

# Results for Q2 FY19

## Ended September 30, 2019

**Net One Systems Co., Ltd.**  
**October 24, 2019 (Stock Code 7518: JP)**



# ■ ■ ■ Agenda ■ ■ ■

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# Q1-2 FY19 (Apr-Sep 6months) Results

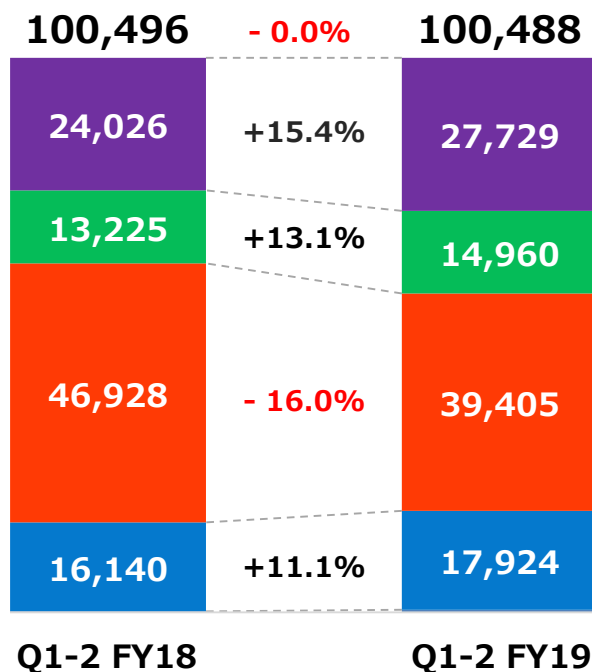
# Results summary Q1-2 FY19 (Apr-Sep 6months)

(JPYmn, % to revenue)	FY18 Q1-2 Results (A)		FY19 Q1-2 Results (B)		YoY (B-A)		FY19 Q1-2 Original outlook (C)		Compare to original outlook (B-C)	
					Amount	%			Amount	%
Bookings	100,496		100,488		(8)	- 0.0%	91,300		+9,188	+10.1%
Revenue	80,598	100.0%	88,723	100.0%	+8,124	+10.1%	81,700	100.0%	+7,023	+8.6%
Cost of revenue	60,416	75.0%	65,975	74.4%	+5,558	+9.2%	60,700	74.3%	+5,275	+8.7%
Gross profit	20,181	25.0%	22,747	25.6%	+2,565	+12.7%	21,000	25.7%	+1,747	+8.3%
SG&A	15,246	18.9%	15,651	17.6%	+405	+2.7%	15,800	19.3%	(148)	- 0.9%
Operating Income	4,935	6.1%	7,096	8.0%	+2,160	+43.8%	5,200	6.4%	+1,896	+36.5%
Ordinary Income	5,043	6.2%	7,313	8.2%	+2,269	+45.0%	5,200	6.4%	+2,113	+40.6%
Net Income attributable to owners of the parent company	3,309	4.1%	5,055	5.7%	+1,745	+52.7%	3,500	4.3%	+1,555	+44.4%
Backlog	89,019		87,494		(1,525)	- 1.7%	-		-	-

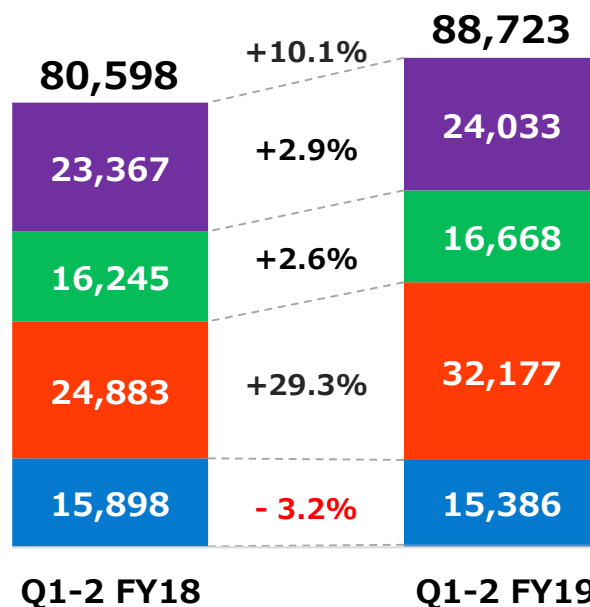
Bookings, revenue, and profits exceeded 1H outlook, respectively.  
Revenue JPY6bn of some central government's projects originally planned for 3Q had been moved forward.

# Performance by market sector

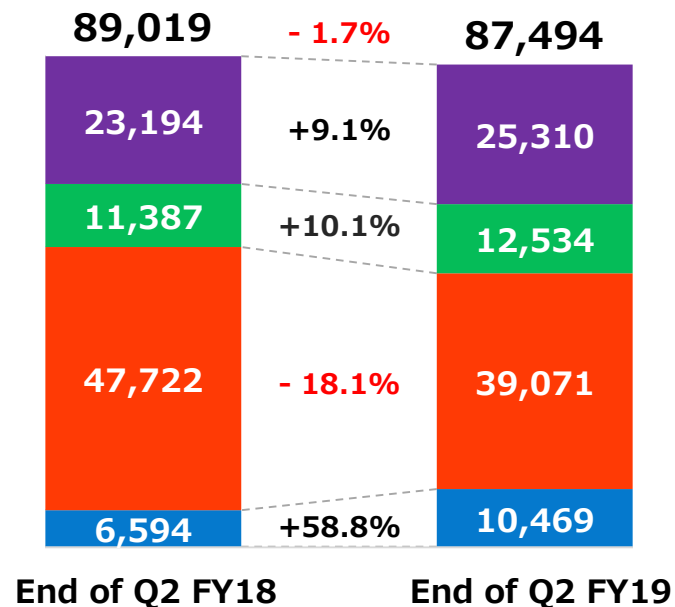
## ■ Bookings



## ■ Revenue



## ■ Backlog



(JPYmn)

### Enterprise

Business of security, cloud infrastructure, and work style innovation continued to grow steadily. Smart factory business, which is a focus market in the medium-term business plan also remained robust.

### Telecom Carrier

Service infrastructure business performed well.

### Public

Security and cloud infrastructure business including healthcare and education, the focus markets were strong. Some central government's projects had been moved forward from 3Q.

### Partner

Business with key partners continued to remain solid.

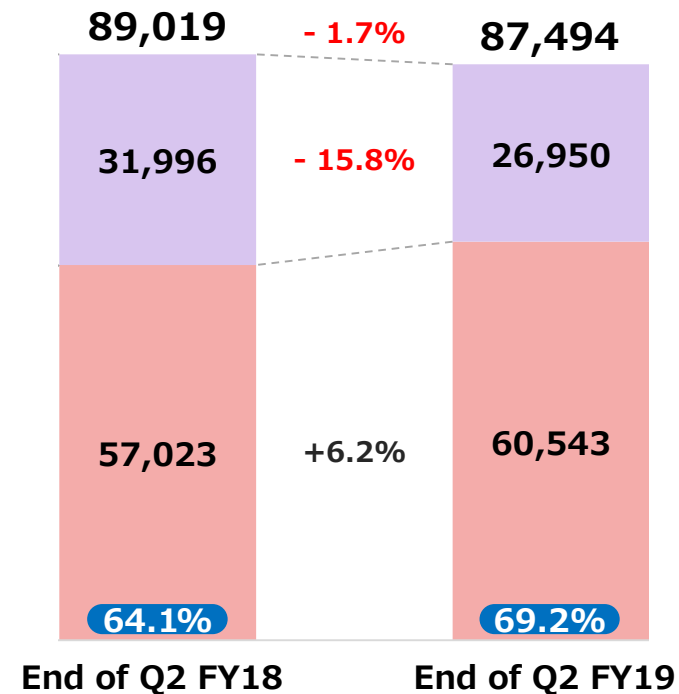
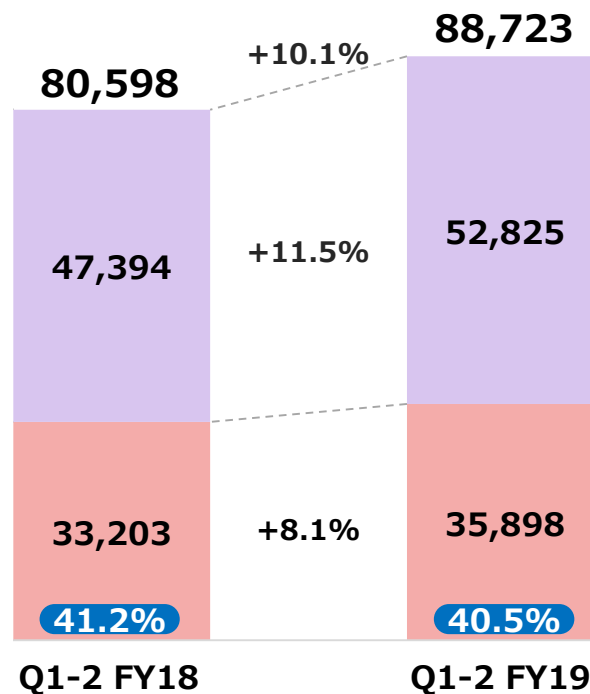
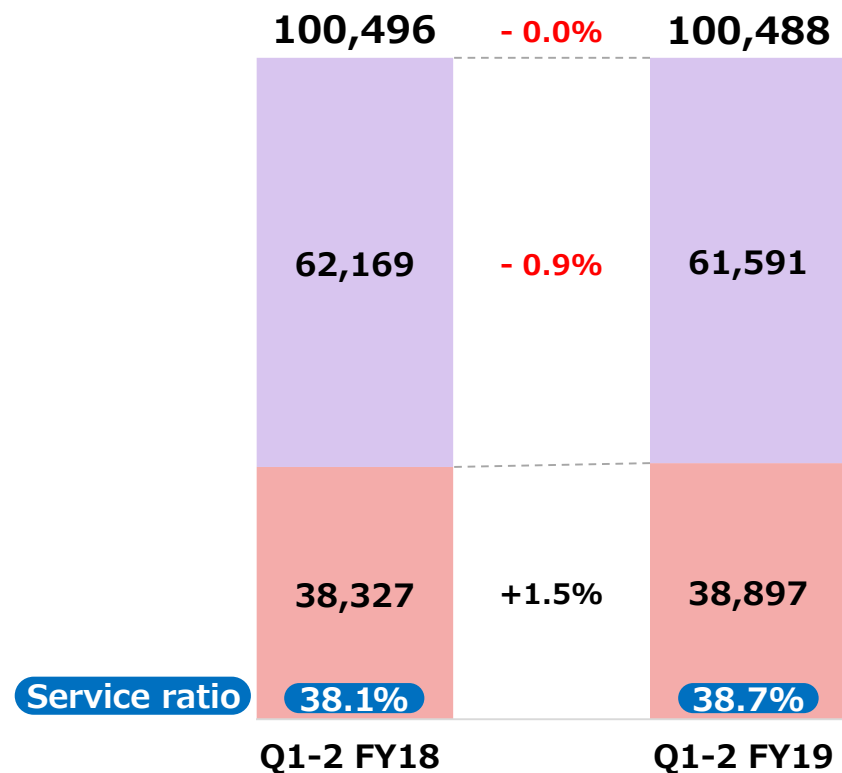
# Performance by product category

## ■ Bookings

## ■ Revenue

## ■ Backlog

(JPYmn)



### Products

### Service business

The "Integrated Services Business" expanded, and service ratio increased for bookings and backlog. Revenue-wise, some central government's projects mainly composed of hardware products had been moved forward, and thus service ratio decreased.

# 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				
Q1-2 FY19 (Results)	Revenue	24,037	16,669	32,180	15,387	88,275	464	88,740	(16)	88,723
	Segment income	2,353	1,413	2,281	1,524	7,572	(29)	7,542	(445)	7,096
	Segment income margin	9.8%	8.5%	7.1%	9.9%					8.0%
Q1-2 FY18 (Previous)	Revenue	23,367	16,245	24,883	15,898	80,394	316	80,711	(112)	80,598
	Segment income	972	1,865	982	1,293	5,114	132	5,246	(310)	4,935
	Segment income margin	4.2%	11.5%	3.9%	8.1%					6.1%

- (Notes)
1. The "Other" segment is not included as a reportable segment. It contains the global business in FY19 and the server service business in FY18.
  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, 2019	Sep 30, 2019	Change	
	Results	Results	Amount	%
<b>Total assets</b>	<b>125,498</b>	<b>124,275</b>	<b>(1,223)</b>	<b>- 1.0%</b>
Current assets	113,410	113,624	214	+ 0.2%
Cash and deposits + CD・CP	25,305	27,416	2,110	+ 8.3%
Notes and accounts receivable-trade	43,464	37,463	(6,000)	- 13.8%
Inventory assets	14,287	19,457	5,169	+ 36.2%
Other	30,352	29,287	(1,065)	- 3.5%
Noncurrent assets	12,087	10,650	(1,437)	- 11.9%
Property, plant and equipment	5,240	4,884	(356)	- 6.8%
Intangible assets	1,434	1,563	128	+ 9.0%
Investment etc.	5,412	4,203	(1,209)	- 22.3%
<b>Total liabilities</b>	<b>58,640</b>	<b>53,917</b>	<b>(4,722)</b>	<b>- 8.1%</b>
Current liabilities	49,846	45,010	(4,836)	- 9.7%
Non-current liabilities	8,793	8,906	113	+ 1.3%
<b>Total net assets</b>	<b>66,858</b>	<b>70,358</b>	<b>3,499</b>	<b>+ 5.2%</b>
Shareholders' equity	66,631	70,054	3,422	+ 5.1%
Accumulated other comprehensive income	62	(10)	(73)	-
Subscription rights to shares	163	180	16	+ 10.1%
Non-controlling interests	-	133	133	-
<b>Total liabilities and net assets</b>	<b>125,498</b>	<b>124,275</b>	<b>(1,223)</b>	<b>- 1.0%</b>



# Exchange rate, EPS, Employees

	FY18 Q1-2	FY19 Q1-2	YoY	
			Amount	%
Exchange rate (\$JPY)	109.10	109.65	+0.55	+0.5%
Earnings per share (JPY)	39.10	59.68	+20.58	+52.6%
Dividends per share (JPY)	17.00	21.00	+4.00	+23.5%

	End of FY18 Q2	End of FY19 Q2	YoY	
			Amount	%
Employees	2,355	2,448	+93	+3.9%

(Notes) Excluding the effect of new consolidated companies (Net One Next Co., Ltd., eXtreak, Inc., and Net One Asia Pte. Ltd.) and transfers to unconsolidated subsidiaries, the number of employees at the end of Q2 was 2321.

# Progress of Medium-Term Business Plan

# Progress: Focus markets

**Strong**



## Healthcare

**Target: Large hospitals**

**Bookings: +JPY1,400mn  
(YoY)**

### Project example

Consolidate ICT-infra of medical systems  
[unbundling app and infra for cost reduction]

Virtual desktop for electronic medical record  
[security enhancement by network isolation]

Operation service for entire ICT-infra

**Strong**



## Education

**Target: K-12**(Large municipalities)

**Bookings: +JPY700mn  
(YoY)**

### Project example

Consolidate ICT-infra of education systems  
[unbundling app and infra for cost reduction]

Classroom Wi-Fi and network isolation  
with security guidelines  
[secure utilization of ICT in education]

Operation service to help the shortage of engineer

**As planned**



## Smart factory

**Target: Large manufacturers**

**Bookings: +JPY700mn  
(YoY)**

### Project example

Consulting for the grand designs  
[creating security and network standards]

Network system for factory and visualization  
of tens of thousands of connected devices  
[security measures]

Operation service for OT environment

# Progress: New models

**As planned**



## MSP(Managed service provider)

Provide solutions to support MSP services

Developing proposals for various MSPs

**Project example**

MSP	Managed service	User
Systems integrator	Wi-Fi	Nationwide chain store
IT subsidiary of large company	Security	Group company
Telecom carrier	SD-WAN	Branch office

**As planned**



## Refurbishment

Provide refurbishment products and third-party maintenance service from newly established subsidiary

**Bookings: JPY800mn**  
(Operations started in FY19)

**Project example**

Continuous use of out-of-support products during the cloud transition  
[third-party maintenance service]

Verification of products for deployment to hundreds of sites  
[rental service]

Long-term use of commodity products  
[capital service + third-party maintenance service]

# Progress: Existing markets



Integrate group ICT-infra

**On-premise** **Strong**



**Multi-Cloud** **Strong**

## Project example

Grand design proposal and operation consulting for multi-cloud environment

Local government cloud / Security cloud within group companies  
[efficient use of systems and enhancing security in the group]

Visualization of tens of thousands of devices in the entire group  
and isolation of unauthorized devices  
[security enhancement throughout the group]

Mobile work systems for tens of thousands in manufacturing company  
[secure work-style reform, including telework]

Strengthening security governance in the cloud  
[apply the same policy across multi-cloud]

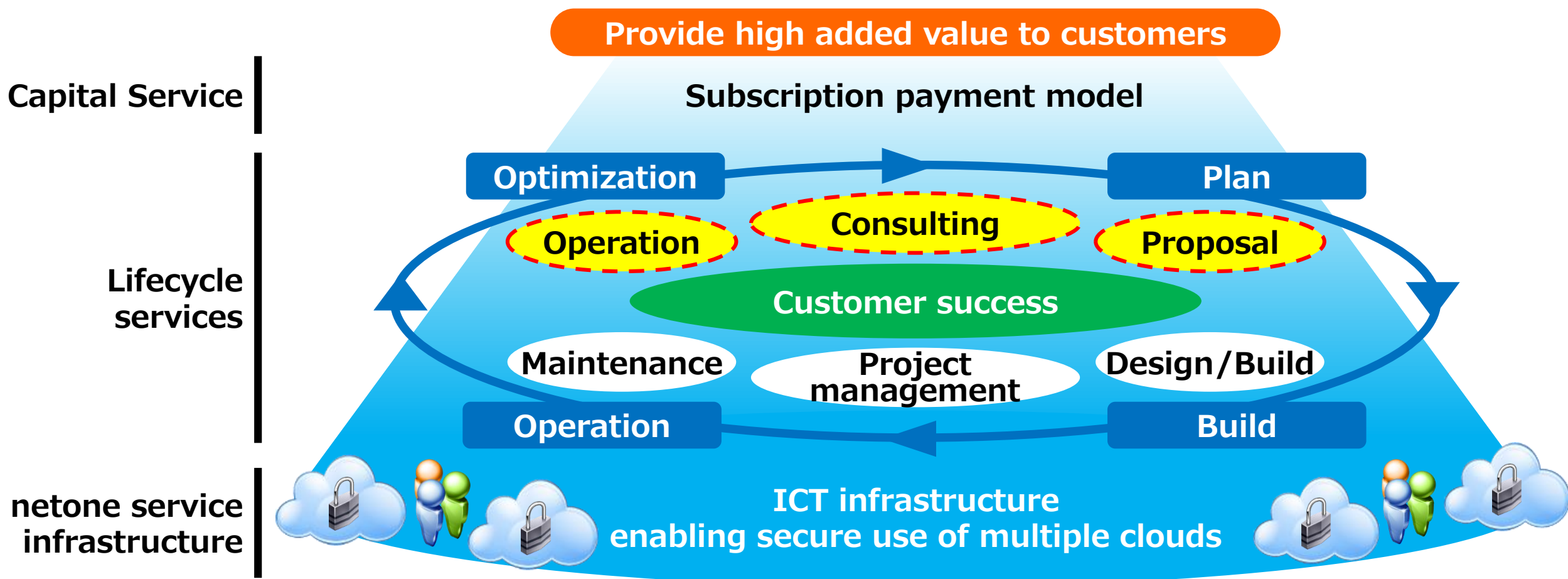
Building network isolation systems in scalable cloud  
[security enhancement and optimizing operation cost]

Migration of development environment to VMware Cloud on AWS  
[increasing business speed and optimizing operation cost]

# Progress: Integrated Service Business

New operation service package launched

Strengthen the flow of [operation → optimization consulting → improvement proposal]



# Progress: Implementation of DX

## Key words

**Automation**

**Visualization**

**Referencing**

**FY19**

Addressing the new revenue  
recognition rules  
Re-create of process and IT

**FY20**

Accumulation and visualization  
of digital information  
Implementation of utilization

**FY21**

Effective use of information  
to improve customer satisfaction

**Improve productivity**

**Adding new value to proposal**

**Delivering ICT infrastructure solutions with DX experience  
Accelerate the Integrated Services Business**

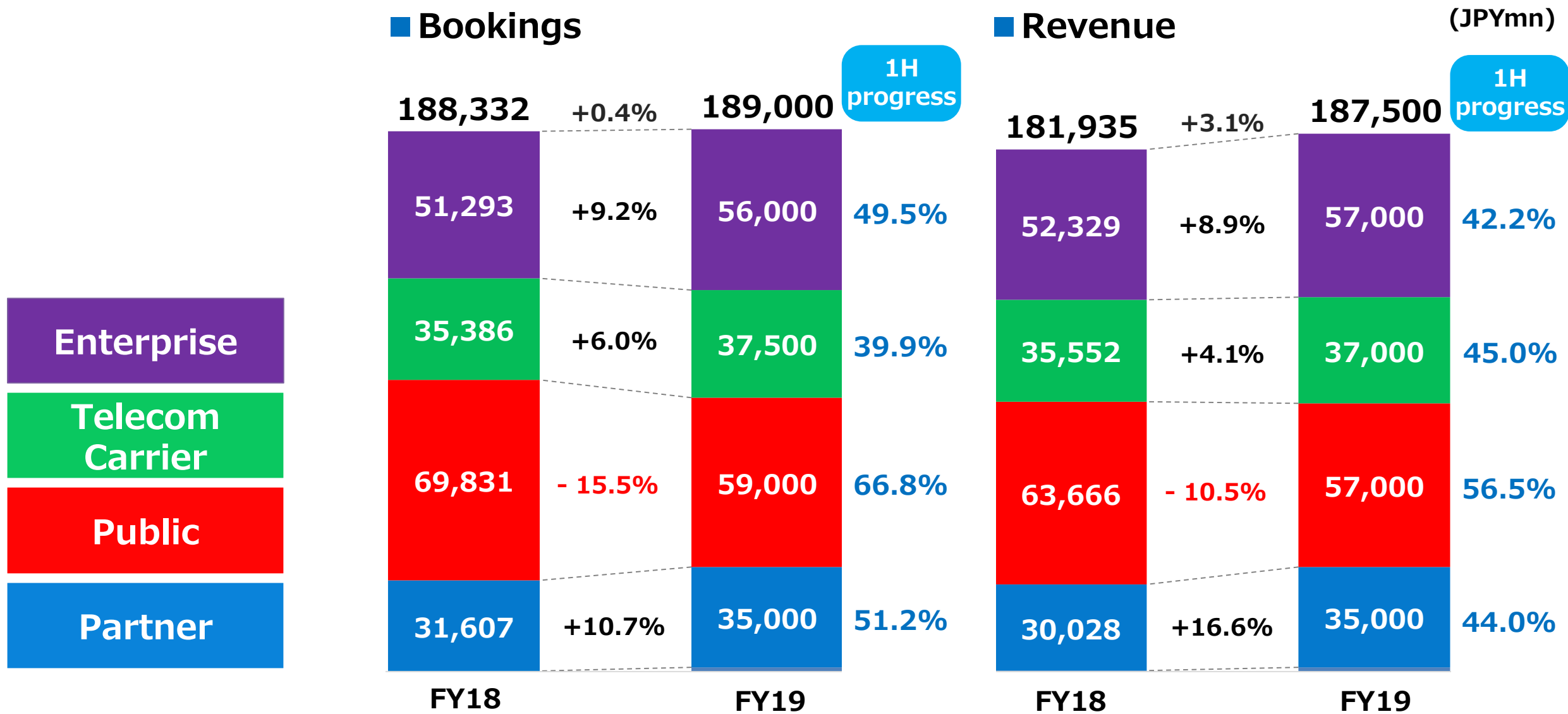
# FY19 Outlook



# FY19 outlook (※no change from the previous outlook)

(JPYmn, % to revenue)	FY18 Results		FY19 Outlook		YoY	
					Amount	%
Bookings	188,332		189,000		+667	+0.4%
Revenue	181,935	100.0%	187,500	100.0%	+5,564	+3.1%
Cost of sales	137,540	75.6%	139,800	74.6%	+2,260	+1.6%
Gross profit	44,395	24.4%	47,700	25.4%	+3,305	+7.4%
SG&A	31,383	17.2%	32,700	17.4%	+1,317	+4.2%
Operating income	13,012	7.2%	15,000	8.0%	+1,988	+15.3%
Ordinary income	13,258	7.3%	15,000	8.0%	+1,742	+13.1%
Net income attributable to owners of the parent	8,913	4.9%	10,200	5.4%	+1,287	+14.4%

# FY19 outlook by market sector (※no change from the previous outlook)



charge ∠ channel ∠ change



net one