



Revised forecast for Q3 and FY19

Net One Systems Co., Ltd.

February 14, 2020 (Stock Code 7518: JP)

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■ **Interim report by the special investigation committee**

- **Results of investigation**
- **Impact on financial results**

■ Timeline

- **November 2019:** The Tokyo Regional Taxation Bureau informed us that there are unconfirmed deliveries associated with our transactions
- **December 13, 2019:** A special investigation committee has been established
- **February 13, 2020:** An interim report from the special investigation committee has been issued

■ Results of investigation

- Transactions whereby it was impossible to confirm whether Net One Systems actually made deliveries were a series of fake commercial distribution transactions with central government ministries and agencies as the end users.
- During the period that these fake transactions took place, one of Net One Systems employees (X) engaged in the following fraudulent acts. X communicated with contact persons employed by companies that were involved in the transactions, ordered his subordinates to prepare some of the required documents, received approval from his superiors without disclosing that these transactions were fake, and executed the transactions.
- Thus, these fraudulent acts were not performed by Net One Systems as an organization, but by X alone. Only X knew all the details of the scheme and that the transactions were fake.

Impact on financial results

The impact on financial results related to the fraudulent acts found through the investigation by the special investigative committee is assumed to be as follows.

In addition, we plan to post extraordinary losses of approximately ¥1.1 billion in the first half of current fiscal year, approximately ¥3.9 billion in fiscal 2018, and approximately ¥170 million in fiscal 2019 respectively, as allowances for settlement differences related to the fraudulent acts.

(JPYmn)	FY15	FY16	FY17	FY18	FY19 Q1-2	Total
Revenue	-4,278	-4,215	-7,383	-6,561	-5,179	-27,615
Gross profit	-404	-359	-882	-868	-1,128	-3,642
Operating Income	-404	-359	-882	-868	-1,128	-3,642
Ordinary Income	-404	-359	-882	-868	-1,128	-3,642
Net income before tax	-404	-359	-882	-868	-1,128	-3,642

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■ Revised forecast for Q3 and FY19

- Revised forecast for Q3 FY19 (Oct-Dec 3months)
- Revised forecast for Q1-3 FY19 (Apr-Dec 9months)
- Revised forecast for FY19
- Medium-Term Business Plan Targets

Revised forecast for Q3 FY19 (Oct-Dec 3months)

(JPYmn, % to revenue)	FY18 Q3(*)		FY19 Q3 Forecast(*)		YoY	
					Amount	%
Bookings	37,539		54,884		+17,345	+46.2%
Revenue	41,833	100.0%	40,681	100.0%	(1,152)	- 2.8%
Cost of revenue	31,560	75.4%	29,418	72.3%	(2,142)	- 6.8%
Gross profit	10,273	24.6%	11,263	27.7%	+990	+9.6%
SG&A	7,449	17.8%	7,634	18.8%	+185	+2.5%
Operating Income	2,823	6.8%	3,628	8.9%	+805	+28.5%
Ordinary Income	2,913	7.0%	3,696	9.1%	+783	+26.9%
Net Income attributable to owners of the parent company	1,993	4.8%	2,825	6.9%	+832	+41.7%

Bookings and profits are expected to increase due to the solid performance of security measures and cloud infrastructure business.

(*) The financial figures for the current year reflect the estimated amounts of the corrections. Financial figures for the past fiscal years are at the time of announcement and the revised amount will reflect at the announcement of 3Q financial results.

Revised forecast for Q1-3 FY19 (Apr-Dec 9months)

(JPYmn, % to revenue)	FY18 Q1-3(*)		FY19 Q1-3 Forecast(*)		YoY	
					Amount	%
Bookings	138,036		150,381		+12,345	+8.9%
Revenue	122,432	100.0%	124,174	100.0%	+1,742	+1.4%
Cost of revenue	91,977	75.1%	91,189	73.4%	(788)	- 0.9%
Gross profit	30,455	24.9%	32,985	26.6%	+2,530	+8.3%
SG&A	22,695	18.5%	23,285	18.8%	+590	+2.6%
Operating Income	7,759	6.4%	9,699	7.8%	+1,940	+25.0%
Ordinary Income	7,956	6.5%	9,930	8.0%	+1,974	+24.8%
Net Income attributable to owners of the parent company	5,303	4.3%	5,742	4.6%	+439	+8.3%
Backlog	84,725		101,469		+16,744	+19.8%

Bookings, revenue and profits are expected to increase.

In the 1H of the current year, the amount related to the fraudulent acts (See page 5 of this document) is expected to be cancelled and an extraordinary loss of approximately 1.1 billion yen is expected to be posted.

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Revised forecast for FY19

(JPYmn, % to revenue)	FY19 Original forecast		FY19 Revised forecast(*)		Compare to original forecast	
					Amount	%
Bookings	189,000		195,000		+6,000	+3.2%
Revenue	187,500	100.0%	188,000	100.0%	+500	+0.3%
Cost of revenue	139,800	74.6%	140,300	74.6%	+500	+0.4%
Gross profit	47,700	25.4%	47,700	25.4%	± 0	± 0%
SG&A	32,700	17.4%	32,700	17.4%	± 0	± 0%
Operating Income	15,000	8.0%	15,000	8.0%	± 0	± 0%
Ordinary Income	15,000	8.0%	15,000	8.0%	± 0	± 0%
Net Income attributable to owners of the parent company	10,200	5.4%	9,400	5.0%	(800)	- 7.8%

Bookings, revenue, operating income are expected to achieve original forecast.

Due to the extraordinary loss related to the fraudulent acts, net income attributable to owners of the parent company is expected to decrease.

(*) The financial figures reflect the estimated amount of the corrections.

Medium-Term Business Plan Targets

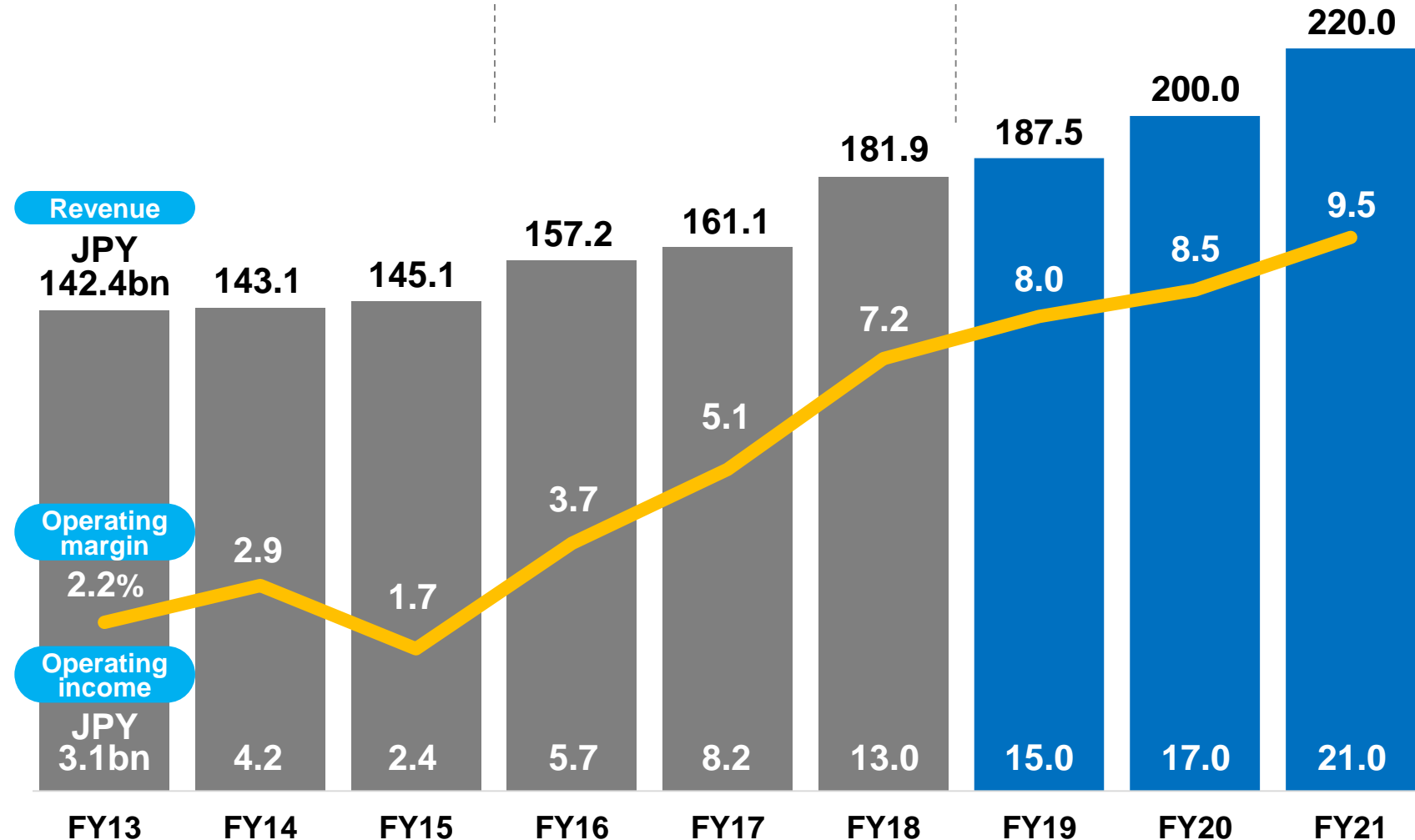
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	FY18 result	FY21 target
Operating margin	7.2%	9.5%
Services business ratio	41.2%	50%
ROE	14.0%	16.8%

Business model transformation

Continuous growth
(Cloud / Security)

Transformation
for the next generation
(Service business)



(*) The financial figures for the past fiscal years are at the time of announcement.

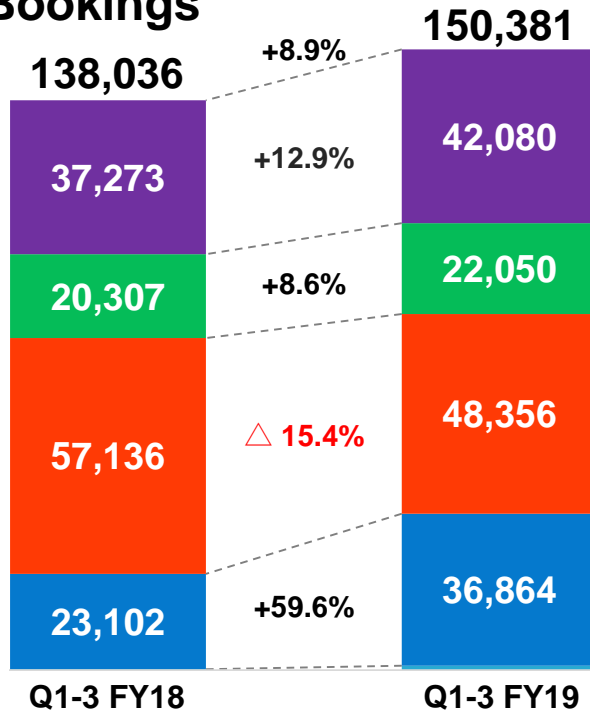
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■ Appendix

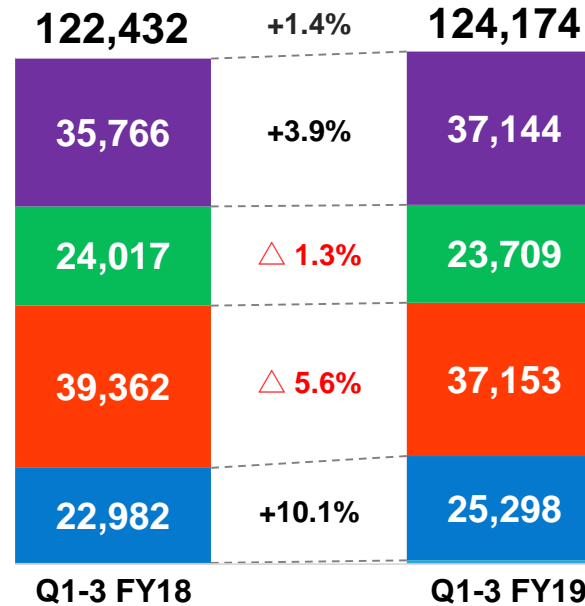
- **Revised forecast by market sector**
- **Revised forecast by product category**
- **Revised forecast by reportable segment**

Revised forecast by market sector

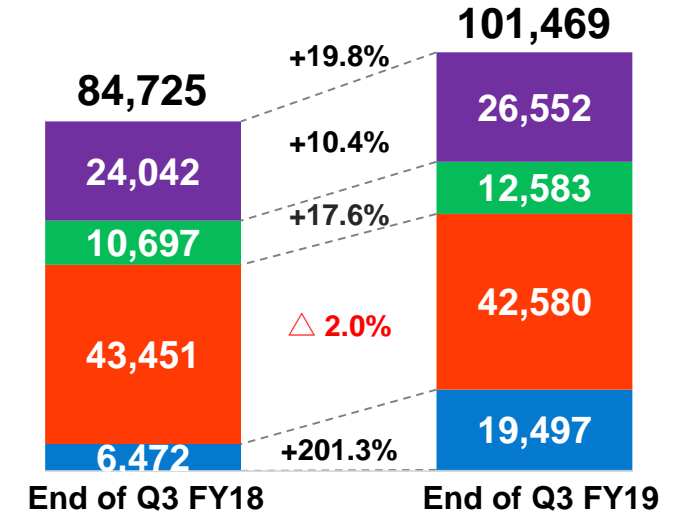
Bookings



Revenue



Backlog



(JPYmn)

Enterprise

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

Telecom Carrier

Service infrastructure business is expected to perform well.

Public

Security and cloud infrastructure business including healthcare and education, the focus markets are expected to be strong.

Partner

Business with key partners are expected to remain solid. In 3Q, we received 5G business via partners.

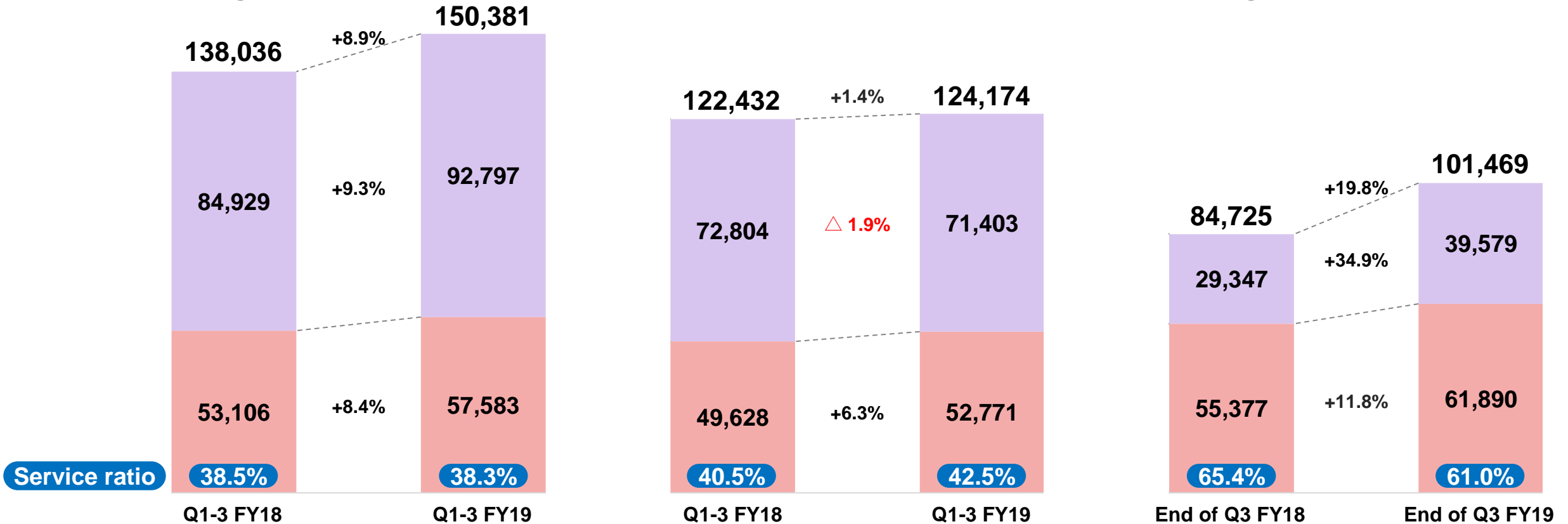
(*) The financial figures for the current year reflect the estimated amounts of the corrections. Financial figures for the past fiscal years are at the time of announcement and the revised amount will reflect at the Public sector at the announcement of 3Q financial results.

Revised forecast by product category

Bookings

Revenue

Backlog



Products

Service business

Due to the expansion of “Integrated Services Business”, service business is expected to increased for bookings, revenue, and backlog. On the other hand, the service ratio of bookings and backlog are expected to be lower due to 5G business mainly composed of hardware products.

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Revised forecast by reportable segment

(JPYmn)		Reportable segment					Other	Total	Adjustment	Amount recorded in consolidated income statements
		Enterprise	Telecom Carrier	Public	Partner	Sub-total				
Q1-3 FY19 Outlook	Revenue	37,150	23,712	37,158	25,300	123,320	879	124,199	(27)	124,174
	Segment income	3,763	2,059	2,045	2,483	10,350	0	10,350	(652)	9,699
	Segment income margin	10.1%	8.7%	5.5%	9.8%					7.8%
Q1-3 FY18	Revenue	35,766	24,017	39,362	22,982	122,127	304	122,432	-	122,432
	Segment income	1,781	2,509	2,084	1,724	8,099	132	8,232	(473)	7,759
	Segment income margin	5.0%	10.4%	5.3%	7.5%					6.3%

(Notes)

1. The financial figures for the current year reflect the estimated amounts of the corrections. Financial figures for the past fiscal years are at the time of announcement and the revised amount will reflect at the Public sector at the announcement of 3Q financial results.
2. The “Other” segment is not included as a reportable segment. It contains the global business in FY19 and the server service business in FY18.
3. 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.

charge ∠ channel ∠ change



net one