter.

During the three months ended June 30, 2020, the global economy continued to have an uncertain outlook.

The new type of pneumonia caused by the novel coronavirus (COVID-19) began spreading worldwide at the beginning of 2020. Countries around the world are scrambling to devise and implement measures to contain the virus and prevent economic recession. Amid prolonged stagnation in the global economy, domestic demand in the U.S. had continued to show solid growth centered on consumer spending, but the U.S. has now become the global epicenter for the spread of COVID-19, and the economy is deteriorating rapidly as the number of infected people surges. The number of COVID-19 cases in Europe has also been growing rapidly since mid-March. One after another, major countries placed their cities on lockdown. After that, major countries around the world devised measures prioritizing resumption of economic activity, but the number of infected people continues to rise, and the path toward full recovery in economic activity remains uncertain. The number of infected people is increasing rapidly in South America, Africa, Middle and Near East, and certain countries in Asia, with no sign of a slowdown in the spread in countries where healthcare systems are fragile.

In Japan as well, the spread of COVID-19 prompted the government to declare a state of emergency in early April, placing restrictions on the movement of people and person-to-person contact. As a result, the performance of a wide range of industries that require face-to-face sales has taken a rapid turn for the worse, having a massive impact on the Japanese economy as a whole. With the Tokyo Olympics and Paralympics postponed, both domestic and external demand are expected to continue to be hit hard for the time being. In and after June, Japan also devised measures to prioritize resumption of economic activity, but a resurgence is seen in the number of infected people, and the Japanese government and local municipalities are facing the difficult task of striking a balance between economy and public health.

Under these circumstances, the Company regards ensuring safety and health of all stakeholders including employees and business partners, and maintaining and expanding stable business operation as matters of utmost importance. We also achieved a swift shift toward telecommuting and stable provision of services to client companies, and maintained our support systems.

In society as whole, a rapid shift toward new work styles is underway, including telecommuting. There is strong demand for regulatory reforms and aggressive policies, including abolition of general requirements for things to be done in person, in writing and by affixing seal in anticipation of a new mode of society that utilizes digital technologies, including telework, online diagnosis in the medical field, online classes in the educational field, and the use of cloud services. As various procedures are completed on an online basis, and people are able to work anytime and anywhere, it is necessary to take appropriate measures against cyber-attacks and the risk of leaking personal information. Under these circumstances, information security-related demand is vigorous despite the current economic headwinds, as the public and private sectors must further enhance their defenses against cyber-attacks. Furthermore, a global trend of strengthening regulations on personal information protection and transfers to outside of regions has been reinforced, such as the enactment of GDPR (the General Data Protection Regulation) in the EU, and the importance of information security has been highlighted. In addition, from the perspective of swift development and establishment of system environments, the usage of cloud-based services is expanding, and the field of information security is no exception.

The world after the containment of the COVID-19 pandemic will see a society more deeply permeated by information technology (IT) and accelerating change in the external environment. The world will not return to the pre-pandemic society, rather, it is expected that societal structures will be altered irreversibly.

The Company announced the Medium-term Management Plan “GO BEYOND 3.0” on May 22, 2018. The aim of “GO BEYOND 3.0,” which is intended for going beyond the previous Medium-term Management Plan “TMX 3.0,” is to decisively restructure our business with even more conviction in order to fully bring out the unique qualities of the Group and create foundations for sustainable growth in the future amid these significant social changes.

The core business strategies of “GO BEYOND 3.0”

- Strategic and accelerated promotion of cloud-related businesses (continued)
- Pursuit of security and safety (continued)

In addition to these ongoing strategies, the following additional strategies will be implemented.

- Diversification of business operating structure (capital alliances, business alliances, cooperation with universities and research institutions, open innovation)
- Acceleration of service provision (all business areas)
- Utilization of data (including big data analysis and usage of AI)
- Enter B2C (business to consumer) businesses
- Rapid expansion of businesses in overseas markets (next step out of market research phase)
- Strengthen business management foundation (effective use of human resources and technologies throughout the Group and within business departments, creation of new value through the fusion of respective fields, investment in human resources and development of the next generation, recruitment/development/evaluation/retention based on corporate philosophy)
- M&A (consider the use of treasury stocks)

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

- 1) We carried out initiatives to preempt changes in demand for IT by proactively launching new businesses.

◇ Information Infrastructure Business

First quarter ended June 30, 2020

- Cross Head Co., Ltd. added a new feature in its own IT service “CROSSLink series” that synchronizes with user information in cybozu.com and Office365.
- Cross Head Co., Ltd. realized 97% remote work in 24 x 7 IT service center.
- Cross Head Co., Ltd. started providing “Easy! Connecting pack for remote work”.
- Cross Head CO., Ltd. started providing “CROSS HEAD Advanced Security Service” for preventing information leakage and productivity improvement in the era of telework.
- Cross Head CO., Ltd. started providing Bit Locker management solution “BitMana cloud service” for preventing information leakage and productivity improvement.

◇ Application Services Business

First quarter ended June 30, 2020

- Medical field: Business alliance between NOBORI Ltd. and M3, Inc.
- Medical field: NOBORI Ltd. started providing PHR (Personal Health Record) service.
- Medical field: Capital and business alliance between NOBORI Ltd. and DeepTek Inc.
- Medical field: NOBORI Ltd. will provide 100 medical institutions nationwide with AI systems to support remote interpretation and image diagnosis for COVID-19 for free of charge.
- Medical field: Agree on business alliance between NOBORI Ltd. and LPIXEL Inc. NOBORI Ltd. Started providing “EIRL aneurysm service” of LPIXEL Inc. on AI platform of supporting medical image diagnosis, which is operated with M3, Inc.
- Medical field: NOBORI Ltd. started providing AI medical technology “COVID-19 pneumonia image analysis program Ali-M3”.

- Software Quality Assurance field: Commenced the provision of “Parasoft Selenic” for strengthening a Selenium test with a Self-healing function and a recommendation function using AI technology.
 - Software Quality Assurance field: Commenced the provision of the Japanese edition of Ranorex Version 9.3, UI test automation tool with the powerful object-recognition engine.
 - Business Solution field: Development and introduction of a new communication platform “typhoon” to realize personalized learning for students in Karuizawa Kazakoshi school.
 - Business Solution field: Commenced the provision of the latest version of “F3” for evaluation and analysis of financial instruments to be prepared for the end of LIBOR.
- 2) We accelerated our efforts in expanding our stock-type business by capturing orders for our maintenance, operation and monitoring services in the Information Infrastructure Business, and promoting sales of NOBORI Ltd. and Ichigo LLC services, among other activities in the CRM and Medical fields of the Application Services Business.
 - 3) In the Information Infrastructure Business, we focused on the development and increased sales of uniquely value-added services including automatic traffic control solutions for Microsoft Office 365 using our cloud service “Techma Cloud,” file sanitization solution, and integrated security monitoring services.
 - 4) The Group has continued to work on maximizing synergies with CROSS HEAD, Okinawa Cross Head Co., Ltd., CASAREAL, Inc., NOBORI Ltd., and Ichigo LLC, and on increasing a comprehensive set of capabilities of the Group. In particular, we promoted self-independence in the Group by bringing back to the Group such functions as maintenance, operation and monitoring services, and contracted development that were previously outsourced. Collaboration within the Group is in progress in the fields of software quality assurance and IT trainings as well.
 - 5) Reflecting the cloud-native era, we conducted measures including sales of open-source systems, management of open-source communities, and IT technology training services for open-source programming techniques for corporations.
 - 6) The Group promoted measures to drive business expansion in fields such as CRM field’s cloud services in overseas markets, primarily Asian emerging countries that are continuing to grow.
 - 7) The Company currently has abundant fund in hand. With the aim of expanding market share and making the business more diverse, the fund in hand will be used to promote collaboration with outside companies including venture companies, universities, and companies in other industries, with a focus on open innovation, as well as to boldly execute M&A and capital/business alliances targeting competitors as well as other companies that complement the Group’s businesses.

As a result of the above, consolidated net sales during the three months ended June 30, 2020 were ¥7,446 million (¥6,362 million during the same period of the previous year) and gross profit amounted to ¥2,619 million (¥2,260 million during the same period of the previous year). Selling, general and administrative expenses were ¥1,650 million (¥1,701 million during the same period of the previous year), due to a decrease in travel and transportation expenses and other factors. Accordingly, operating income came to ¥969 million (¥559 million during the same period of the previous year).

Non-operating income was ¥8 million due to foreign exchange gains and other factors. Non-operating expenses were ¥5 million due to interest expenses and other factors. Accordingly, ordinary income amounted to ¥973 million (¥558 million during the same period of the previous year).

Consequently, income before income taxes was ¥973 million (¥558 million during the same period of the previous year), and profit attributable to owners of the parent was ¥654 million (¥369 million during the same

period of the previous year). As a result of the application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition,” net sales and operating income decreased by ¥1,158 million and ¥72 million, respectively, compared with the previous accounting method.

Results by operating segment were as follows:

(1) Information Infrastructure Business

Results of the Information Infrastructure Business for the three months ended June 30, 2020 were very strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new large-scale projects. Due to the spread of COVID-19, demand continues to increase especially for security-related products that support remote working. Meanwhile, as large-scale exhibitions to acquire new customers were cancelled across the board, we are struggling to acquire sales leads that may open up new business negotiations due to decreased customer contact. Our future task is to invigorate marketing activities using the Internet and online sales activities.

By product, demand for additional licenses of “SSL-VPN” remote-access security technology is steady. With regard to the mainstay next-generation firewalls, demand for cloud-based services is rapidly expanding. Large-scale orders for swift development of remote working environment and for centralization of security measures in various business locations have contributed to expansion of the business. Orders for personal authentication systems remained strong, owing to a surge in telework (work from home) due to the spread of COVID-19.

Sales of integrated security operation and monitoring services were also favorable. In addition, a new generation of security measure products, including “CASB (Cloud Access Security Broker)” that supports security for the era of the cloud, “SASE (Secure Access Service Edge),” “SOAR (Security Orchestration, Automation and Response),” and “EDR (Endpoint Detection and Response)” are also attracting attention with an increase in adoption.

CROSS HEAD has been providing services that cater to the remote working demand.

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

As a result, net sales of the business amounted to ¥5,199 million (¥4,237 million during the same period of the previous year), and operating income amounted to ¥725 million (¥410 million during the same period of the previous year). As a result of the application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition,” in the Information Infrastructure Business, net sales and operating income decreased by ¥1,214 million and ¥96 million, respectively, compared with the previous accounting method.

(2) Application Services Business

As with the Information Infrastructure Business, results of the Application Services Business for the three months ended June 30, 2020 were solid thanks to abundant order backlog accumulated in the previous fiscal year and orders for new projects.

In the Medical 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 (Personal Health Record) 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. At Ichigo LLC, the number of teleradiology orders was sluggish due to a temporary decline in the number of image inspections mainly at health checkup facilities, owing to the spread of COVID-19. Going forward, the number of teleradiology orders is projected to recover with health checkup facilities and medical institutions gradually coming back to normal operation. There has also been a steady increase in orders for a medical radiation dose management system “MINCADI,” which was developed by our subsidiary A-Line Co., Ltd.

In the CRM field, 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.

In the Software Quality Assurance field, with the further application of IT in automobiles, there is a greater need for improvement in the quality of embedded software and functional safety in the manufacturing industry, which develops in-vehicle software. Strategic initiatives are making progress in providing test tools for in-vehicle software for major automakers as well. Sales of license & security management tools for OSS (Open Source Software) were also launched. Meanwhile, amid concerns about the slowdown of investment in the manufacturing industry due to the spread of COVID-19, large-scale exhibitions to acquire new customers have been cancelled across the board, resulting in decreased customer contact. Our pressing issue is to acquire sales leads that may open up new business negotiations. Inquiries from corporate customers started to increase gradually from June, and development projects at companies appear to be restarting.

In the Business Solutions field, system development projects were robust for public academic institutions, one of our existing customers. Demand for fund operation and management systems for venture capital companies has been also strong. In the training services of CASAREAL, Inc., many face-to-face IT trainings were cancelled due to the spread of COVID-19. We therefore worked on the development of online training courses.

As a result, net sales of the business was ¥2,246 million (¥2,124 million during the same period of the previous year), and operating income was ¥244 million (¥148 million during the same period of the previous year). As a result of the application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition,” in the Application Services Business, net sales and operating income increased by ¥55 million and ¥24 million, respectively, compared with the previous accounting method.

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥1,718 million from March 31, 2020 to ¥26,085 million as of June 30, 2020. The principal factor in this change was an increase of ¥3,405 million in advance payments - trade. Non-current assets stood at ¥5,785 million, an increase of ¥529 million from March 31, 2020. The principal factors in this change were a ¥161 million increase in investment securities under investments and other assets and a ¥133 million increase in long-term prepaid expenses. As a result, total assets amounted to ¥31,871 million, an increase of ¥2,247 million from March 31, 2020.

Current liabilities stood at ¥14,546 million, an increase of ¥2,637 million from March 31, 2020. The principal factor in this change was an increase of ¥3,281 million in advances received. Non-current liabilities stood at ¥2,669 million, a ¥40 million decrease from March 31, 2020. The principal factor in this change was a ¥50 million decrease in long-term loans payable. As a result, total liabilities amounted to ¥17,215 million, an increase of ¥2,596 million from March 31, 2020.

Net assets were ¥14,656 million, down ¥348 million from March 31, 2020. The principal factor in this change was a decrease of ¥419 million in retained earnings. In addition, as a result of application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition” from the beginning of the first quarter ended June 30, 2020, the beginning balance of retained earnings decreased by ¥716 million. As a result, the equity ratio declined from 46.1% as of March 31, 2020 to 41.7%.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	13,396,650	12,851,535
Notes and accounts receivable - trade	5,683,487	3,462,406
Inventories	423,919	154,346
Advance payments - trade	70,322	3,475,326
Advance payment-cost of maintenance service	4,187,100	4,893,579
Other	606,772	1,249,030
Allowance for doubtful accounts	(728)	(535)
Total current assets	24,367,524	26,085,690
Non-current assets		
Property, plant and equipment	1,318,257	1,392,159
Intangible assets	1,373,047	1,377,044
Investments and other assets	2,565,074	3,016,358
Total non-current assets	5,256,380	5,785,561
Total assets	29,623,904	31,871,252

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	1,450,275	879,740
Short-term loans payable	450,000	450,000
Current portion of long-term loans payable	250,000	225,000
Income taxes payable	725,301	195,146
Advances received	364,241	3,645,776
Advance received-sales of maintenance service	6,336,176	7,240,823
Provision for bonuses	547,349	210,230
Provision for loss on construction contracts	13,730	2,629
Other	1,771,870	1,696,809
Total current liabilities	11,908,947	14,546,156
Non-current liabilities		
Long-term loans payable	900,000	850,000
Provision for directors' retirement benefits	14,387	15,304
Provision for executive officers' retirement benefits	64,424	66,512
Net defined benefit liability	1,164,009	1,191,432
Other	567,126	545,836
Total non-current liabilities	2,709,948	2,669,086
Total liabilities	14,618,895	17,215,242
Net assets		
Shareholders' equity		
Capital stock	1,298,120	1,298,120
Capital surplus	4,621,993	4,621,993
Retained earnings	8,743,202	8,323,672
Treasury shares	(1,011,553)	(1,011,631)
Total shareholders' equity	13,651,763	13,232,154
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	107,148	150,285
Deferred gains or losses on hedges	2,202	1,987
Remeasurements of defined benefit plans	(103,074)	(98,436)
Total accumulated other comprehensive income	6,276	53,837
Subscription rights to shares	77,561	83,861
Non-controlling interests	1,269,408	1,286,156
Total net assets	15,005,009	14,656,009
Total liabilities and net assets	29,623,904	31,871,252

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 Quarterly Consolidated Statements of Income

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Net sales	6,362,200	7,446,546
Cost of sales	4,101,526	4,826,898
Gross profit	2,260,674	2,619,647
Selling, general and administrative expenses	1,701,439	1,650,288
Operating income	559,234	969,359
Non-operating income		
Interest income	112	233
Dividend income	2,479	2,940
Foreign exchange gains	6,622	4,273
Other	1,838	1,380
Total non-operating income	11,052	8,826
Non-operating expenses		
Interest expenses	5,473	4,600
Loss on cancellation of leases	3,079	-
Other	3,154	539
Total non-operating expenses	11,707	5,140
Ordinary income	558,579	973,044
Profit before income taxes	558,579	973,044
Income taxes - current	137,712	164,785
Income taxes - deferred	48,068	137,758
Total income taxes	185,781	302,544
Profit	372,798	670,500
Profit attributable to non-controlling interests	3,282	16,316
Profit attributable to owners of parent	369,515	654,184

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Profit	372,798	670,500
Other comprehensive income		
Valuation difference on available-for-sale securities	18,113	43,137
Deferred gains or losses on hedges	(3,287)	(214)
Remeasurements of defined benefit plans, net of tax	4,700	5,069
Total other comprehensive income	19,525	47,992
Comprehensive income	392,324	718,493
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	388,583	701,746
Comprehensive income attributable to non-controlling interests	3,740	16,747