



# **Results for Q1 FY20**

## **Ended June 30, 2020**

**Net One Systems Co., Ltd.**

**July 22, 2020 (Stock Code 7518: JP)**

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## Q1 FY20 (Apr-Jun 3months) Results

# Results summary Q1 FY20 (Apr-Jun 3months)

(JPYmn, % to revenue)	FY19 Q1 Results		FY20 Q1 Results		YoY	
					Amount	%
Bookings	48,182		48,217		+34	+0.1%
Revenue	35,571	100.0%	36,505	100.0%	+934	+2.6%
Cost of revenue	26,091	73.3%	26,089	71.5%	(1)	- 0.0%
Gross profit	9,479	26.7%	10,415	28.5%	+935	+9.9%
SG&A	7,770	21.8%	7,804	21.4%	+33	+0.4%
Operating Income	1,709	4.8%	2,611	7.2%	+902	+52.8%
Ordinary Income	1,817	5.1%	2,691	7.4%	+873	+48.1%
Net Income attributable to owners of the parent company	2	0.0%	1,900	5.2%	+1,897	-
Backlog	87,781		105,228		+17,447	+19.9%

Bookings and revenue were in line with our plan, although there were some delays in sales activities due to COVID-19. Profits increased due to the solid performance of add value business such as security measures and cloud infrastructure.

(Notes) In the Q1 FY19, we recorded an extraordinary loss of 1,117 million yen related to fraudulent transactions.

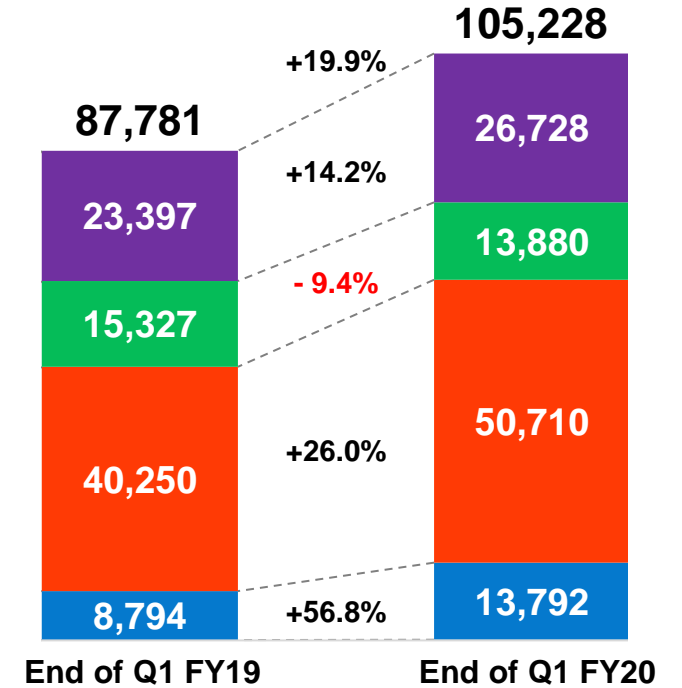
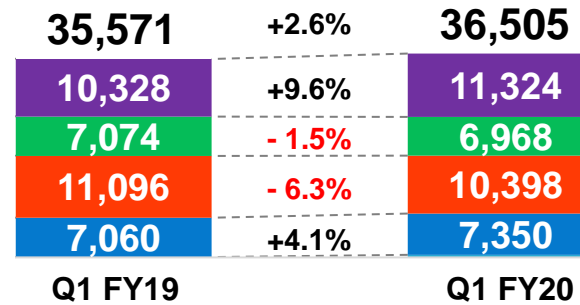
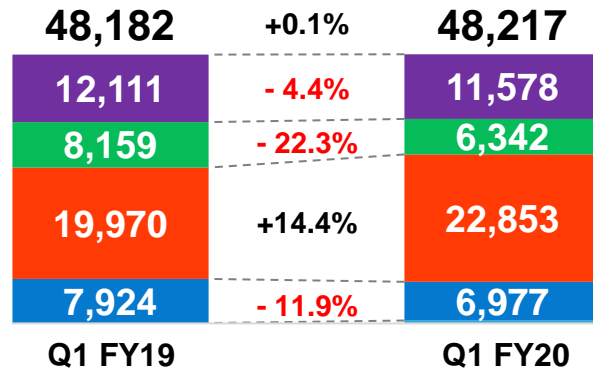
# Performance by market sector

## Bookings

## Revenue

## Backlog

(JPYmn)



### Enterprise

Due to COVID-19, the demand for new ways of working was strong. Telework, security, and cloud infrastructure business performed well.

### Telecom Carrier

We focused on supporting service infrastructure, corporate business, and network enhancement due to increased telework. Bookings decreased due to the concentration of projects in the first quarter of the previous year.

### Public

GIGA School Concept, security, and cloud infrastructure business were strong. On the other hand, healthcare had reviewed of investment priorities.

### Partner

Some projects were delayed due to the priority given to COVID-19 response.

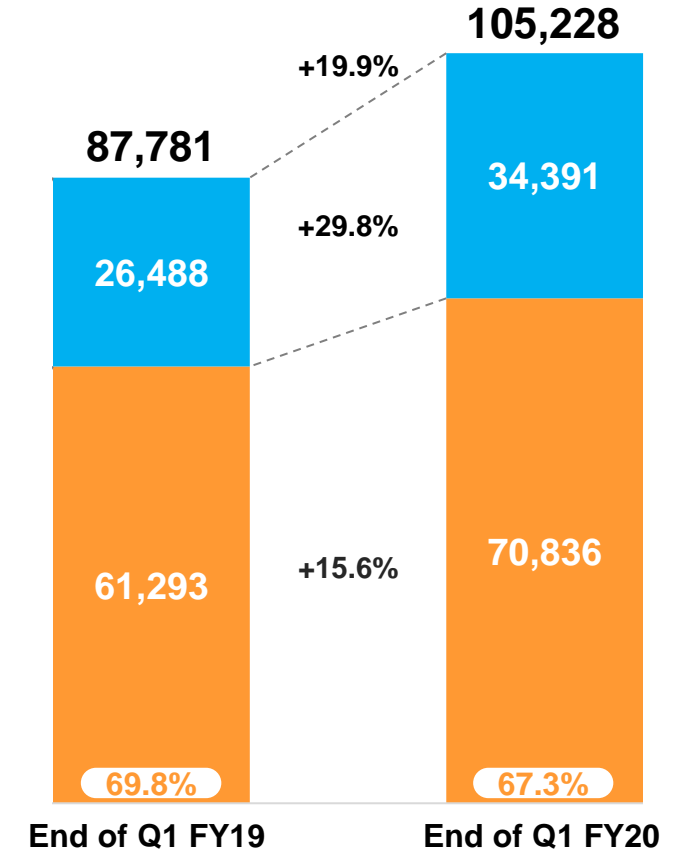
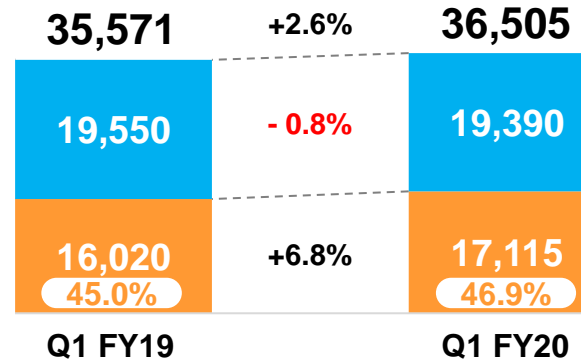
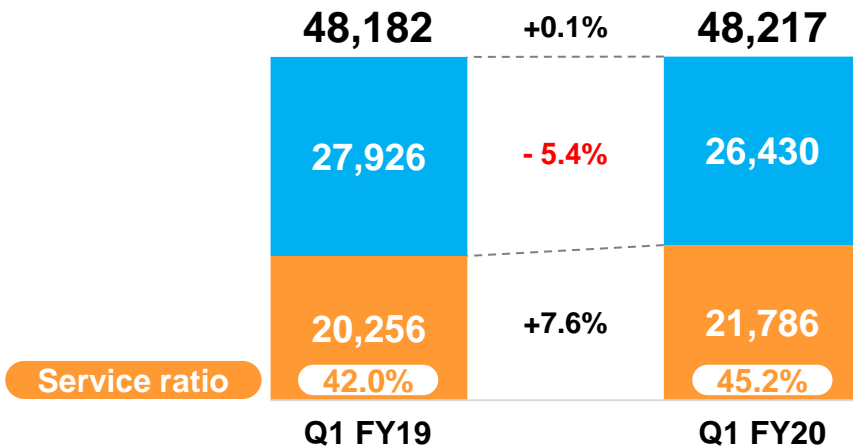
# Performance by product category

■ Bookings

■ Revenue

■ Backlog

(JPYmn)



Products	Due to delays in some projects, bookings and revenue fell slightly.
Service business	Due to the expansion of “Integrated Services Business”, service business increased for bookings, revenue, and backlog.
Revenue, Backlog	A partial delay in sales of the products resulted in an increase in the backlog for products.

# Revenue and P/L by reportable segment

	(JPYmn)	Reportable segment					Other	Total	Adjustment	Amount recorded in consolidated income statements
		Enterprise	Telecom Carrier	Public	Partner	Sub-total				
FY20 Q1 【Result】	Revenue	11,326	6,969	10,400	7,359	36,054	469	36,524	(18)	36,505
	Segment income	991	688	512	630	2,822	(13)	2,809	(197)	2,611
	Segment income margin	8.8%	9.9%	4.9%	8.6%					7.2%
FY19 Q1 【Previous】	Revenue	10,330	7,075	11,098	7,060	35,565	10	35,575	(4)	35,571
	Segment income	495	378	224	624	1,723	8	1,731	(22)	1,709
	Segment income margin	4.8%	5.3%	2.0%	8.9%					4.8%

## (Notes)

1. The “Other” segment is not included as a reportable segment. It contains the global business.
2. The adjustment in segment income included corporate expenses not attributable to any reportable segment.  
Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.

# Consolidated balance sheets

(JPYmn)	Mar 31, 2020	Jun 30, 2020	Change	
	Results	Results	Amount	%
<b>Total assets</b>	<b>136,111</b>	<b>130,998</b>	<b>(5,113)</b>	<b>- 3.8%</b>
Current assets	124,980	120,902	(4,077)	- 3.3%
Cash and deposits + CD・CP	31,473	35,401	3,928	+ 12.5%
Notes and accounts receivable-trade	52,845	31,866	(20,979)	- 39.7%
Inventory assets	15,657	23,389	7,732	+ 49.4%
Other	25,004	30,244	5,240	+ 21.0%
Noncurrent assets	11,131	10,095	(1,035)	- 9.3%
Property, plant and equipment	4,709	4,614	(95)	- 2.0%
Intangible assets	1,501	1,354	(146)	- 9.7%
Investment etc.	4,920	4,126	(793)	- 16.1%
<b>Total liabilities</b>	<b>69,437</b>	<b>64,647</b>	<b>(4,789)</b>	<b>- 6.9%</b>
Current liabilities	57,704	51,966	(5,738)	- 9.9%
Non-current liabilities	11,732	12,681	948	+ 8.1%
<b>Total net assets</b>	<b>66,674</b>	<b>66,350</b>	<b>(323)</b>	<b>- 0.5%</b>
Shareholders' equity	66,104	65,982	(121)	- 0.2%
Accumulated other comprehensive income	286	111	(174)	- 61.1%
Subscription rights to shares	180	168	(11)	- 6.3%
Non-controlling interests	103	87	(15)	- 15.5%
<b>Total liabilities and net assets</b>	<b>136,111</b>	<b>130,998</b>	<b>(5,113)</b>	<b>- 3.8%</b>

# Exchange rate, EPS, Employees

	FY19 Q1	FY20 Q1	YoY	
			Amount	%
Exchange rate (\$JPY)	110.37	107.58	(2.79)	- 2.5%
Earnings per share (JPY)	0.03	22.43	22.40	-

	End of FY19 Q1	End of FY20 Q1	YoY	
			Amount	%
Employees	2,454	2,506	52	+2.1%

# 2

## FY20 Outlook

# FY20 outlook (※no change from the previous outlook)

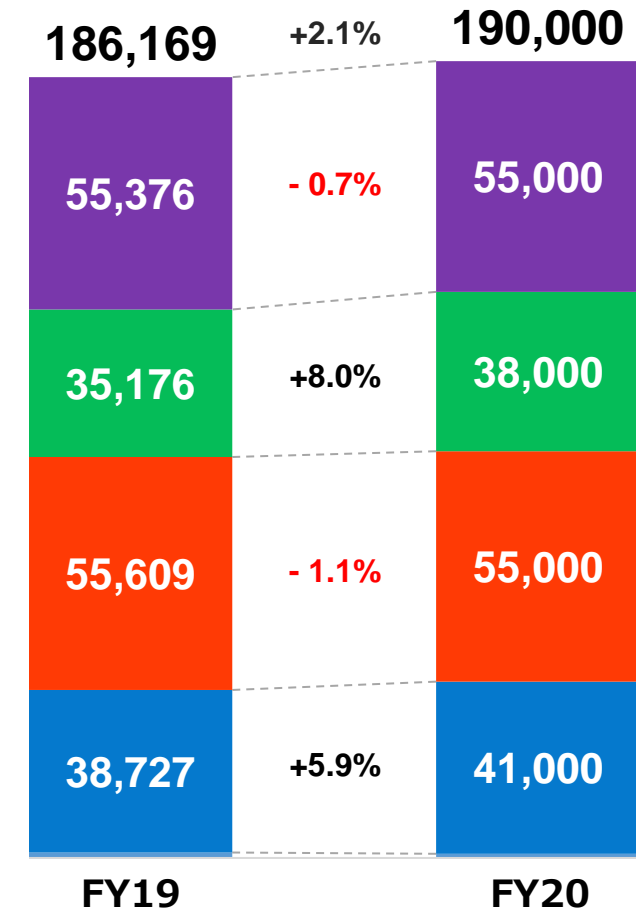
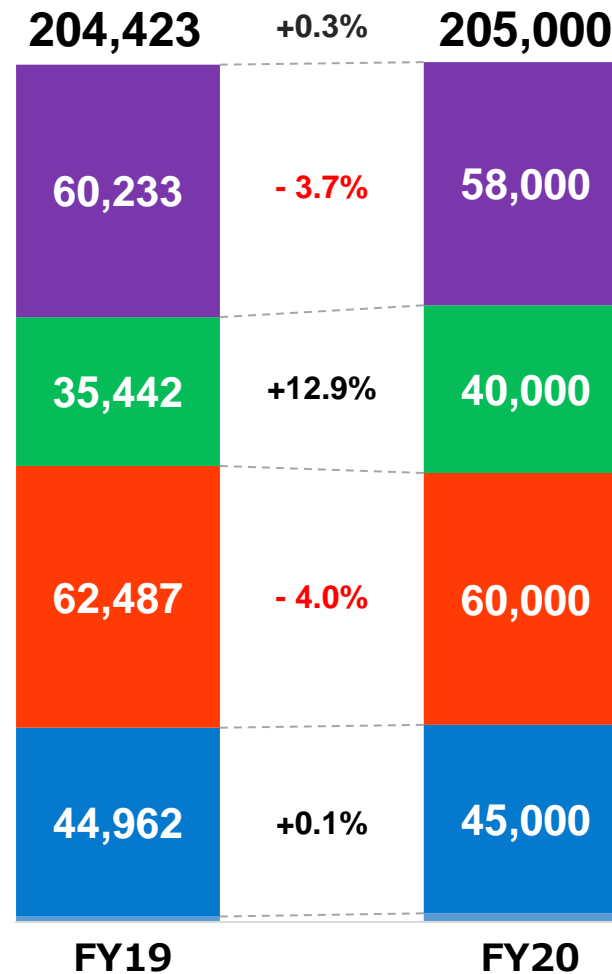
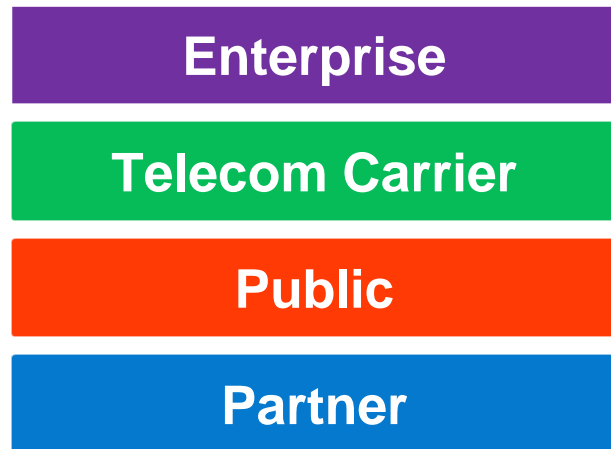
(JPYmn, % to revenue)	H1		H2		Annual	
<b>Bookings</b>	<b>90,000</b>		<b>115,000</b>		<b>205,000</b>	
<b>Revenue</b>	<b>80,000</b>	<b>100.0%</b>	<b>110,000</b>	<b>100.0%</b>	<b>190,000</b>	<b>100.0%</b>
<b>Cost of sales</b>	<b>59,000</b>	<b>73.8%</b>	<b>81,000</b>	<b>73.6%</b>	<b>140,000</b>	<b>73.7%</b>
<b>Gross profit</b>	<b>21,000</b>	<b>26.3%</b>	<b>29,000</b>	<b>26.4%</b>	<b>50,000</b>	<b>26.3%</b>
<b>SG&amp;A</b>	<b>16,000</b>	<b>20.0%</b>	<b>17,000</b>	<b>15.5%</b>	<b>33,000</b>	<b>17.4%</b>
<b>Operating income</b>	<b>5,000</b>	<b>6.3%</b>	<b>12,000</b>	<b>10.9%</b>	<b>17,000</b>	<b>8.9%</b>
<b>Ordinary income</b>	<b>5,000</b>	<b>6.3%</b>	<b>12,000</b>	<b>10.9%</b>	<b>17,000</b>	<b>8.9%</b>
<b>Net income attributable to owners of the parent</b>	<b>3,300</b>	<b>4.1%</b>	<b>8,200</b>	<b>7.5%</b>	<b>11,500</b>	<b>6.1%</b>

# FY20 outlook by market sector (※no change from the previous outlook)

## Bookings

## Revenue

(JPYmn)



# 3

## Progress of measures to prevent recurrence

# Measures to prevent recurrence and progress status - 1

			Started/ Completed	In progress	Monitoring
Basic policy on business transactions	Eliminate risk of fictitious transactions	Deal only with projects where our Group's added value (our unique services and solutions) is recognized	○		○
		Prohibit projects with no specifications (strengthen ability to verify the authenticity of transactions)	○		○
		Deal only with projects that involve direct transactions (confirm the authenticity of goods, services, and suppliers)	○		○
		Close the Kasumigaseki office whose clients are central government ministries and agencies	○		
		Strengthen project screening by process management system (PMS)	○		○
Strengthen risk management systems	Fundamental review of risk management activities	Clarify role of Chief Risk Officer (CRO) as “oversight of risk identification and response, efficacy assessment and sustained improvement of risk management activities, and other risk management processes”	○		
		Reorganize former Risk & Compliance Committee into two organizations—the Risk Management Committee, which evaluates and controls risk management activities, and the Compliance Committee, which evaluates and controls compliance activities. The CRO is in charge of both committees whose members include outside executive directors to ensure they provide objective feedback and assessment.	○		
		Clarify division responsible for risk management	○		
	Identify and evaluate significant major risks in each division	Formulate risk management action plans	○		
		Strengthen risk management using risk survey sheets	○		○
	Strengthen internal auditing	Add auditing methods (conduct interviews and checks on those involved in projects under suspicion)	○		○
		Expand auditing scope (to include internal auditing that does not depend on accounting audit, purchasing operations, and implementation status of recurrence prevention measures)	○		○

# Measures to prevent recurrence and progress status - 2

			Started/ Completed	In progress	Monitoring
Enhance business controls	Review authority of sales divisions	Separate authority to place orders and manage acceptances from sales divisions	○		
		Revise operational rules and processes		○	
		Modify systems in accordance with operating rule revisions		○	
	Strengthen purchasing functions	Make purchasing function independent by establishing Group Purchasing Department (previously performed by the Group Procurement and Logistics Department)	○		
		Redefine and strengthen procurement process and functions related to purchasing and acceptances		○	
	Improve effectiveness of measures to prevent recurrence	Establish Sales Management Office under direct control of the president to promote revision of operational rules to prevent recurrence while monitoring progress on a Companywide basis	○		○
Review compliance activities	Prevent overreliance on certain individuals	Implement personnel rotation within divisions (prevent managerial inadequacies and loss of transparency of business processes)	○		
	Revise operation of whistleblower system	Restructure whistleblower system (establish separate points of contact for reporting harassment and fraud, with separate responsible divisions handling reported incidents)	○		
	Strengthen compliance awareness	Formulate compliance action plans (perform quarterly and year-end reviews and formulate plans for following fiscal year)	○		
		Declare compliance implementation targets (perform quarterly reviews by the Board of Directors or Management Committee)	○		○
		Conduct compliance training (review divisional workshops and e-learning programs, and formulate compliance action plans for following fiscal year)	○		
	Create new corporate culture	Reinstate Vision Inculcation Committee (continuously conduct dialogue-focused activities aimed at securing participation from all employees, including outside executive directors)	○		
		Revise the vision book (compose new corporate action declaration that connects the Group's seven missions, businesses, and SDGs, and reformulate the code of conduct)		○	
		Promote activities focused on propagating the Company's vision (hold one-on-one feedback sessions with officers and employees, quarterly reviews by the Board of Directors or Management Committee, and workshops run by the Vision Inculcation Committee for management team and employees)	○		○
		Examine and take steps to improve remuneration system (assess operation and need for improvement of incentive system for salespeople)	○		

# 4

## Effects of COVID-19

## **Positive: telework projects increased**

- **Urgent Investment**

Web conferencing and virtual desktop

Network for remote connections to internal systems

- **Future new projects**

Security measures to securely connect to the cloud

Fundamental review of the network system



**Providing our telework experience and knowledge  
with grand design consulting**

## **Negative: some projects were delayed**

- **Reviewed of investment priorities**

Mainly occurred in the manufacturer and healthcare industries

- **Delayed in project progress**

In partner business, some projects were delayed due to the priority given to COVID-19 response

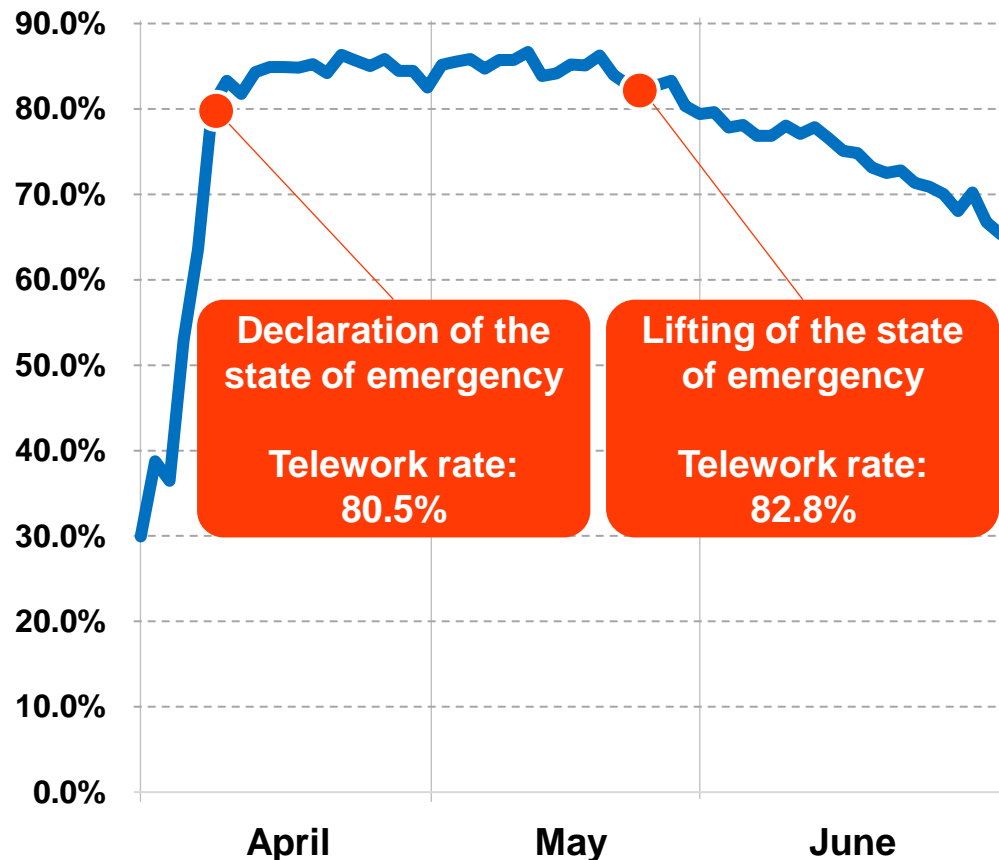


**Developing proposals based on investment priorities  
Delays in 1Q are expected to recover in 2Q**

## Continuing the business through the work style reform that we have been developing

### Company-wide telework rate in 1Q

(Percentage of telework in total hours worked)



#### ■ The duration of the state of emergency

As a rule, we didn't allow employees to come to work and shifted to telework.

We carried out proposal, install, maintenance, and operation services as remotely as possible.

#### ■ After the lifting of the state of emergency

We have encouraged employees to work at home & workplace (hybrid work) mainly with a focus on telework.

charge ∠ channel ∠ change



**net one**