



# **Results for Q3 FY20**

## **Ended December 31, 2020**

**Net One Systems Co., Ltd.**  
**January 28, 2021 (Stock Code 7518: JP)**

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# 1

## Q1-3 FY20 (Apr-Dec 9months) Results

# Results for Q3 FY20 (Oct-Dec 3months)

(JPYmn, % to revenue)	FY19 Q3 Results		FY20 Q3 Results		YoY	
					Amount	%
Bookings	54,830		42,846		(11,983)	-21.9%
Revenue	40,681	100.0%	48,724	100.0%	+8,043	+19.8%
Cost of revenue	29,466	72.4%	35,317	72.5%	+5,851	+19.9%
Gross profit	11,215	27.6%	13,407	27.5%	+2,192	+19.5%
SG&A	7,640	18.8%	8,253	16.9%	+612	+8.0%
Operating Income	3,574	8.8%	5,154	10.6%	+1,579	+44.2%
Ordinary Income	3,589	8.7%	3,964	8.1%	+375	+10.5%
Net Income attributable to owners of the parent company	2,424	6.0%	2,748	5.6%	+324	+13.4%
Backlog	101,395		106,888		+5,492	+5.4%

Despite work delays caused by COVID-19, revenue and profits increased due to steady completion of order backlog. Bookings decreased due to the absence of large projects in the same period of the previous year.

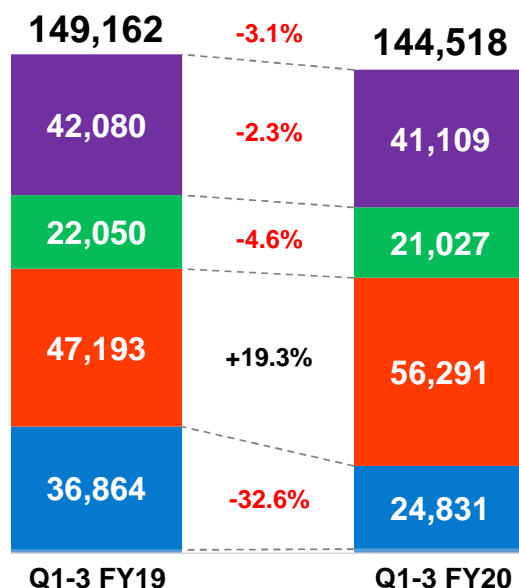
# Results for Q1-3 FY20 (Apr-Dec 9months)

(JPYmn, % to revenue)	FY19 Q1-3 Results		FY20 Q1-3 Results		YoY	
					Amount	%
Bookings	149,162		144,518		(4,643)	-3.1%
Revenue	123,029	100.0%	131,147	100.0%	+8,117	+6.6%
Cost of revenue	89,987	73.1%	94,672	72.2%	+4,685	+5.2%
Gross profit	33,042	26.9%	36,474	27.8%	+3,432	+10.4%
SG&A	23,302	18.9%	24,655	18.8%	+1,352	+5.8%
Operating Income	9,739	7.9%	11,819	9.0%	+2,079	+21.4%
Ordinary Income	9,771	7.9%	10,451	8.0%	+679	+7.0%
Net Income attributable to owners of the parent company	5,081	4.1%	7,261	5.5%	+2,179	+42.9%
Backlog	101,395		106,888		+5,492	+5.4%

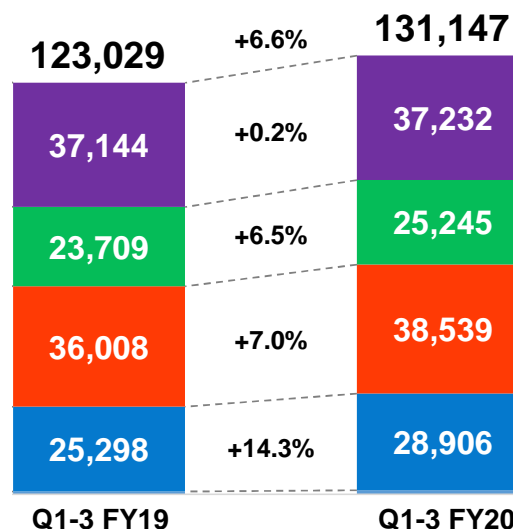
Revenue and profits increased despite some impact from COVID-19.  
Business of the School system (include the GIGA School Concept), telework, security, and cloud infrastructure were solid.

# Performance by market sector

## Bookings

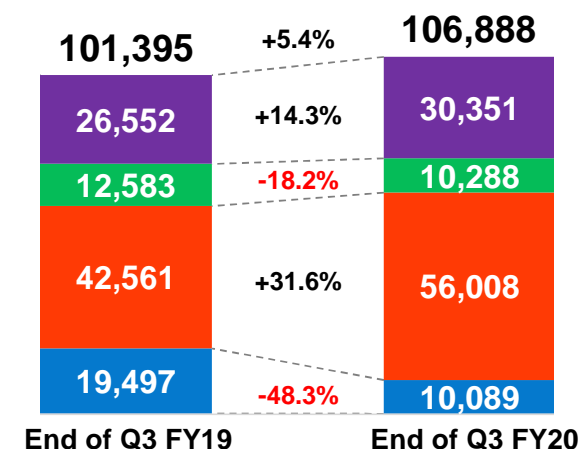


## Revenue



## 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.

### Public

School system (include the GIGA School Concept), security, and cloud infrastructure business were strong. On the other hand, healthcare remained weak.

### Partner

Bookings were weak due to partners being affected by COVID-19. Revenue was strong by a large-scale project that we gained in the last fiscal year.

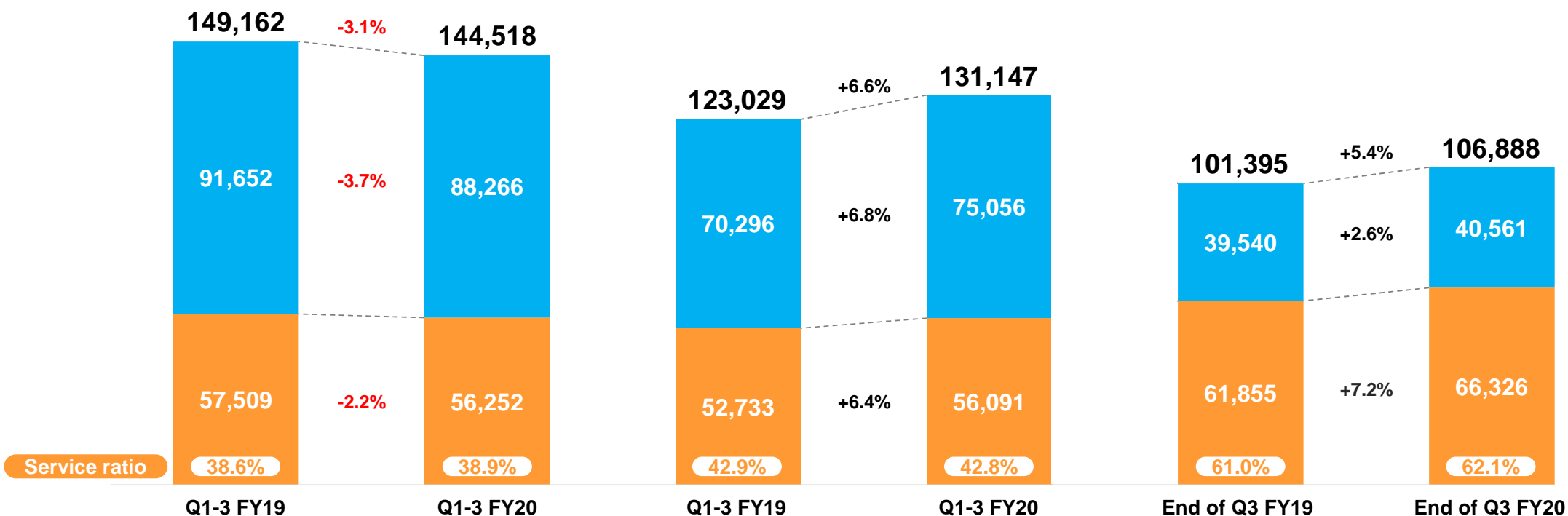
# Performance by product category

## Bookings

## Revenue

## Backlog

(JPYmn)



### Products

Bookings decreased due to the absence of large projects in the same period of the previous year.  
On the other hand, despite work delays caused by COVID-19, revenue increased due to steady completion of order backlog.

### Service business

Due to the progress of “Integrated Services Business”, service business increased for revenue.

# 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 Q1-3 【 Result 】	Revenue	37,240	25,248	38,545	28,919	129,953	1,258	131,212	(64)	131,147
	Segment income	3,753	2,719	3,461	2,590	12,524	(66)	12,458	(639)	11,819
	Segment income margin	10.1%	10.8%	9.0%	9.0%					9.0%
FY19 Q1-3 【 Previous 】	Revenue	37,150	23,712	36,013	25,300	122,177	879	123,057	(27)	123,029
	Segment income	3,739	2,031	2,137	2,483	10,392	(0)	10,391	(652)	9,739
	Segment income margin	10.1%	8.6%	5.9%	9.8%					7.9%

## (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 Results	Dec 31, 2020 Results	Change	
			Amount	%
<b>Total assets</b>	135,764	139,924	4,159	+ 3.1%
Current assets	124,795	130,065	5,269	+ 4.2%
Cash and deposits + CD• CP	31,473	27,144	(4,328)	- 13.8%
Notes and accounts receivable-trade	52,845	42,728	(10,117)	- 19.1%
Inventory assets	15,562	30,962	15,400	+ 99.0%
Other	24,914	29,229	4,315	+ 17.3%
Noncurrent assets	10,968	9,859	(1,109)	- 10.1%
Property, plant and equipment	4,709	4,469	(240)	- 5.1%
Intangible assets	1,501	1,373	(127)	- 8.5%
Investment etc.	4,757	4,016	(741)	- 15.6%
<b>Total liabilities</b>	70,427	71,809	1,382	+ 2.0%
Current liabilities	58,694	57,630	(1,063)	- 1.8%
Non-current liabilities	11,732	14,179	2,446	+ 20.8%
<b>Total net assets</b>	65,337	68,115	2,777	+ 4.3%
Shareholders' equity	64,767	68,014	3,246	+ 5.0%
Accumulated other comprehensive income	286	(176)	(463)	-
Subscription rights to shares	180	222	41	+ 23.2%
Non-controlling interests	103	55	(47)	- 46.6%
<b>Total liabilities and net assets</b>	135,764	139,924	4,159	+ 3.1%

# Exchange rate, EPS, Employees

	FY19 Q1-3	FY20 Q1-3	YoY	
			Amount	%
Exchange rate (\$JPY)	109.00	106.58	(2.42)	-2.2%
Earnings per share (JPY)	59.99	85.70	+25.71	+42.9%

	End of FY19 Q3	End of FY20 Q3	YoY	
			Amount	%
Number of employees	2,449	2,547	+98	+4.0%

## Donations to medical institutions

**Donated approximately JPY1.0bn to medical institutions in Q3  
to support measures against COVID-19  
(cumulative total for this fiscal year: JPY1.5bn planned)**

### Impact on financial results

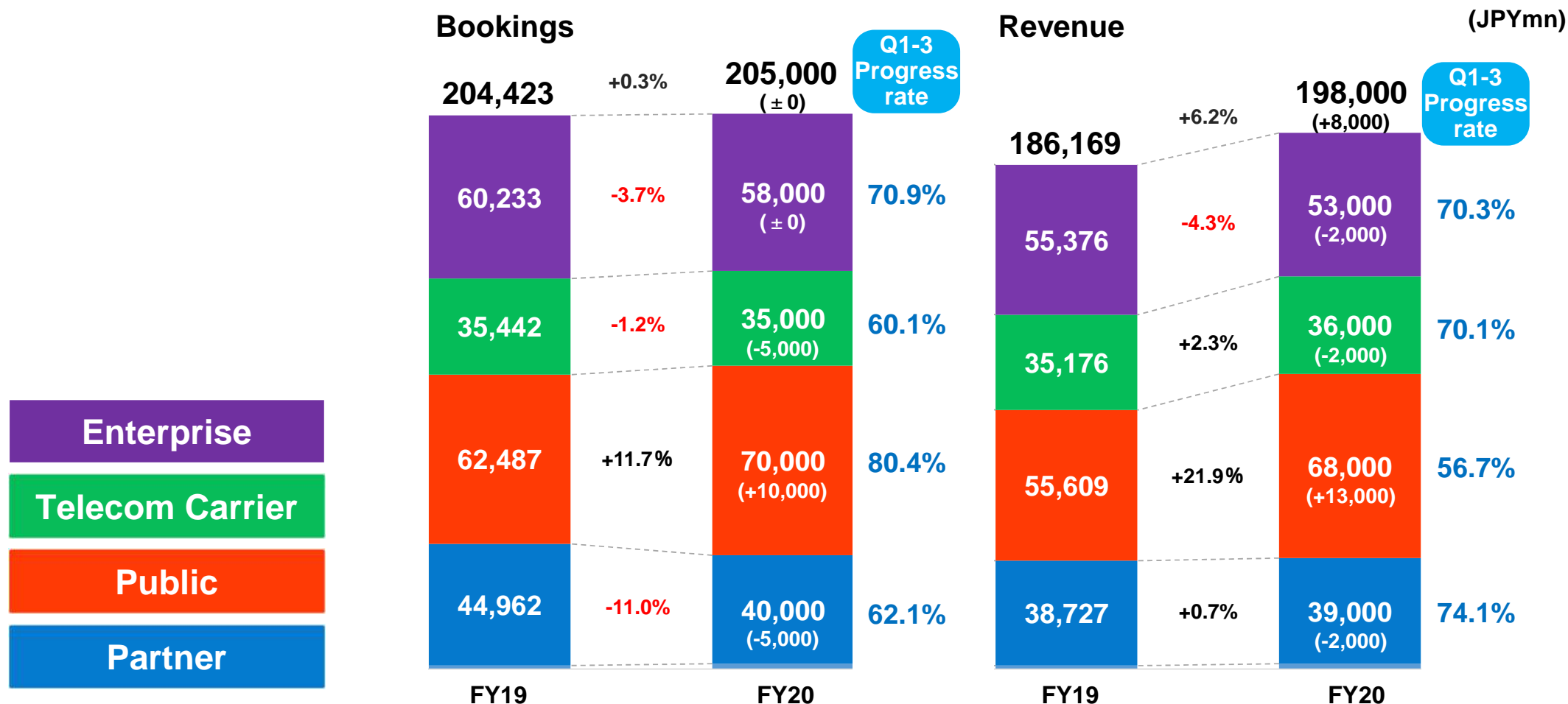
	2Q Result ( Jul-Sep )	3Q Result ( Oct-Dec )	4Q Planed ( Jan-Mar )
<b>SG&amp;A</b>	<b>- JPY98mn</b>	<b>- JPY22mn</b>	<b>approximately - JPY26mn</b>
<b>Non-operating expenses</b>	<b>- JPY302.5mn</b>	<b>- JPY1,039mn</b>	

## 2 FY20 Outlook

# FY20 outlook (Revised on January 28, 2021)

(JPYmn, % to revenue)	FY20 Original outlook		FY20 Revised outlook		Compare to original outlook	
					Amount	%
Bookings	205,000		205,000		± 0	± 0%
Revenue	190,000	100.0%	198,000	100.0%	+8,000	+4.2%
Cost of sales	140,000	73.7%	144,000	72.7%	+4,000	+2.9%
Gross profit	50,000	26.3%	54,000	27.3%	+4,000	+8.0%
SG&A	33,000	17.4%	35,000	17.7%	+2,000	+6.1%
Operating income	17,000	8.9%	19,000	9.6%	+2,000	+11.8%
Ordinary income	17,000	8.9%	17,500	8.8%	+500	+2.9%
Net income attributable to owners of the parent	11,500	6.1%	12,000	6.1%	+500	+4.3%

# FY20 outlook by market sector (Revised on January 28, 2021)



## **Status of business activities in response to the declaration of a state of emergency**

### **Continuing business with new ways of working, especially teleworking**

#### **■ Status in the current fiscal year**

- ✓ **Shifting to a new work style with telework**
- ✓ **More than 70% of employees are already working by telework**

#### **■ In this declaration of a state of emergency**

- ✓ **Increase in telework rate**
- ✓ **We are carrying out proposal, install, maintenance, and operation services as remotely as possible**

**Steady progress in bookings and revenue**

# 3

**Measures to prevent recurrence and progress status of transactions where delivery of goods could not be confirmed,  
and activities of “Reform Committee of Governance and Corporate Culture”**

# 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

Yellow: updated from Q2

			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)	○		

## Activities of “Reform Committee of Governance and Corporate Culture” (announced on December 16, 2020)



We had on December 16, 2020 established a “Reform Committee of Governance and Corporate Culture” composed of external experts with the goal of further reshaping our governance and corporate culture

### Matters entrusted to the committee

1. Inspection of issues related to governance
2. Inspection of issues related to internal control environments (including the establishment of environments aimed at curbing behavior that leads to fraudulent or inappropriate accounting)
3. Inspection of issues related to internal auditing
4. Inspection of issues related to corporate culture and climate
5. In addition to the above, thorough investigation into root causes of these issues, including any inspections that the committee deems necessary
6. Delivery to Net One Systems of any necessary additional recommendations related to recurrence prevention measures

### Subcommittee

Governance

Internal control  
environments

Internal auditing

Corporate cultural  
reform

This committee will provide us with investigative results concerning our governance, internal control environments, and internal auditing, as well as additional recommendations related to recurrence prevention measures. We plan to announce these results and recommendations by March 19, 2021.

charge ∠ channel ∠ change



**net one**