

1. Business Highlights for the Nine 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.” Qualitative information on the results of operations for the nine months ended December 31, 2020 is therefore explained without providing the year-on-year changes in amounts and percentage (%) as compared to the previous third quarter.

During the nine months ended December 31, 2020, both the global and domestic economies remained uncertain. The spread of the novel coronavirus (COVID-19) briefly showed a sign of a slowdown. For the period under review, however, countries worldwide including Japan faced a rapid resurgence of the COVID-19. Accordingly, some overseas countries went back under lockdowns. Japan also declared its state of emergency early in the new year. Although an economic upturn was anticipated, economic activities have stagnated again.

On the other hand, in the U.S., with a change in the administration from the Trump administration with its “America First” policies to the Biden administration with its “International Cooperation” policies, expectations for stabilizing the global economy are growing. Multiple pharmaceutical manufacturers are now ready for the mass distribution of COVID-19 vaccines. In overseas countries, mass vaccination has already started. Japan will also begin vaccination in the coming months. It remains to be seen whether the spread of the COVID-19 will come to an end, and global economic activities will turn to a recovery trend.

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 stable provision of products and services to client companies and maintained our support systems, while proactively employing telecommuting.

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 added a new function to its in-house service “CROSSLINK” series to synchronize cybozu.com and Microsoft Office365 users information.
- CROSS HEAD achieved 97% of the operation of 24x7 IT Service Center done remotely.
- CROSS HEAD launched “Easy! Remote Work Connection Pack.”
- CROSS HEAD launched “CROSS HEAD Advanced Security Service,” a one-stop-service to counter information leakage and increase productivity for the era of teleworking.
- CROSS HEAD launched “BitMana Cloud Service,” a BitLocker management solution that counters information leakage and increases productivity.

Second quarter ended September 30, 2020

- Signed a partner agreement with grasys.
- Started providing the integrated monitoring/incident response service “TPS” pre-packaged with cyber security insurance.
- Opened the Kyushu Sales Office in Fukuoka, Fukuoka Prefecture and stepped up service provision in western Japan.
- Okinawa Cross Head Co., Ltd. concluded a sales agency agreement and formed business alliance with Rozetta Corp.
- CROSS HEAD started providing solutions that link a file encryption solution “DataClasys” and “BRODIAEA safeAttach,” a solution that prevents misaddressed emails.
- CROSS HEAD started providing a service that enables schedule synchronization between Cybozu’s Garoon and Microsoft Teams.

Third quarter ended December 31, 2020

- Okinawa Cross Head Co., Ltd., in collaboration with OCC, Co., Ltd., started providing a telework service for video creators based on the remote access tool developed by HP Japan Inc.
- Received the Services Delivery Excellence Award from Dell Technologies.
- Started sales of “NGINX Application Platform,” a product of F5 Networks, Inc.
- Developed the AI that replaces judgments and analysis performed by security analysts in cooperation with CROSS HEAD.
- Received the 2020 JAPAN Distribution Partner of the Year from Palo Alto Networks, Inc.

◇ Application Services Business

First quarter ended June 30, 2020

- Healthcare field: NOBORI Ltd. formed business alliance with M3, Inc.
- Healthcare field: NOBORI Ltd. launched PHR (Personal Health Record) services.
- Healthcare field: NOBORI Ltd. invested in and formed capital and business alliance with DeepTek Inc. in India.
- Healthcare field: NOBORI Ltd. provided COVID-19 teleradiology and image diagnostic support AI systems to 100 medical institutions nationwide free of charge for a limited time.
- Healthcare field: NOBORI Ltd. agreed on forming a business alliance with LPIXEL Inc., and launched provision of LPIXEL's EIRL aneurysm service via the medical image diagnostic support AI platform jointly operated with M3, Inc.
- Healthcare field: NOBORI Ltd. started sales of "COVID-19 Pneumonia Image Analysis Program Ali-M3," an AI-based medical technology.
- Software Quality Assurance field: Started sales of "Parasoft Selenic" that augments the testing done using Selenium with self-healing function and recommendation function based on AI technology.
- Software Quality Assurance field: Rolled out Version 9.3 as the latest "Ranorex Japanese version," a UI test automation tool with great object recognition ability.
- Business Solution field: Newly developed and introduced "typhoon," a communication platform that achieves personalized learning, for Karuizawa Kazakoshi Gakuen, an incorporated educational institution.
- Business Solution field: Launched domestic sales of the latest version of "F3," a financial instrument evaluation/analysis tool, with an eye to the abolition of LIBOR.

Second quarter ended September 30, 2020

- Healthcare field: NOBORI Ltd. formed business alliance with TXP Medical, Inc.
- Healthcare field: NOBORI Ltd. announced the expansion of the free AI support project for COVID-19 pneumonia.
- Business Solution field: Enhanced the F3 CVA estimation/measurement service, and added a "marginal CVA measurement function" that is effective for checking the impact of each transaction on CVA.
- Software Quality Assurance field: Launched sales of Version II of "Lattix Japanese version," an architecture analysis tool.
- Software Quality Assurance field: Launched sales of "Jtest 2020.1," a Java testing automation tool.
- CASAREAL, Inc. signed a training partner agreement with HashiCorp.

Third quarter ended December 31, 2020

- Healthcare field: NOBORI Ltd. supported the trial implementation of chest X-ray image diagnostic supplementary tool used for lung cancer screening in Kyoto Prefecture.
- Healthcare field: NOBORI Ltd. expanded provision of the image diagnostic support software services on the medical image diagnostic support AI platform.

- 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 Healthcare 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 nine months ended December 31, 2020 were ¥21,934 million (¥20,490 million during the same period of the previous year) and gross profit amounted to ¥8,014 million (¥7,380 million during the same period of the previous year). Selling, general and administrative expenses were ¥5,388 million (¥5,279 million during the same period of the previous year), due to an increase in personnel expense and other factors. Accordingly, operating income came to ¥2,625 million (¥2,101 million during the same period of the previous year).

Non-operating income was ¥19 million due to foreign exchange gains and other factors. Non-operating expenses were ¥22 million due to interest expenses and other factors. Accordingly, ordinary income amounted to ¥2,623 million (¥2,094 million during the same period of the previous year).

Consequently, income before income taxes was ¥2,623 million (¥2,094 million during the same period of the previous year), and profit attributable to owners of parent was ¥1,717 million (¥1,358 million during the same period of the previous year). Net sales, operating income, ordinary income, and profit attributable to owners of parent all achieved record highs. 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 ¥4,453 million and ¥575 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 nine months ended December 31, 2020 were very strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new large-scale projects. These projects are trending increasingly large, and the Company received the largest-ever orders. We have also seen a continued increase in orders for subscription-based cloud services. Particularly, during the first quarter, demand for security-related products that support remote working surged due to the spread of COVID-19. Meanwhile, as large-scale exhibitions to acquire new customers were cancelled across the board, we struggled to acquire sales leads that may open up new business negotiations due to decreased customer contact. From the second quarter onward, however, we sought to gain new sales leads by holding online private events and invigorating marketing activities using the Internet and online sales activities.

By product, demand for additional licenses of “SSL-VPN” remote-access security technology was 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 were strong, owing to a surge in telework due to the spread of COVID-19. Orders for storage products also steadily increased.

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 is slightly struggling with receiving new orders for infrastructure development projects.

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 ¥14,998 million (¥13,672 million during the same period of the previous year), and operating income amounted to ¥1,926 million (¥1,485 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 ¥4,471 million and ¥584 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 nine months ended December 31, 2020 were solid thanks to abundant order backlog accumulated in the previous fiscal year and orders for new projects.

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 (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. However, once the first state of emergency was lifted, the number of teleradiology orders has returned to usual levels, 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, new orders and orders for version upgrade projects 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, etc., which develops in-vehicle software. During the first quarter, 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 were cancelled across the board, resulting in decreased customer contact. However, once the first state of emergency was lifted, inquiries from corporate customers started to increase. Meanwhile, in the Enterprise Software Development field, project delays and suspensions became more noticeable, giving the impression of slow recovery in demand.

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. During the first quarter, the training services of CASAREAL, Inc. were negatively affected by many cancelations of face-to-face IT trainings due to the spread of COVID-19. We therefore proactively worked on developing and increasing sales of online training courses. Demand for face-to-face IT trainings has gradually recovered since the second quarter, but it has slowed down again due to the recent spread of COVID-19.

As a result, net sales of the business were ¥6,935 million (¥6,817 million during the same period of the previous year), and operating income was ¥699 million (¥616 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 ¥18 million and ¥8 million, respectively, compared with the previous accounting method.

## (2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥4,044 million from March 31, 2020 to ¥28,412 million as of December 31, 2020. The principal factor in this change was an increase of ¥6,930 million in advance payments – trade as a result of the application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition.” Non-current assets stood at ¥5,690 million, an increase of ¥433 million from March 31, 2020. The principal factor in this change was a ¥300 million increase in other investment securities under investments and other assets. As a result, total assets amounted to ¥34,102 million, an increase of ¥4,478 million from March 31, 2020.

Current liabilities stood at ¥15,994 million, an increase of ¥4,085 million from March 31, 2020. The principal factor in this change was an increase of ¥4,906 million in advances received as a result of the application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition.” Non-current liabilities stood at ¥2,544 million, a ¥165 million decrease from March 31, 2020. The principal factor in this change was a ¥150 million decrease in long-term loans payable. As a result, total liabilities amounted to ¥18,538 million, an increase of ¥3,919 million from March 31, 2020.

Net assets were ¥15,564 million, up ¥559 million from March 31, 2020. The principal factor in this change was an increase of ¥99 million in non-controlling interests. 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 41.4%.

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

At this point, the full-year consolidated financial results forecast for the year ending March 31, 2021 is unchanged from the figures announced on October 30, 2020 (Partial revision of the financial results forecast by operating segment was announced on November 18, 2020). The outlook of future economic conditions is expected to remain uncertain due to concerns about the impact of COVID-19 on global and domestic economic activities.

Meanwhile, amid such circumstances, a wide range of initiatives are rapidly progressing toward a new mode of society that utilizes digital technologies, including telework using IT, online diagnosis by medical institutions, online classes in the educational field, and use of cloud services. As various procedures are completed on an online basis, and people are able to work anytime and anywhere, there is a growing risk of damages from cyber-attacks and leaking personal information. Therefore, we believe that there are opportunities for business expansion in the business area that we are best at.

Under these circumstances, the Company strives to address the risk of the spread of COVID-19 adequately. Additionally, based on its Medium-term Management Plan, the Company continues to decisively restructure our business with even more conviction in order to create foundations for sustainable growth in the future.

Regarding the financial results forecast, there are many uncertain factors, including the timing of the containment and impact of COVID-19 pandemic. The Company will promptly announce the revision of the financial results forecast if it is deemed necessary.



## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2020	As of December 31, 2020
<b>Assets</b>		
Current assets		
Cash and deposits	13,396,650	11,817,354
Notes and accounts receivable - trade	5,683,487	3,288,179
Inventories	423,919	284,608
Advance payments - trade	70,322	7,000,417
Advance payment-cost of maintenance service	4,187,100	4,719,053
Other	606,772	1,303,090
Allowance for doubtful accounts	(728)	(494)
Total current assets	24,367,524	28,412,209
Non-current assets		
Property, plant and equipment	1,318,257	1,467,209
Intangible assets	1,373,047	1,385,555
Investments and other assets	2,565,074	2,837,605
Total non-current assets	5,256,380	5,690,370
Total assets	29,623,904	34,102,579

(Thousand yen)

	As of March 31, 2020	As of December 31, 2020
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	1,450,275	822,182
Short-term loans payable	450,000	450,000
Current portion of long-term loans payable	250,000	200,000
Income taxes payable	725,301	94,092
Advances received	364,241	5,270,425
Advance received-sales of maintenance service	6,336,176	7,328,306
Provision for bonuses	547,349	378,541
Provision for loss on construction contracts	13,730	-
Other	1,771,870	1,450,671
Total current liabilities	11,908,947	15,994,220
Non-current liabilities		
Long-term loans payable	900,000	750,000
Provision for directors' retirement benefits	14,387	17,219
Provision for executive officers' retirement benefits	64,424	70,272
Net defined benefit liability	1,164,009	1,233,067
Other	567,126	473,477
Total non-current liabilities	2,709,948	2,544,035
Total liabilities	14,618,895	18,538,255
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,298,120	1,298,120
Capital surplus	4,621,993	4,621,993
Retained earnings	8,743,202	9,109,220
Treasury shares	(1,011,553)	(1,011,728)
Total shareholders' equity	13,651,763	14,017,605
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	107,148	178,243
Deferred gains or losses on hedges	2,202	(1,397)
Remeasurements of defined benefit plans	(103,074)	(92,034)
Total accumulated other comprehensive income	6,276	84,811
Subscription rights to shares	77,561	92,793
Non-controlling interests	1,269,408	1,369,113
Total net assets	15,005,009	15,564,323
Total liabilities and net assets	29,623,904	34,102,579

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

(Thousand yen)

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Net sales	20,490,432	21,934,204
Cost of sales	13,109,695	13,919,382
Gross profit	7,380,736	8,014,822
Selling, general and administrative expenses	5,279,214	5,388,952
Operating income	2,101,522	2,625,870
Non-operating income		
Interest income	384	841
Dividend income	3,061	5,560
Foreign exchange gains	9,221	8,395
Other	10,182	4,805
Total non-operating income	22,849	19,601
Non-operating expenses		
Interest expenses	15,765	12,959
Loss on investments in investment partnerships	-	3,889
Other	13,839	5,491
Total non-operating expenses	29,605	22,339
Ordinary income	2,094,766	2,623,132
Profit before income taxes	2,094,766	2,623,132
Income taxes - current	526,115	456,561
Income taxes - deferred	162,462	348,794
Total income taxes	688,577	805,356
Profit	1,406,189	1,817,776
Profit attributable to non-controlling interests	47,887	99,849
Profit attributable to owners of parent	1,358,301	1,717,926

Quarterly Consolidated Statements of Comprehensive Income

(Thousand yen)

	For the nine months ended December 31, 2019	For the nine months ended December 31, 2020
Profit	1,406,189	1,817,776
Other comprehensive income		
Valuation difference on available-for-sale securities	34,338	71,095
Deferred gains or losses on hedges	(41)	(3,600)
Remeasurements of defined benefit plans, net of tax	14,100	10,895
Total other comprehensive income	48,397	78,390
Comprehensive income	1,454,587	1,896,166
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,405,324	1,796,461
Comprehensive income attributable to non-controlling interests	49,262	99,704