

—— すべてのステークホルダーから信頼され支持される企業へ ——

ADMIRED COMPANY

Results for Q2 FY03/2018

Ended September 30, 2017

Net One Systems Co., Ltd.
October 30, 2017 (Stock Code 7518: JP)



■ ■ ■ Agenda ■ ■ ■

- **Q2 FY03/18 (Apr-Sep 6months) Results** **P. 2-11**
- **Progress of Three-year Business Plan** **P. 12-21**

Q2 FY03/18 (Apr-Sep 6months) Results

Results summary Q1-2 FY03/18 (Apr-Sep 6months)

(JPYmn, % to revenue)	FY03/18 Q1-2 Results (A)		FY03/18 Q1-2 Outlook (B)		Compare to plan (A-B)		FY03/17 Q1-2 Results (C)		YoY (A-C)	
					Amount	%			Amount	%
Bookings	79,821		71,000		8,821	12.4%	75,479		4,341	5.8%
Revenue	70,696	100.0%	65,000	100.0%	5,696	8.8%	66,539	100.0%	4,157	6.2%
Cost of revenue	54,098	76.5%	50,146	77.1%	3,952	7.9%	52,305	78.6%	1,793	3.4%
Gross profit	16,598	23.5%	14,853	22.9%	1,745	11.7%	14,234	21.4%	2,364	16.6%
SG&A	14,287	20.2%	13,953	21.5%	334	2.4%	13,937	20.9%	349	2.5%
Operating Income	2,311	3.3%	900	1.4%	1,411	156.8%	296	0.4%	2,014	680.6%
Ordinary Income	2,370	3.4%	900	1.4%	1,470	163.4%	274	0.4%	2,095	763.3%
Net Income attributable to owners of the parent company	1,569	2.2%	500	0.8%	1,069	214.0%	127	0.2%	1,441	-
Backlog	69,189		-		-	-	62,306		6,882	11.0%

Bookings, revenue and profit exceeded the company plan.

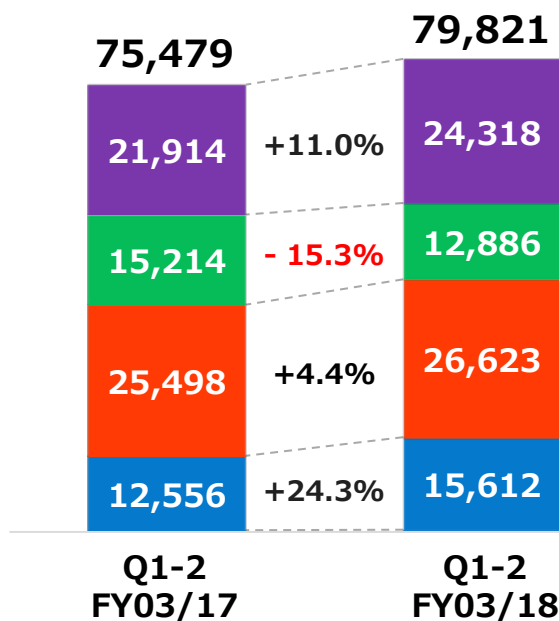
Improvement in gross profit margin continued.

Public sector, Enterprise sector and Partner sector performed strongly.

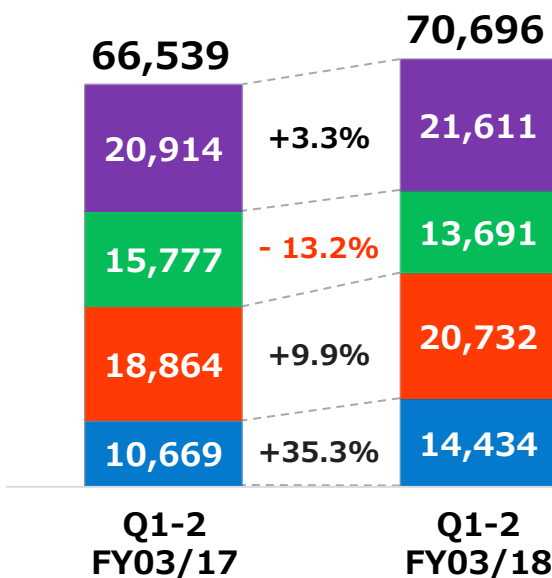
(Note) From the current fiscal year, revenue of vendor support for period contracts has been changed to monthly.

Performance by market sector

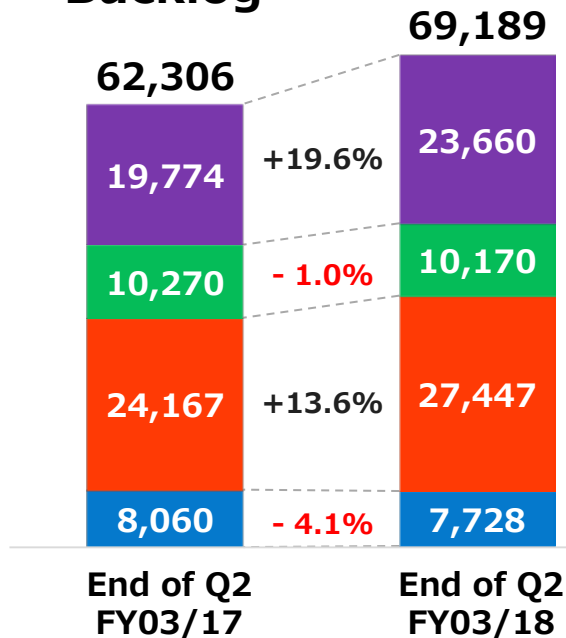
■ Bookings



■ Revenue



■ Backlog



(JPYmn)

Enterprise

Demand for security, cloud and workstyle innovation continued to be strong

Telecom Carrier

Cloud service infrastructure business expanded

Public

Security and cloud business in municipalities, healthcare, universities, and education committee performed strongly

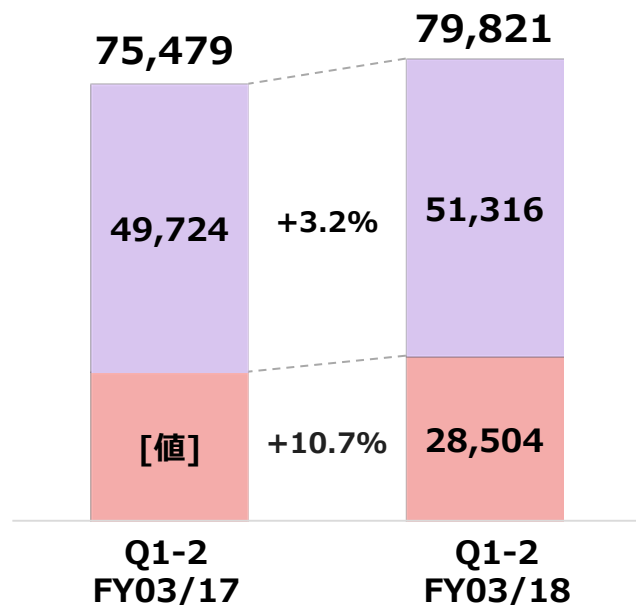
Partner

Key partners business and managed service via Telecom Carrier remained robust

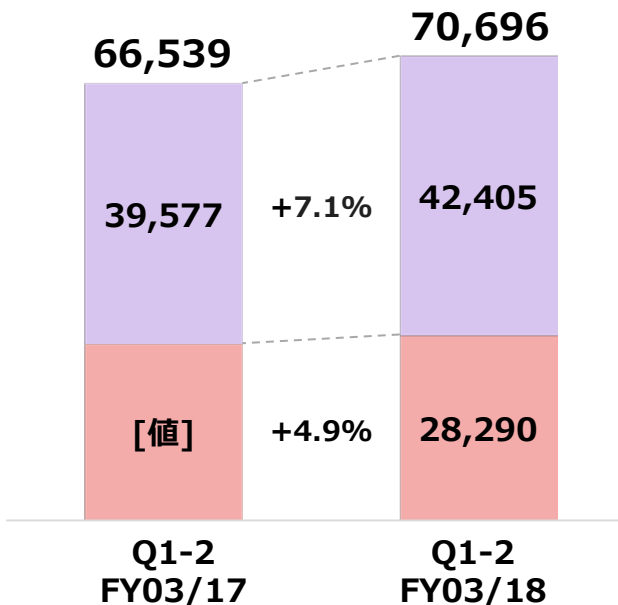
(Note) From the current fiscal year, revenue of vendor support for period contracts has been changed to monthly.

Performance by product category

■ Bookings

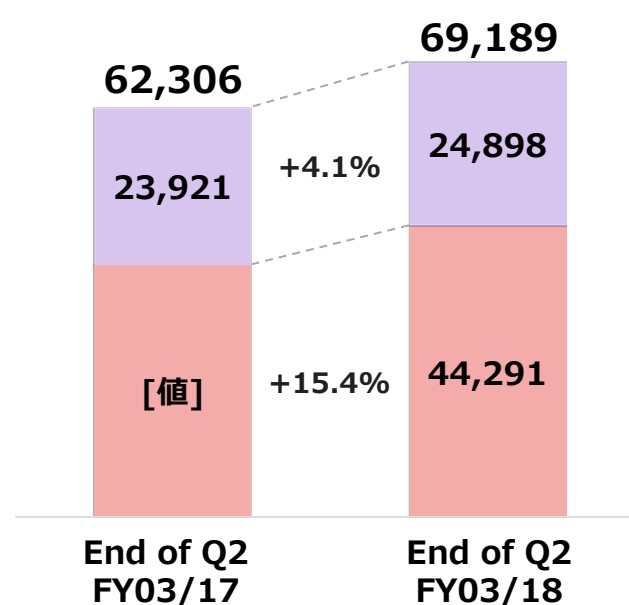


■ Revenue



■ Backlog

(JPYmn)



Products

Security and cloud business remained robust

Service business

Advances in solution proposals, projects including design, construction, maintenance and operation services increased

Consolidated balance sheets

(million yen)	Sep 30, 2017 Results	Change Amount	%	Mar 31, 2017 Results
Total assets	98,205	(5,160)	- 5.0%	103,365
Current assets	87,699	(4,726)	- 5.1%	92,425
Cash and deposits + CD・CP	21,570	4,333	+ 25.1%	17,236
Notes and accounts receivable-trade	30,994	(13,536)	- 30.4%	44,530
Inventory assets	21,296	4,654	+ 28.0%	16,642
Other	13,837	(177)	- 1.3%	14,015
Noncurrent assets	10,505	(434)	- 4.0%	10,940
Property, plant and equipment	5,189	(316)	- 5.8%	5,505
Intangible assets	1,959	(183)	- 8.6%	2,142
Investment etc.	3,357	65	+ 2.0%	3,291
Total liabilities	40,365	(5,672)	- 12.3%	46,037
Current liabilities	35,591	(5,417)	- 13.2%	41,009
Non-current liabilities	4,773	(254)	- 5.1%	5,027
Total net assets	57,839	511	+ 0.9%	57,328
Shareholders' equity	57,526	340	+ 0.6%	57,186
Accumulated other comprehensive income	152	138	-	13
Subscription rights to shares	160	32	+ 25.5%	128
Total liabilities and net assets	98,205	(5,160)	- 5.0%	103,365

Revenue and P/L by reportable segment

(JPYmn)		Reportable segment					Other	Total	Adjustment	Amount recorded in consolidated income statements
		Enterprise	Telecom Carrier	Public	NOP	Sub-total				
Ended Sep 30, 2017 (Results)	Revenue	21,615	13,691	20,732	14,434	70,473	781	71,255	(558)	70,696
	Segment income	581	715	512	695	2,505	22	2,527	(216)	2,311
	Segment income margin	2.7%	5.2%	2.5%	4.8%					3.3%
Ended Sep 30, 2016 (Previous)	Revenue	20,915	15,777	18,864	10,669	66,227	795	67,023	(484)	66,539
	Segment income	271	717	(298)	(93)	596	3	599	(303)	296
	Segment income margin	1.3%	4.5%	- 1.6%	- 0.9%					0.4%

- (Notes) 1. The adjustment in segment income included corporate expenses not attributable to any reportable segment.
 2. The "Other" segment is not included as a reportable segment. It contains the server service business and other businesses. Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.

Q1-2 topics

Strong bookings

Mainly driven by the "Cloud system with security"
IoT for manufacturing industry(Industrial IoT) remained robust

- **Enterprise:** Steady growth (YoY +11.0%)
 - ✓ Cloud infrastructure and security measures in all industries
 - ✓ Industrial IoT in manufacturing industry
 - ✓ Workstyle innovation
- **Public:** Exceeded the high-level performance of the previous term (YoY +4.4%)
 - ✓ Continuing security measure in municipalities
 - ✓ Security measure in universities and education committee
 - ✓ Cloud Infrastructure in healthcare
- **Partner:** Significant increase (YoY +24.3%)
 - ✓ Continuing and expanding key partner business
 - ✓ Expansion of specific product for telecom carrier

■ **Telecom Carrier:**

Although the cloud service infrastructure expanded, it was decreased compared to the previous term

Exchange rate, EPS, Employees

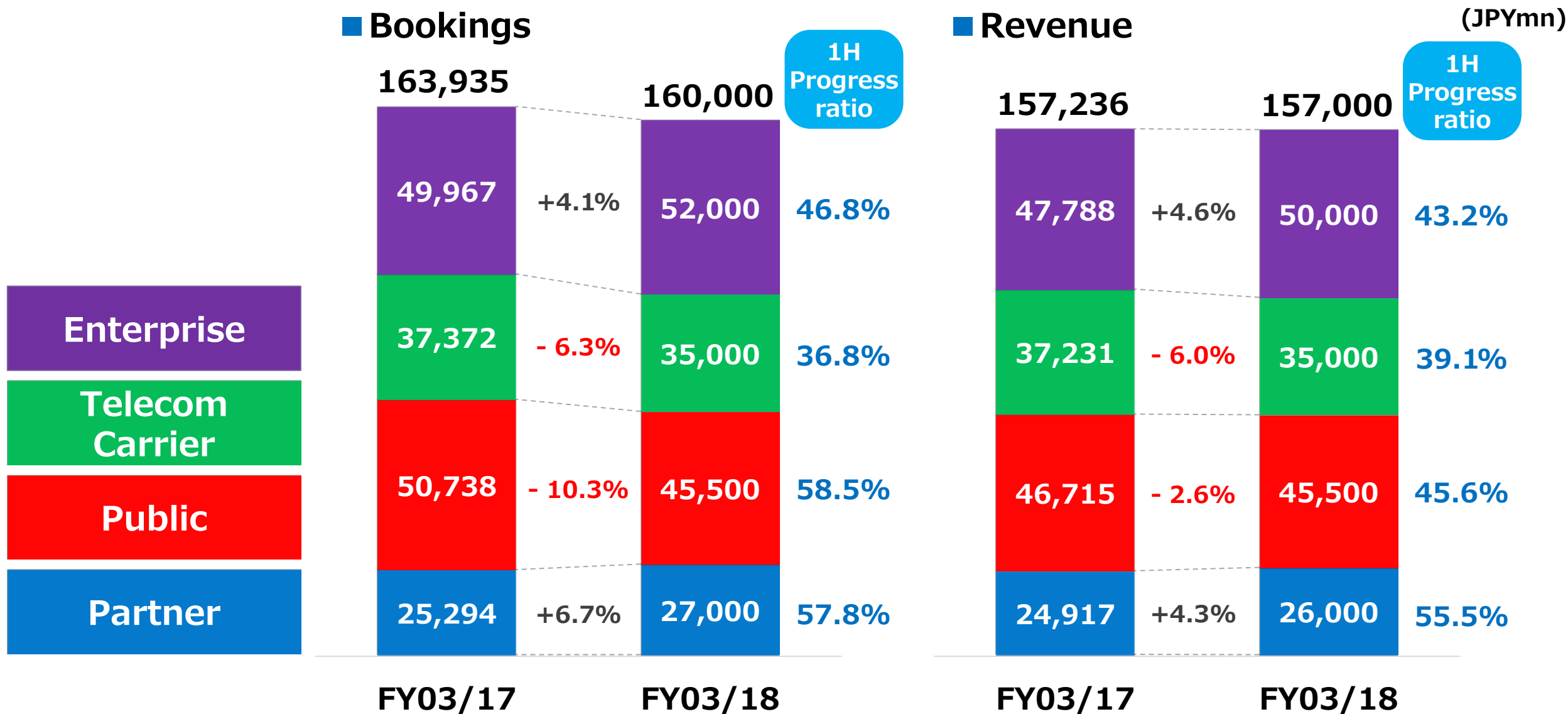
	FY03/18 Q1-2	YoY		FY03/17 Q1-2
		Change	Ratio	
Exchange rate (\$JPY)	111.14	(3.36)	- 2.9%	114.50
Earnings per share (JPY)	18.56	17.05	-	1.51
Dividends per share (JPY)	15.00	0.00	0.0%	15.00

	End of FY03/18 Q2	YoY		End of FY03/17 Q2
		Change	Ratio	
Employees	2,288	35	1.6%	2,253

FY03/18 Outlook (※no change from the previous outlook)

(JPYmn, % to revenue)	FY03/18 Outlook		YoY		FY03/17 Results	
			Change	Ratio		
Bookings	160,000		(3,935)	△ 2.4%	163,935	
Revenue	157,000	100.0%	(236)	△ 0.2%	157,236	100.0%
Cost of sales	121,275	77.2%	(738)	△ 0.6%	122,013	77.6%
Gross profit	35,724	22.8%	500	1.4%	35,223	22.4%
SG&A	28,524	18.2%	(951)	△ 3.2%	29,475	18.8%
Operating income	7,200	4.6%	1,452	25.3%	5,747	3.7%
Ordinary income	7,200	4.6%	1,498	26.3%	5,701	3.6%
Net income attributable to owners of the parent	4,600	2.9%	777	20.3%	3,822	2.4%

FY03/18 Outlook by market sector (※no change from the previous outlook)



Progress of Three-year Business Plan

Market trend

Investment driver: Security, Cloud, and ICT utilization



Forecast of Japan security market size (June 5, 2017, IDC Japan)

- ✓ Security product market: The CAGR of 2016 to 2021 is forecast to be 4.1%, 2021 is forecast to be 347.7 billion yen
- ✓ Security service market: The CAGR for 2016 to 2021 is forecast to be 5.6%, 2021 for 943.4 billion yen

User trend survey result of Japan cloud market (August 17, 2017, IDC Japan)

- ✓ Japan companies emphasize "strengthening IT security" as a factor for promoting cloud introduction
- ✓ "Reduction of IT budget" has a lower priority than the previous survey

Forecast of Japan private cloud market (October 17, 2017, IDC Japan)

- ✓ It is predicted that the market size of 2021 will be 1,604.5 billion yen, 5.2 times higher than 2016
- ✓ Continuing high growth with "transition from conventional IT" and "DX platform"

The value of Net One Systems

Management philosophy

Contribute to social innovation through the utilization of ICT

Core competence

Integration



Differentiated value

**Utilization know-how
through in-house practice**

**Architecture-oriented solution
by multi-vendor products**



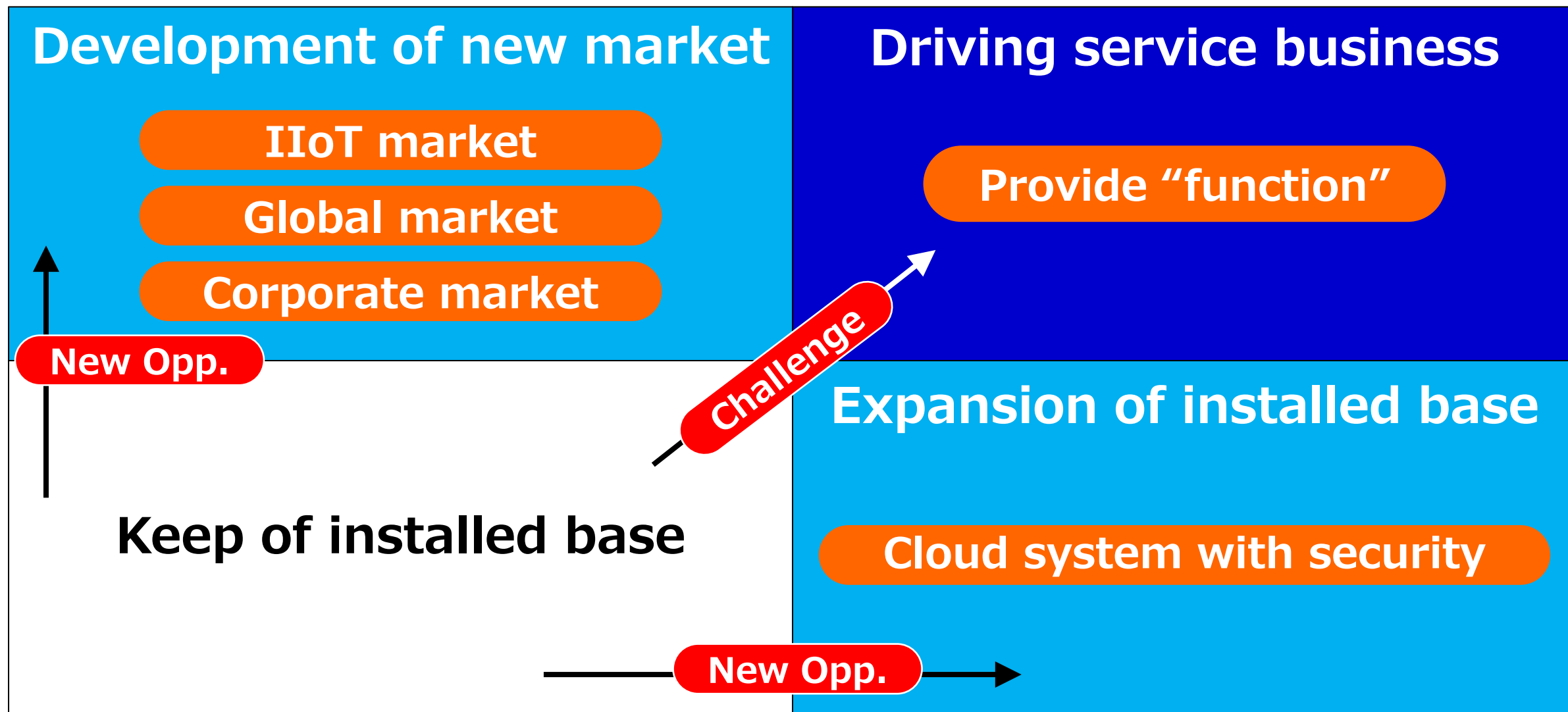
Market demand

Cloud with security

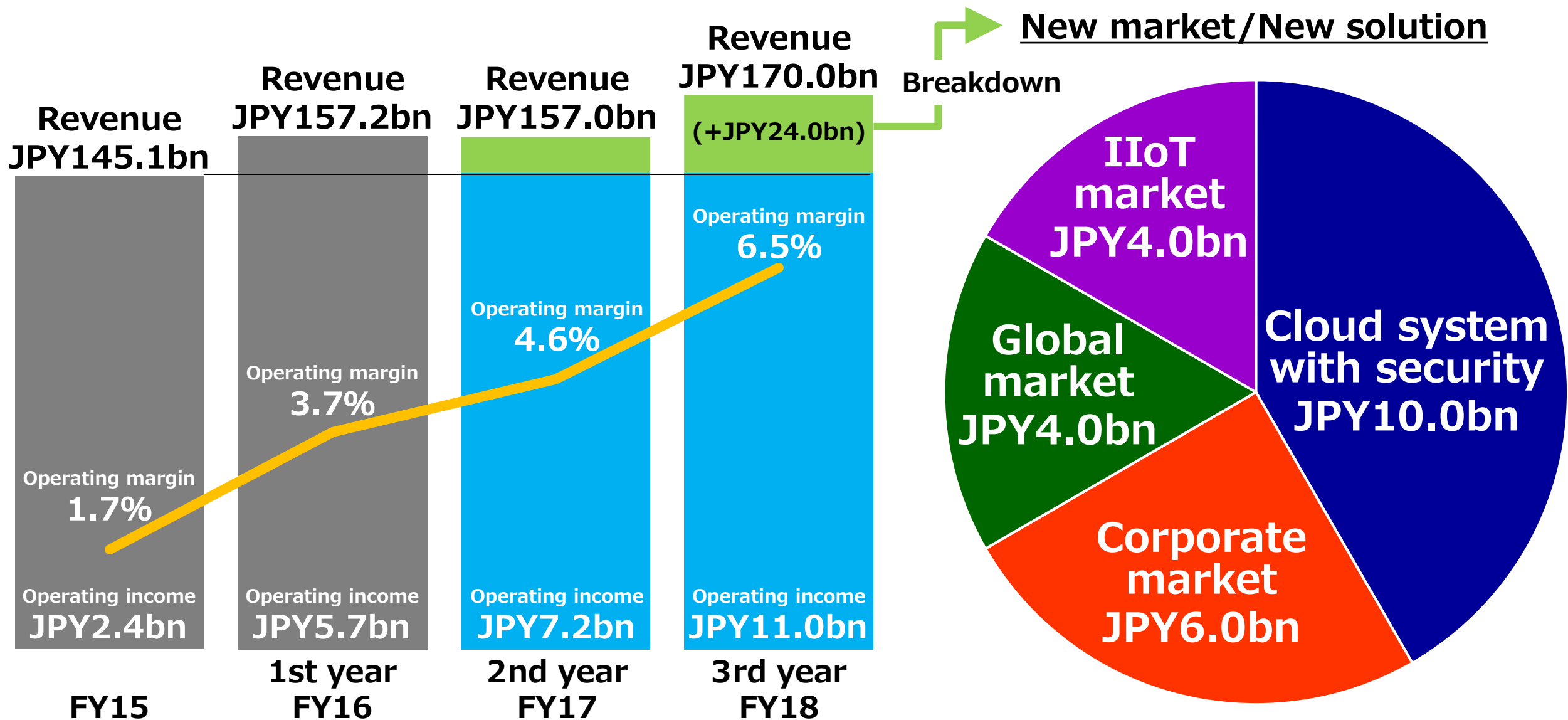
**ICT utilization
(Workstyle innovation
and IIoT etc.)**



Growth strategy: Driving/Initiative incremental business

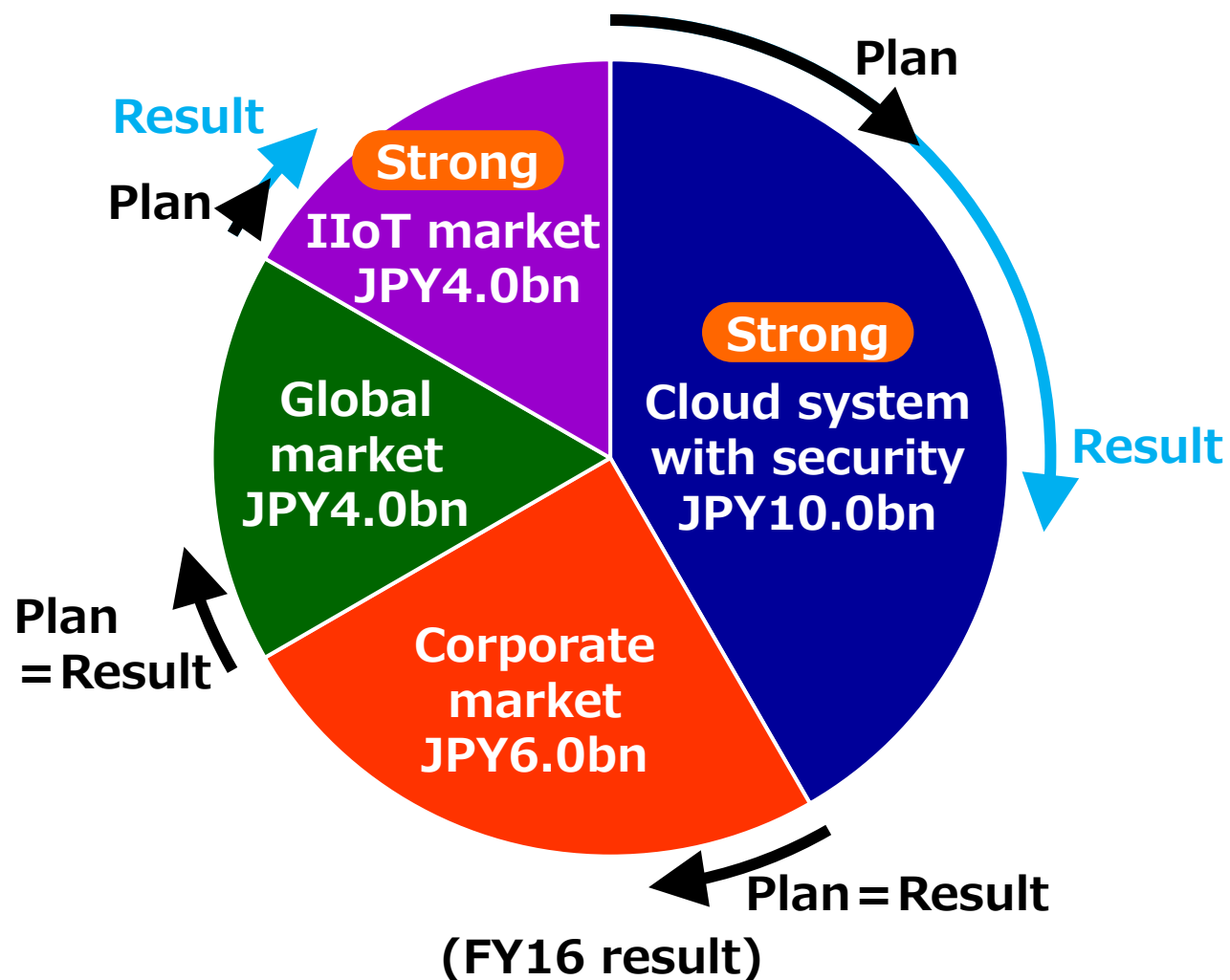


Three-year Business Plan



Progress of new market/new solution in FY17 1H

“Cloud system with security” and “IIoT market” remained robust



Strong bookings

- Cloud system with security
✓ Remained strong in ENT/PUB/SP
- IIoT(Industrial IoT) market
✓ Shifting to the full-scale operation in manufacturing industry
- Global market and Corporate market
✓ Steady according to plan

To achieve FY18 plan

To further increase revenue and gross profit margin:
Driving the service business

Conventional customer's request: Product ownership

Sell products and accompany services



Transform business model

Future customer's request: Use of "function"

- Provide “function” by services and accompany products
- Develop more valuable architecture-oriented solutions



To expand service business ratio

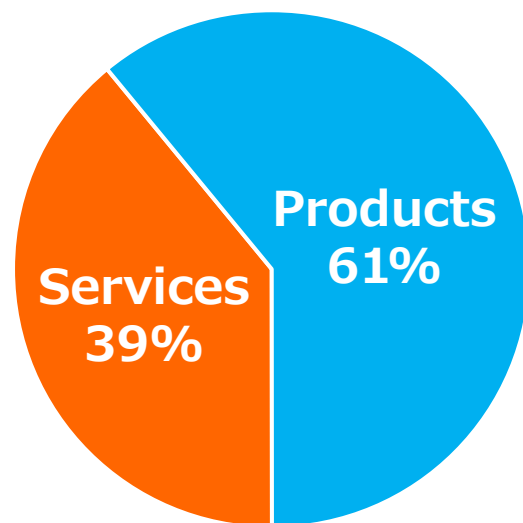
In FY18, bring the ratio of Products and Services close to 1 : 1

New services

New developed services with Products (as solution)

Conventional services

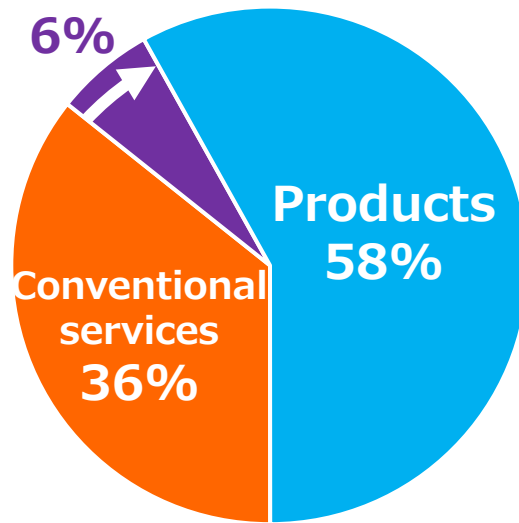
Design, construction, maintenance and operation service



Component ratio
of bookings in FY16



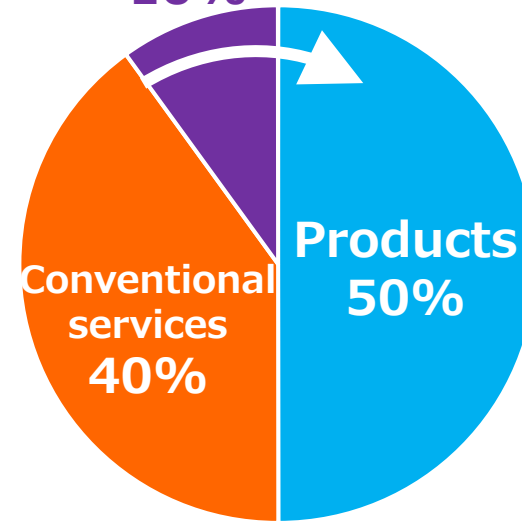
New services
6%



Component ratio
of bookings in FY17 1H



New services
10%



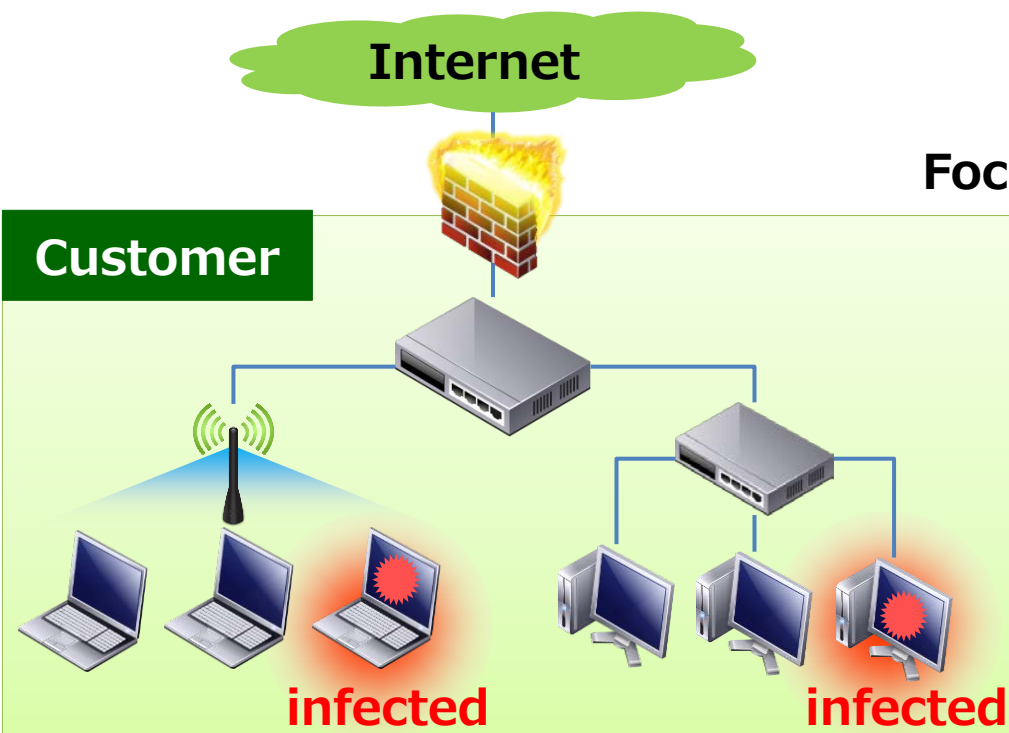
Component ratio scenario
in FY18

New security service

Announced on October 25, 2017

MDR service (Managed Detection and Response)

Innovative security monitoring and operation service
to prevent information leakage from malware infected terminals



Focus on handling at the terminal level



Suspicious behavior detection

Identify infected terminals

Isolation from LAN

Information leak prevention



Architecture-oriented solutions

Integration of products



Integration of software



Integration of services

New developed services

- ✓ Cloud HUB service
- ✓ SD-WAN service
- ✓ Security service

Conventional services

ICT utilization know-how

Provide "function" required by customers



charge ∠ channel ∠ change



net one