

Results for Q4 FY18

Ended March 31, 2019

Net One Systems Co., Ltd.
April 25, 2019 (Stock Code 7518: JP)



■ ■ ■ Agenda ■ ■ ■

- **FY18 Results** **P. 2-13**
- **FY19-21 Medium-Term Business Plan** **P. 14-26**
- **FY19 Outlook** **P. 27-30**

FY18 Results

Results summary FY18

(JPYmn, % to revenue)	FY17 Results (A)		FY18 Results (B)		YoY (B-A)		FY18 Revised outlook (C) [Announced on September 28, 2018]		Compare to revised outlook (B-C)	
					Amount	%			Amount	%
Bookings	170,164		188,332		+18,168	+10.7%	185,000		+3,332	+1.8%
Revenue	161,107	100.0%	181,935	100.0%	+20,828	+12.9%	175,000	100.0%	+6,935	+4.0%
Cost of revenue	123,278	76.5%	137,540	75.6%	+14,262	+11.6%	132,300	75.6%	+5,240	+4.0%
Gross profit	37,829	23.5%	44,395	24.4%	+6,566	+17.4%	42,700	24.4%	+1,695	+4.0%
SG&A	29,587	18.4%	31,383	17.2%	+1,795	+6.1%	30,700	17.5%	+683	+2.2%
Operating Income	8,241	5.1%	13,012	7.2%	+4,770	+57.9%	12,000	6.9%	+1,012	+8.4%
Ordinary Income	8,418	5.2%	13,258	7.3%	+4,839	+57.5%	12,000	6.9%	+1,258	+10.5%
Net Income attributable to owners of the parent company	5,682	3.5%	8,913	4.9%	+3,230	+56.9%	8,000	4.6%	+913	+11.4%
Backlog	69,121		75,519		+6,397	+9.3%	-		-	-

Profits increased as a result of revenue growth and continuous efforts to reduce costs, expand services, and increase productivity. Bookings increased mainly in Public sector.

Key factor in profit growth

Continuous efforts to
reduce costs, expand service business, and improve productivity

YoY

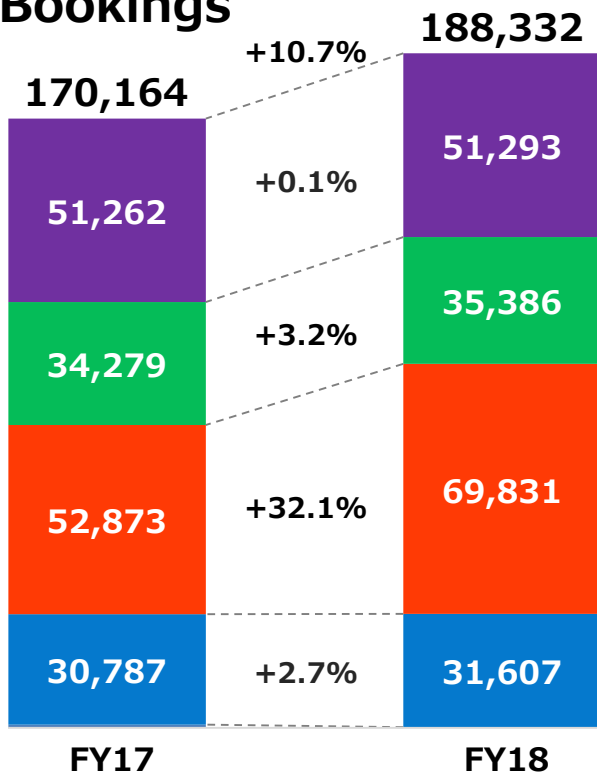
<u>Revenue</u>	<u>Gross profit margin</u>	<u>SGA ratio</u>
+12.9%	23.5%→24.4%	18.4%→17.2%

Reduce costs / Expand service business / Improve productivity

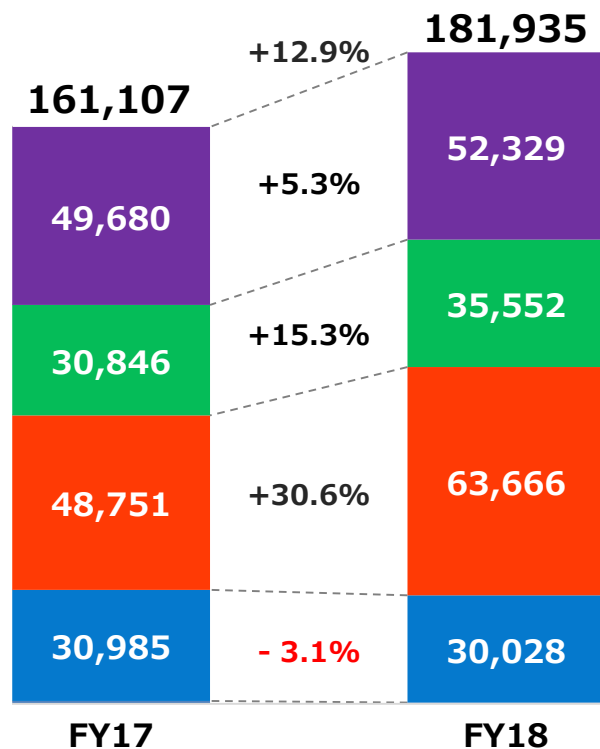
Operating
income
+57.9%

Performance by market sector

Bookings

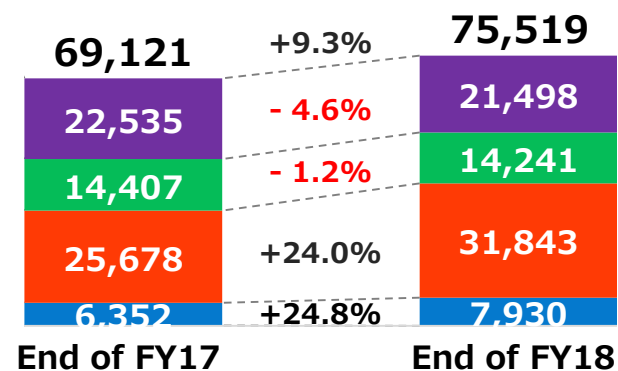


Revenue



Backlog

(JPYmn)



Enterprise

Business of security, cloud infrastructure, work style innovation, and IIoT performed well.

Telecom Carrier

Service infrastructure business performed well.

Public

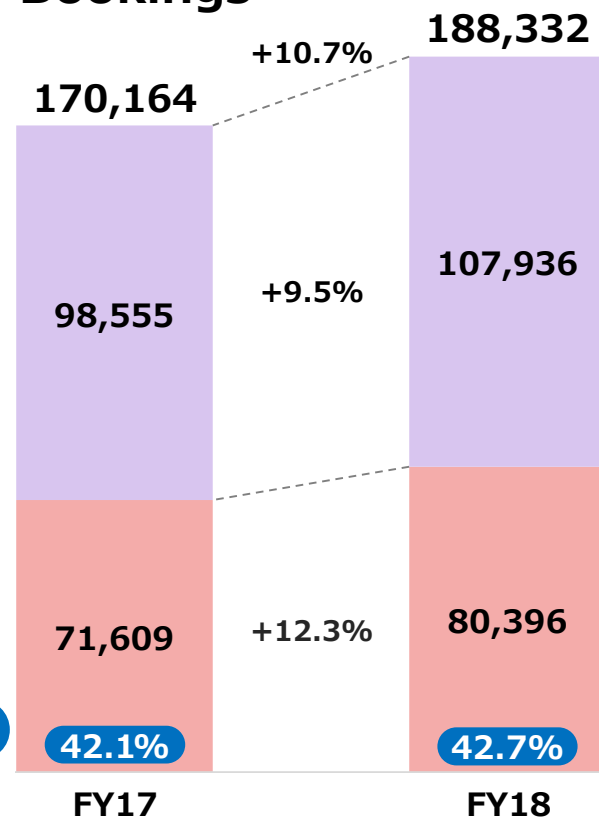
Security and cloud infrastructure business were strong.

Partner

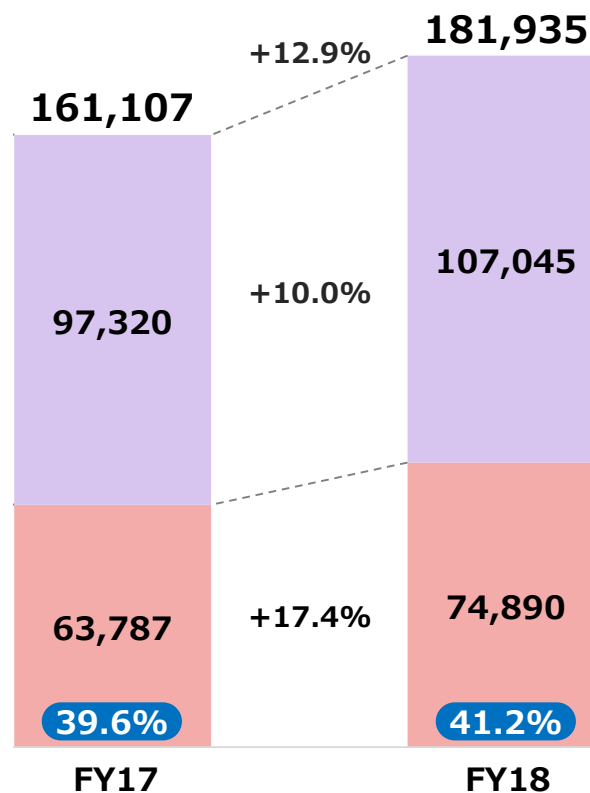
Focused on profitability and provided value-added solutions.

Performance by product category

■ Bookings

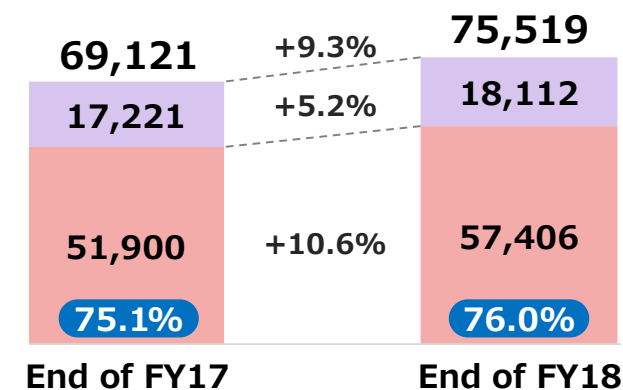


■ Revenue



■ Backlog

(JPYmn)



Products

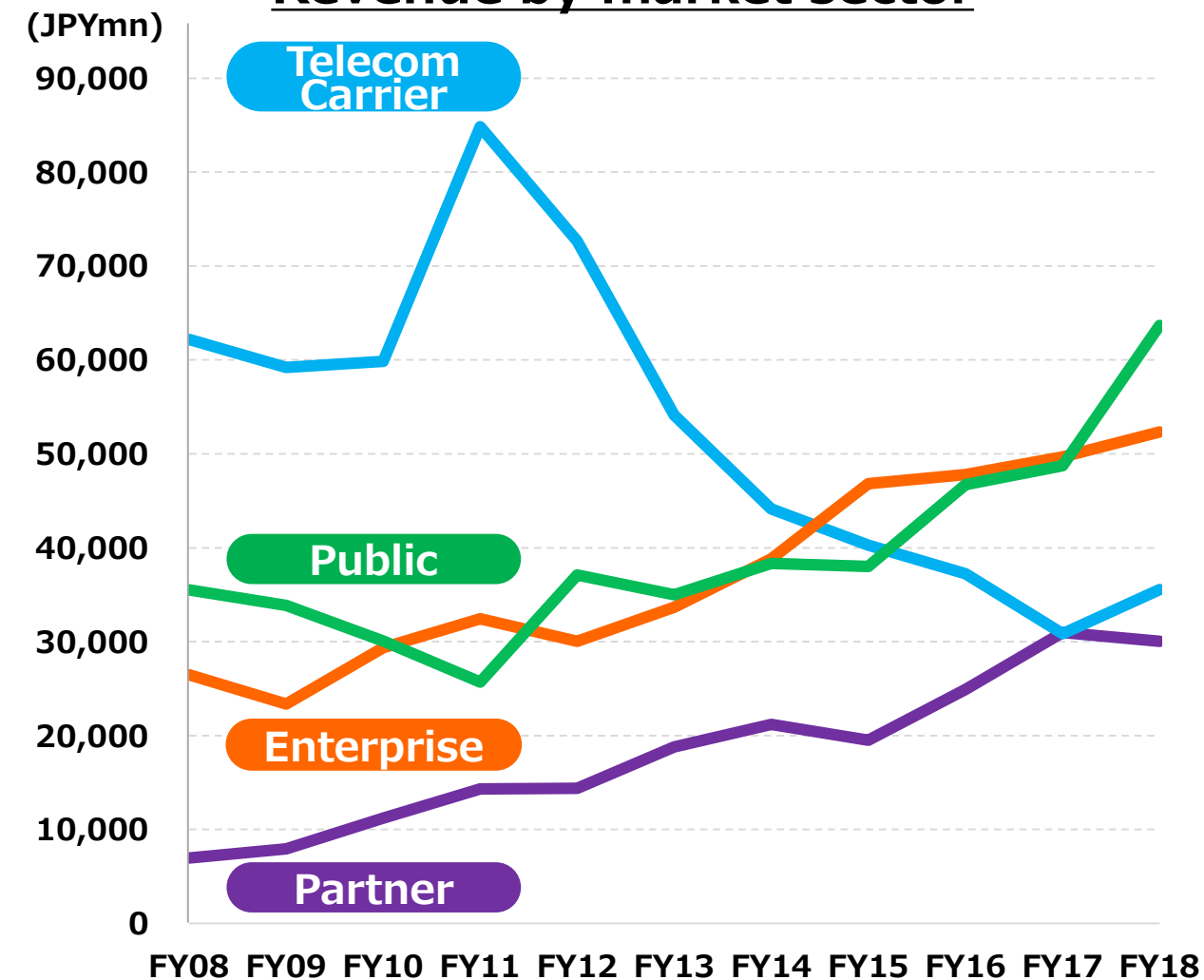
Service business

Security and cloud infrastructure business performed well.

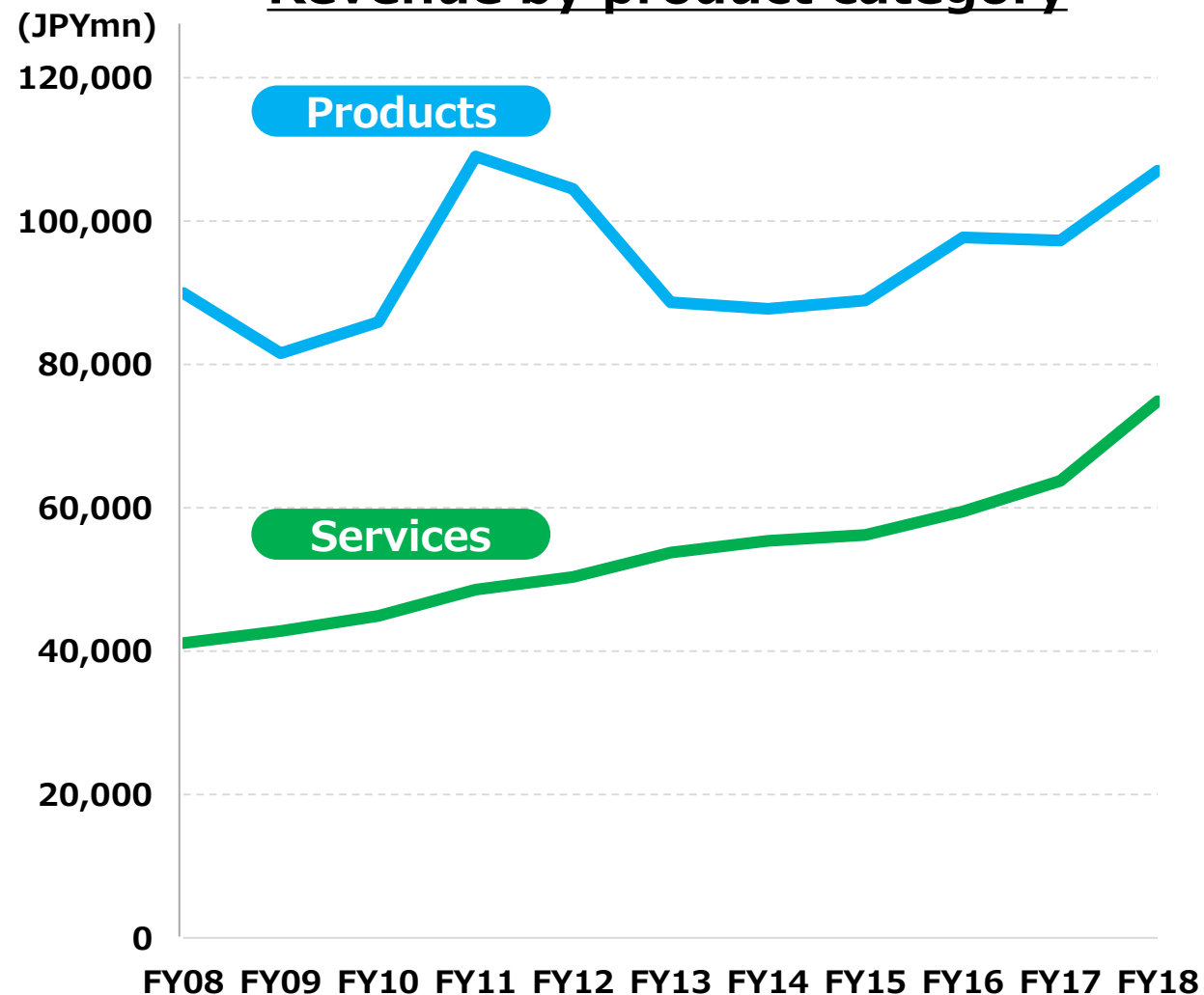
The acceleration of the "Integrated services business" contributed the expansion of services and products.

Revenue trend by market sector and product category

Revenue by market sector



Revenue by product category



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				
FY18 (Results)	Revenue	52,329	35,552	63,666	30,028	181,577	470	182,048	(112)	181,935
	Segment income	3,263	3,454	4,688	2,117	13,523	153	13,677	(665)	13,012
	Segment income margin	6.2%	9.7%	7.4%	7.1%					7.2%
FY17 (Previous)	Revenue	49,685	30,846	48,751	30,985	160,268	1,883	162,151	(1,044)	161,107
	Segment income	3,145	2,101	2,152	1,426	8,825	5	8,831	(590)	8,241
	Segment income margin	6.3%	6.8%	4.4%	4.6%					5.1%

- (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.

Consolidated balance sheets

(JPYmn)	Mar 31, 2018	Mar 31, 2019	Change	
	Results	Results	Amount	%
Total assets	106,827	125,498	18,670	+ 17.5%
Current assets	95,164	113,410	18,245	+ 19.2%
Cash and deposits + CD・CP	23,953	25,305	1,352	+ 5.6%
Notes and accounts receivable-trade	41,755	43,464	1,709	+ 4.1%
Inventory assets	13,136	14,287	1,151	+ 8.8%
Other	16,319	30,352	14,032	+ 86.0% *1
Noncurrent assets	11,662	12,087	425	+ 3.6%
Property, plant and equipment	5,125	5,240	114	+ 2.2%
Intangible assets	1,801	1,434	(366)	- 20.3%
Investment etc.	4,735	5,412	677	+ 14.3%
Total liabilities	46,464	58,640	12,175	+ 26.2%
Current liabilities	41,544	49,846	8,302	+ 20.0% *2
Non-current liabilities	4,919	8,793	3,873	+ 78.7% *3
Total net assets	60,363	66,858	6,495	+ 10.8%
Shareholders' equity	60,369	66,631	6,261	+ 10.4%
Accumulated other comprehensive income	(167)	62	230	-
Subscription rights to shares	160	163	3	+ 2.0%
Total liabilities and net assets	106,827	125,498	18,670	+ 17.5%

***1,2,3:**
The main factors are explained on page 10.

Main factors for changes in assets and liabilities

(JPYmn)

*1: Current Assets, Other

	Mar 31, 2018 Results	Mar 31, 2019 Results	YoY		Factor
			Amount	%	
Investments in leases	4,139	8,723	+4,584	+110.8%	Increased in capital service
Prepaid expenses	8,642	13,109	+4,467	+51.7%	Increased in maintenance service
Advances paid	3,036	7,775	+4,739	+156.1%	Increase in net transactions such as software licenses

*2: Current liabilities

	Mar 31, 2018 Results	Mar 31, 2019 Results	YoY		Factor
			Amount	%	
Lease obligations	2,767	4,051	+1,284	+46.4%	Increased in capital service
Advances received	12,477	15,015	+2,538	+20.3%	Increased in maintenance service

*3: Non-current liabilities

	Mar 31, 2018 Results	Mar 31, 2019 Results	YoY		Factor
			Amount	%	
Lease obligations	4,539	8,391	+3,852	+84.9%	Increased in capital service

Exchange rate, EPS, Employees

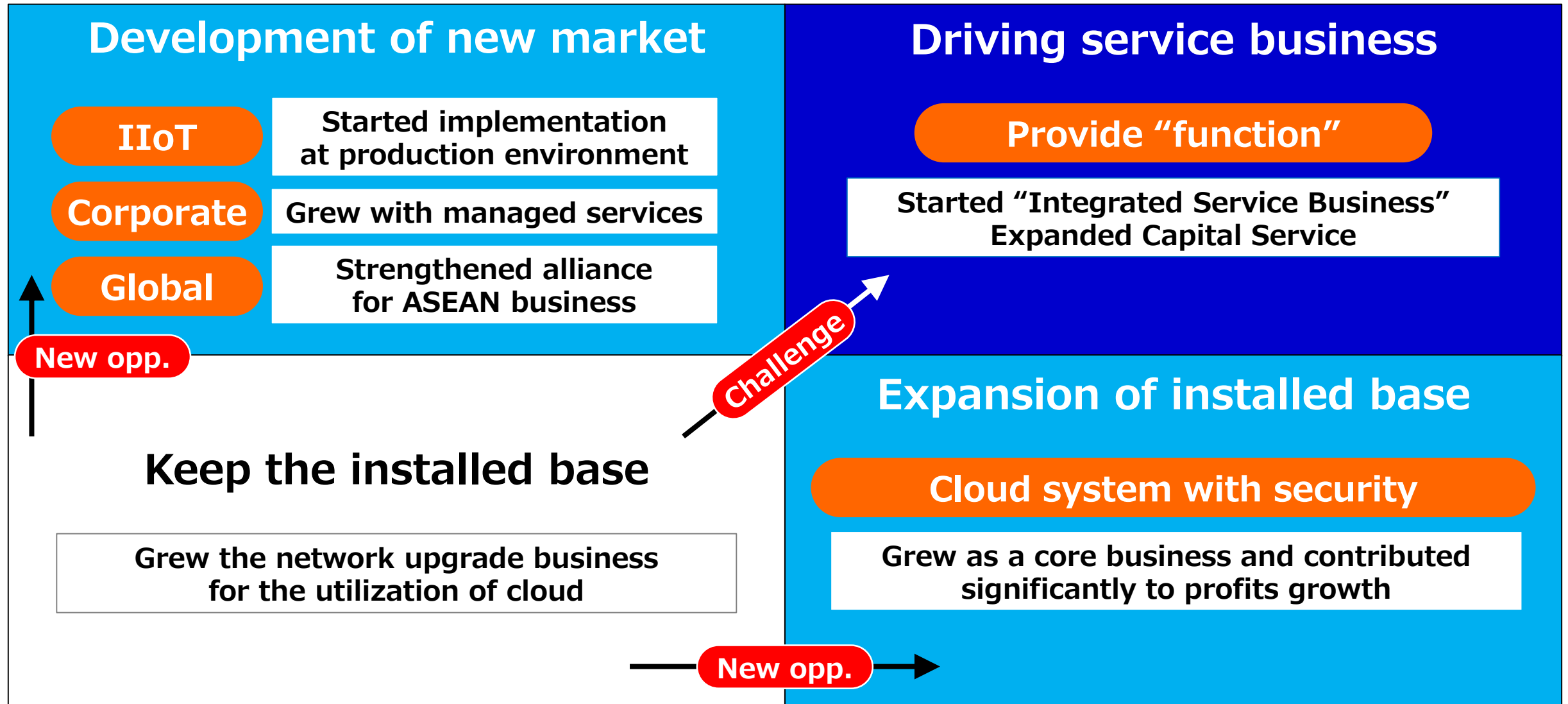
	FY17 Q1-4	FY18 Q1-4	YoY	
			Amount	%
Exchange rate (\$JPY)	111.04	110.15	(0.89)	- 0.8%
Earnings per share (JPY)	67.16	105.28	+38.12	+56.8%

	End of FY17	End of FY18	YoY	
			Amount	%
Employees	2,295	2,277	(18)	- 0.8%

(Notes)

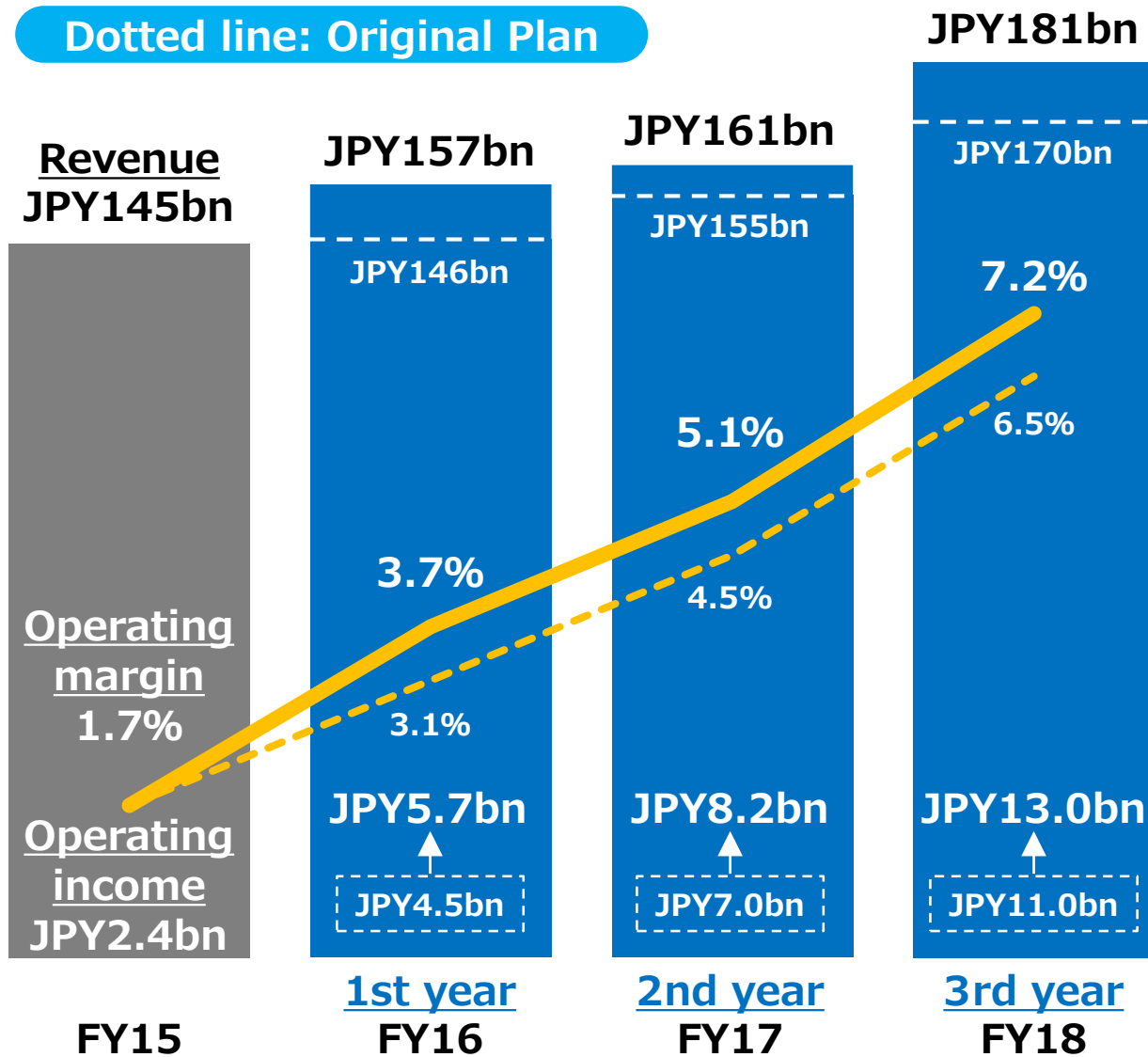
1. On November 16, 2018, an interim dividend of 17.00 yen per share was paid to shareholders of record as of September 30, 2018. The interim dividend consists of an ordinary dividend of 15.00 yen and a commemorative dividend of 2.00 yen for the 30 year anniversary of the Company's founding.
2. The Company is planning to increase the year-end dividend payment by 3.00 yen per share from 17.00 yen to 20.00 yen per share.(announced on April 25, 2019) The year-end dividend consists of an ordinary dividend of 18.00 yen and a commemorative dividend of 2.00 yen for the 30 year anniversary of the Company's founding.

Review of medium-term business plan (FY16-18): Growth strategy



Review of medium-term business plan (FY16-18): Target

Dotted line: Original Plan



FY19-21 Medium-Term Business Plan

The ICT market is changing dramatically

Rapid growth of U.S. cloud service providers

Software shift in ICT Vendors

ICT becomes the core of business transformation



**We have created new values in cloud infrastructure and security.
We will continue to transform ourselves to co-create new values with customers.**

Growth strategy

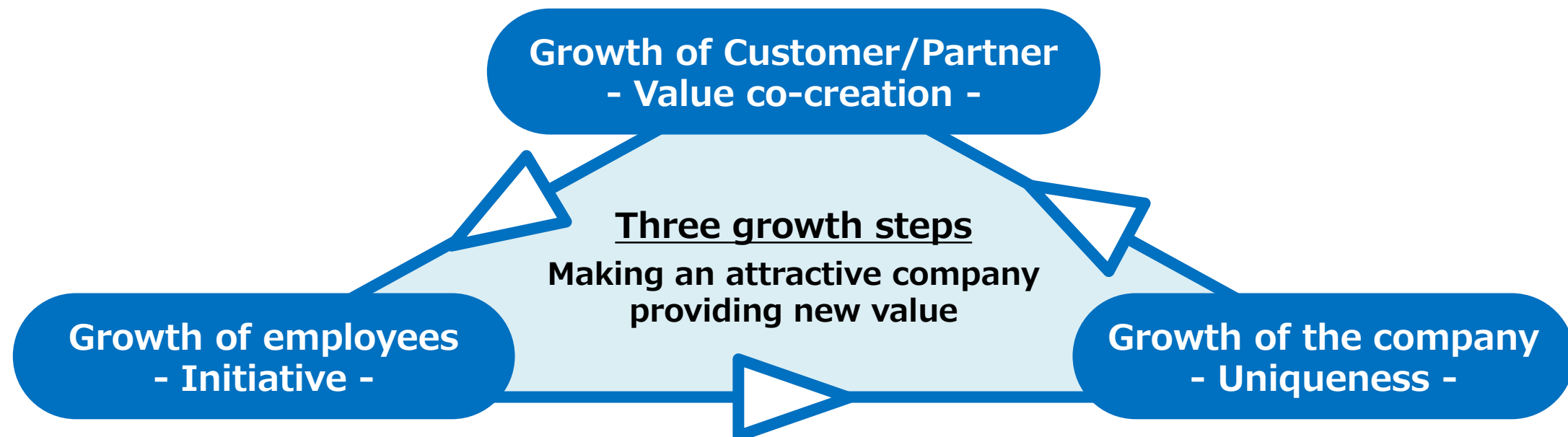
Management Philosophy Contribute to innovation in society by utilizing ICT

Three basic strategies: Focus on creating high added value

Implementation of DX
- Increasing productivity -

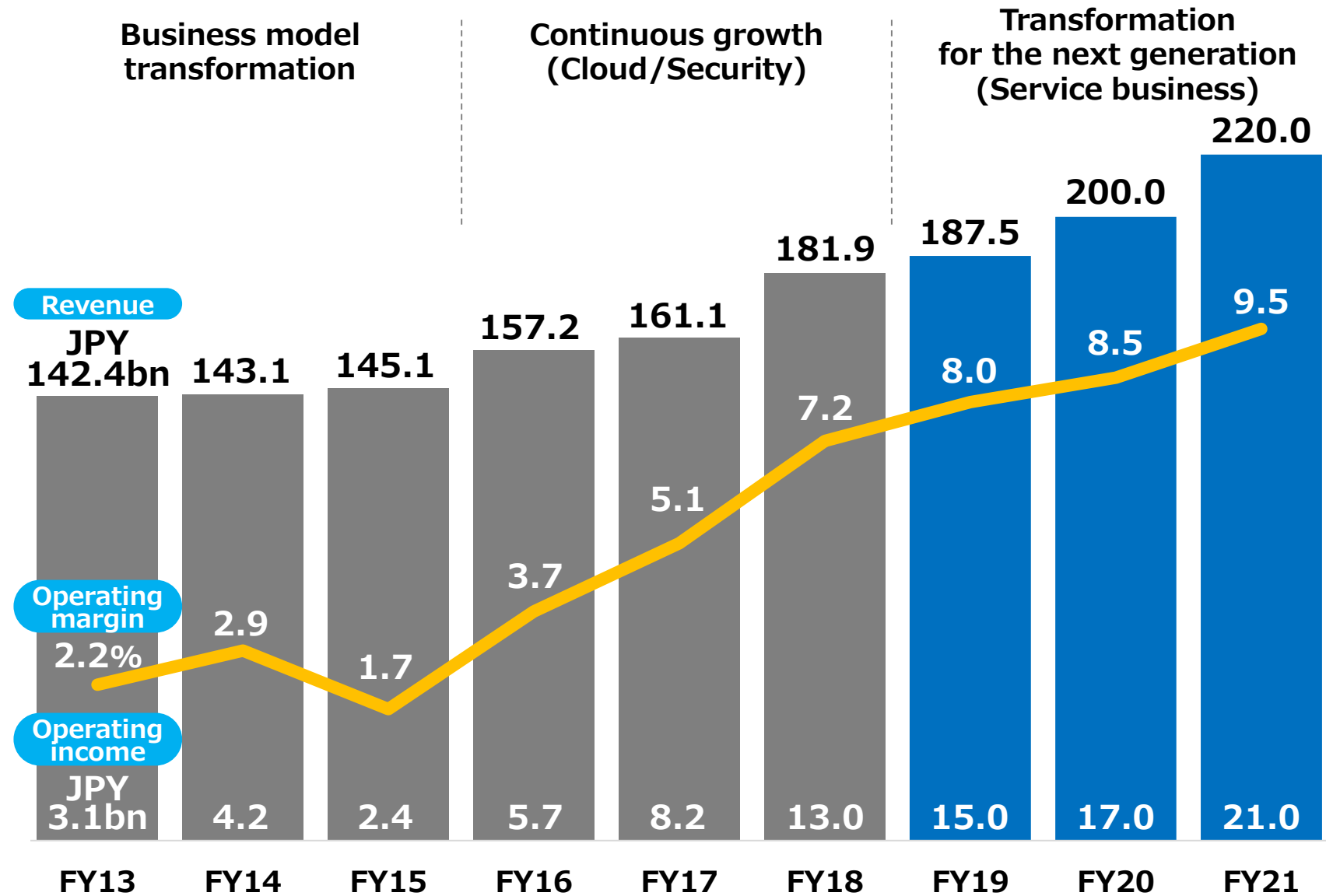
**Driving
“Integrated Service Business”**
- Expansion of service business -

**Expanding focus markets
and new models**
- Extending market coverage -



Targets

	FY18 result	FY21 target
Operating margin	7.2%	9.5%
Proportion of services	41.2%	50%
ROE	14.0%	16.8%



Basic strategy 1: Expanding focus markets & new models

Focus on markets and customers that accept our added value,
especially large enterprises and organizations

Focus markets / New models

JPY25bn increase in revenue for 3 years

Focus markets

Healthcare

Education

Smart factory

New models

MSP(Managed service provider)

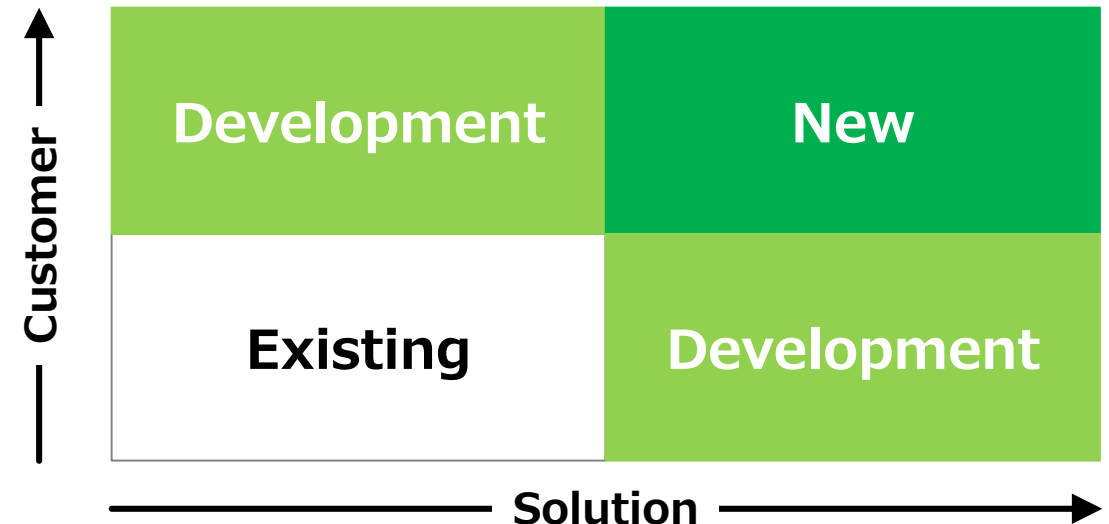
Refurbishment

Existing markets

Continuous increase in revenue for 3 years

- Core solutions -

Multi-cloud, security, work style reform



Focus markets

Target the three markets where ICT is expected to advance



Healthcare

Target
Large hospitals

Current demand

- Consolidate ICT-infra of medical systems
- Protect medical information
- Reform the work-style of health care workers

Future demand

- Use cloud services for medical systems
- Protect Medical ID/Social Security Number
- Optimize inter-hospital ICT infrastructure



Education

Target
K-12(Large municipalities)

Current demand

- Protect students' information
- Reform the work-style of faculty members
- Consolidate ICT-infra of education systems

Future demand

- Use Edtech(Cloud Services)
- Teach/Interact between distant schools
- Solve the shortage of ICT engineer



Smart factory

Target
Large manufacturers

Current/Future demand

Improve production efficiency

- ✓ preventive maintenance
- ✓ traceability
- ✓ production automation

Develop IoT infrastructure

- ✓ data collection, formatting, and analysis
- ✓ federation with cloud services
- ✓ security/operation include OT systems

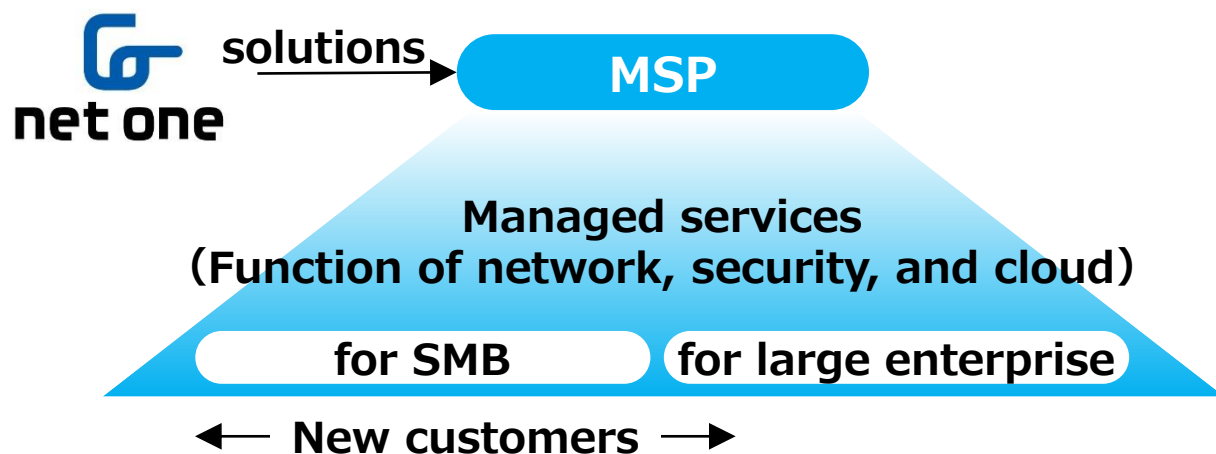
New models

Enhance the two models to meet utilization of ICT functions



MSP(Managed service provider)

Provide solutions to support MSP services
Efficient and indirect approach to new customers



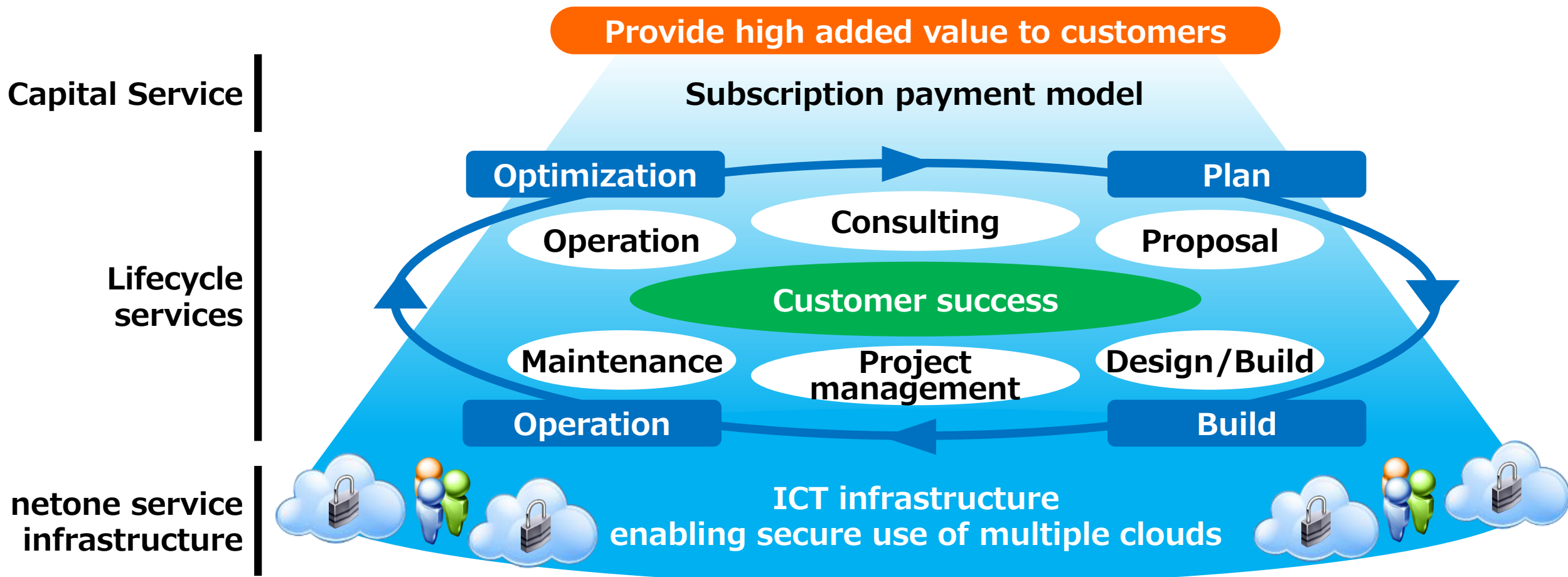
Refurbishment

Provide refurbishment products and third-party
maintenance service from new subsidiary
Cost differentiation and high profitability



Basic strategy 2: Driving “Integrated Service Business”

All activities of the NetOne Group are defined as “Integrated Services Business”
Focus on customer success to create added value



Basic strategy 3: Implementation of DX(digital transformation)

Review of all operations and IT systemization to improve productivity
Introduce success/failure experiences to customers as added value

Customers: Dramatically reduce the time of system deployment

[netone on netone]

Provide ICT infrastructure for DX based on NetOne experience

NetOne: Dramatically improve speed, accuracy, and quality of operations



DX

IT systemize of all operations, minimize the amount of work

Re-create of process

Re-create of IT system

People development

Work-style
innovation

Anytime, anywhere, anyone and any-device

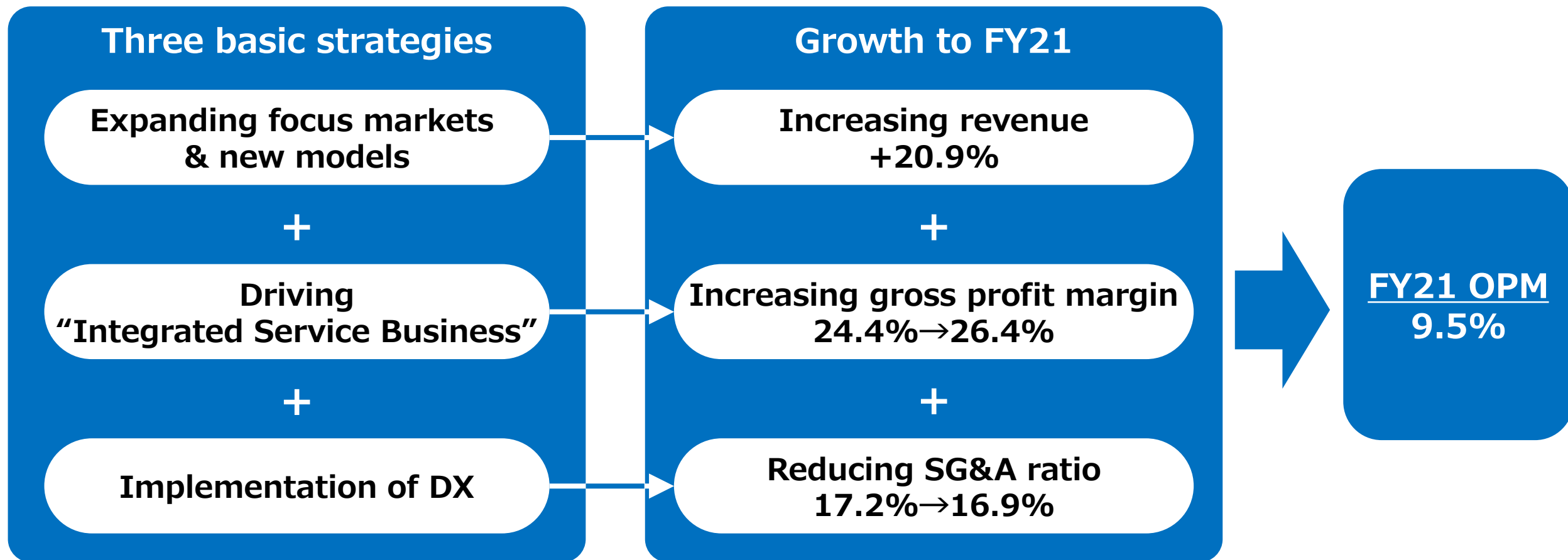
Advanced ICT tools

Flexible HR system

Office environment

Improving operating margin

Focus on creating high added value



NetOne group (FY18 consolidated)

Consolidated

Non-consolidated

Net One Systems Co., Ltd.

charge ∠ channel ∠ change



Net One Partners Co., Ltd.



Partner business

Net One Next Co., Ltd.



Refurbishment business

Net One Connect G.K.



Multi-cloud software development

Net One Business Operations G.K.



Administrative services

eXtreak, Inc.



Facility engineering

Net One Asia Pte. Ltd.



ASEAN business

Net One Systems USA, Inc.



Market research

Net One Systems Singapore Pte. Ltd.



Singapore office

NetOne group (FY19 consolidated)

Consolidated

Non-consolidated

Net One Systems Co., Ltd.

charge ∠ channel ∠ change



Net One Partners Co., Ltd.



Partner business

Net One Next Co., Ltd.



Refurbishment business

Net One Connect G.K.



Multi-cloud software development

Net One Business Operations G.K.



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Administrative services

eXtreak, Inc.



Facility engineering

Net One Asia Pte. Ltd.



ASEAN business

Net One Systems USA, Inc.



Market research

Net One Systems Singapore Pte. Ltd.



Singapore office

FY22 plan: Next generation office

Reorganizing Tokyo offices into 2 locations in FY22 as an example of DX

Up to FY21



1. Head office
Sales division



2. Tennoz office
Engineering / Administrative divisions



3. Technical Center
Technical verification



**4. Quality Assurance
& Management Center**
Product receiving, shipping, inspection

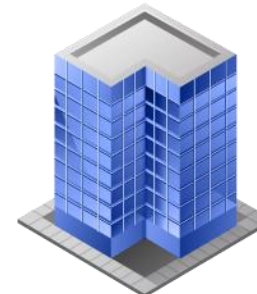


FY22 plan

1. Head office
Sales division (no change)



2. New office
Integration of functions



Engineering / Administrative divisions

Technical verification

Product receiving, shipping, inspection

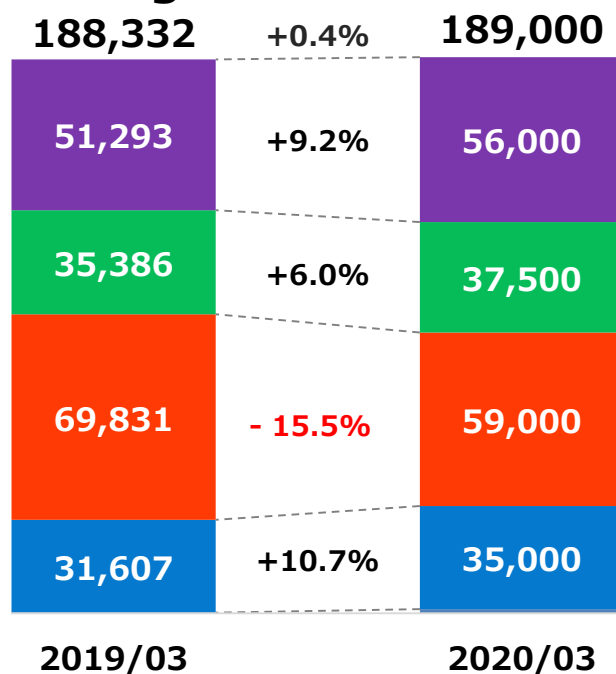
FY19 Outlook

FY19 outlook

(JPYmn, % to revenue)	H1		H2		Annual	
Bookings	91,300		97,700		189,000	
Revenue	81,700	100.0%	105,800	100.0%	187,500	100.0%
Cost of sales	60,700	74.3%	79,100	74.8%	139,800	74.6%
Gross profit	21,000	25.7%	26,700	25.2%	47,700	25.4%
SG&A	15,800	19.3%	16,900	16.0%	32,700	17.4%
Operating income	5,200	6.4%	9,800	9.3%	15,000	8.0%
Ordinary income	5,200	6.4%	9,800	9.3%	15,000	8.0%
Net income attributable to owners of the parent	3,500	4.3%	6,700	6.3%	10,200	5.4%
Dividends per share	21.00 Yen		21.00 Yen		42.00 Yen	
	Annual					
Exchange rate	110.25 USD/JPY		Consolidated employees as of April 1, 2019: 2,346			

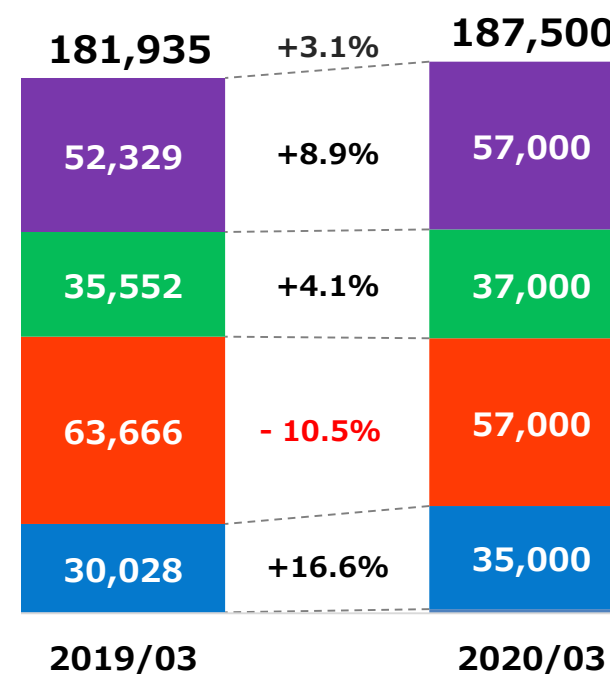
FY19 outlook by market sector

■ Bookings



■ Revenue

(JPYmn)



Enterprise

Continue to expand business of cloud infrastructure, security, and work style innovation. Deliver new solutions for smart factory and MSP.

Telecom Carrier

Continue to focus on expanding the service infrastructure business.

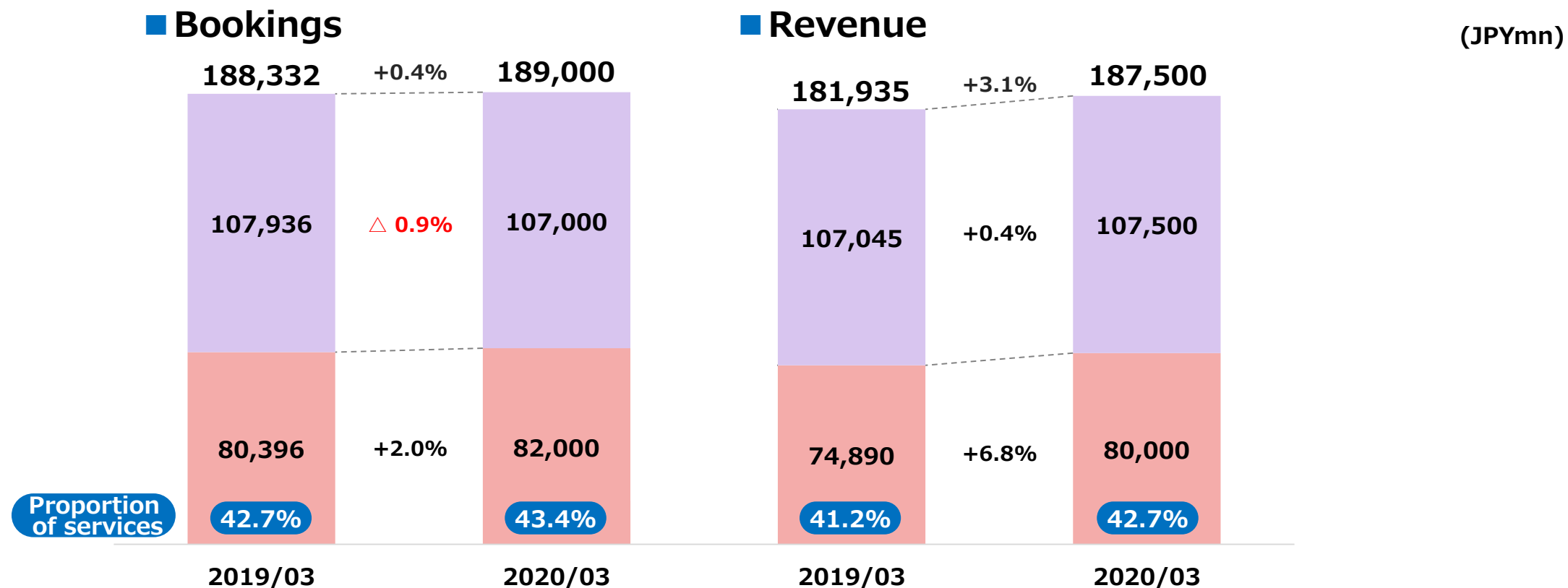
Public

Major projects in the previous year will fell. Continue to focus on security and cloud infrastructure business. Deliver new solutions for healthcare and education.

Partner

Expand solutions business for various partners. Deliver new solutions for MSP.

FY19 outlook by product category



Products

Service
business

Continue to focus on expanding "Integrated services business" in focus markets, new models, and existing markets

charge ∠ channel ∠ change



net one