



Results for Q4 FY19

Ended March 31, 2020

Net One Systems Co., Ltd.

April 23, 2020 (Stock Code 7518: JP)

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FY19 Results

Results summary for FY19

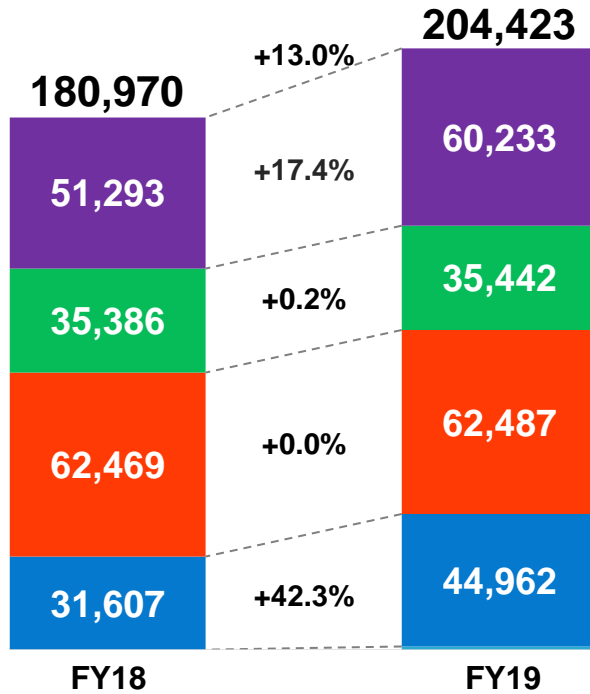
(JPYmn, % to revenue)	FY18 Results		FY19 Results		YoY	
					Amount	%
Bookings	180,970		204,423		+23,453	+13.0%
Revenue	174,838	100.0%	186,169	100.0%	+11,331	+6.5%
Cost of revenue	131,288	75.1%	137,261	73.7%	+5,972	+4.5%
Gross profit	43,549	24.9%	48,908	26.3%	+5,358	+12.3%
SG&A	31,383	17.9%	32,431	17.4%	+1,048	+3.3%
Operating Income	12,166	7.0%	16,476	8.9%	+4,310	+35.4%
Ordinary Income	12,412	7.1%	16,563	8.9%	+4,151	+33.4%
Net Income attributable to owners of the parent company	4,323	2.5%	10,124	5.4%	+5,800	+134.2%
Backlog	75,052		93,517		+18,464	+24.6%

Bookings, revenue, and profits increased due to the solid performance of security measures and cloud infrastructure business.

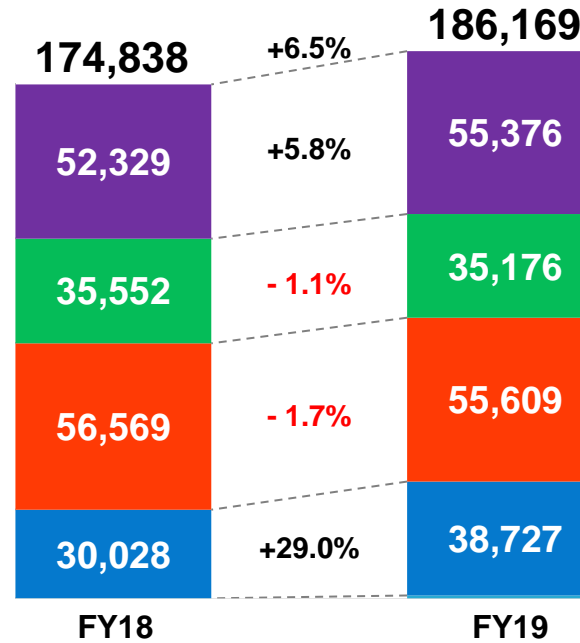
Major differences from revised forecast on February 14: bookings +JPY9.4bn, revenue - JPY1.9bn, operating income +JPY1.5bn

Performance by market sector

Bookings

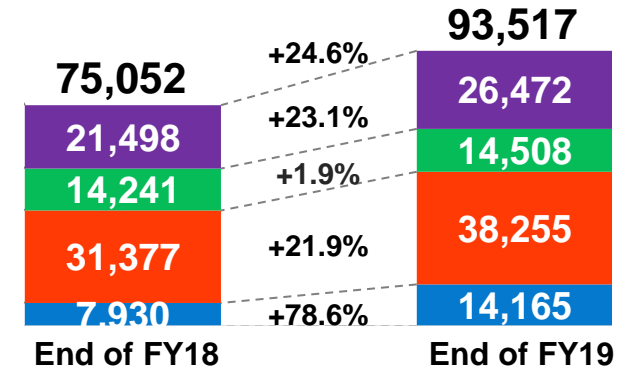


Revenue



Backlog

(JPYmn)



Enterprise

Business of security, cloud infrastructure, work style innovation, and smart factory continued to grow steadily.

Telecom Carrier

Service infrastructure business including MSP model performed well.

Public

Security and cloud infrastructure business mainly in local government, healthcare, and education were strong.

Partner

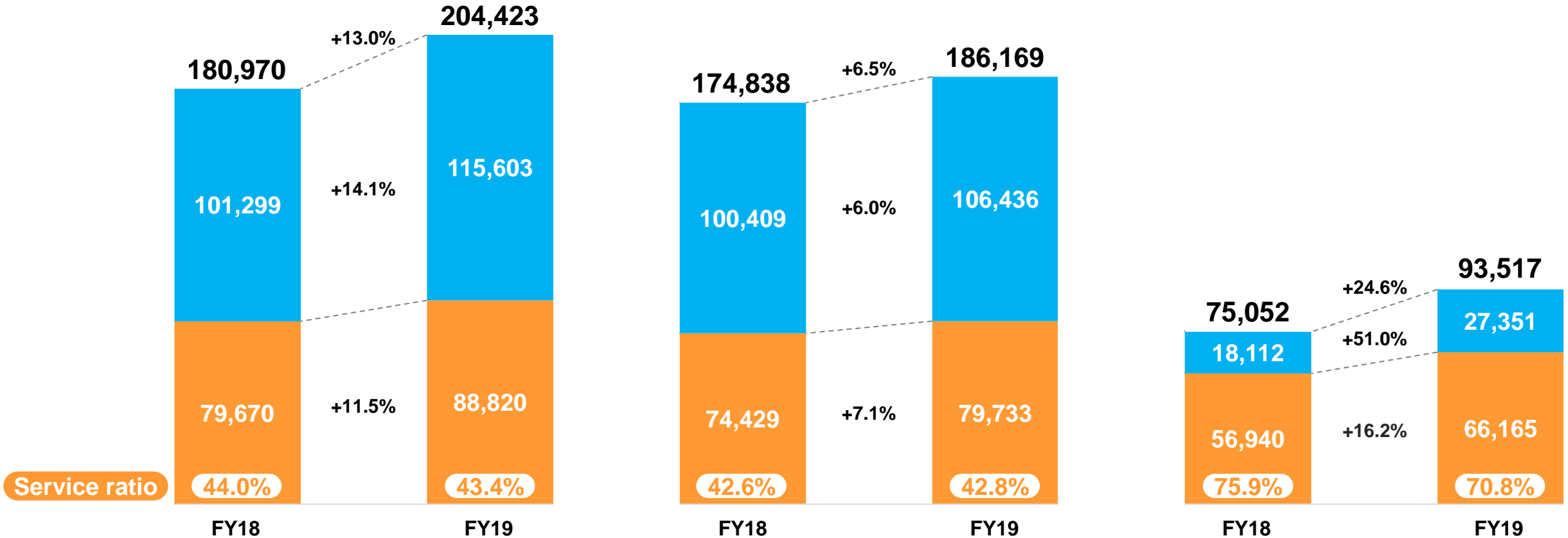
Business with key partners continued to remain solid. In 3Q, we received 5G business via partners.

Performance by product category

Bookings

Revenue

Backlog



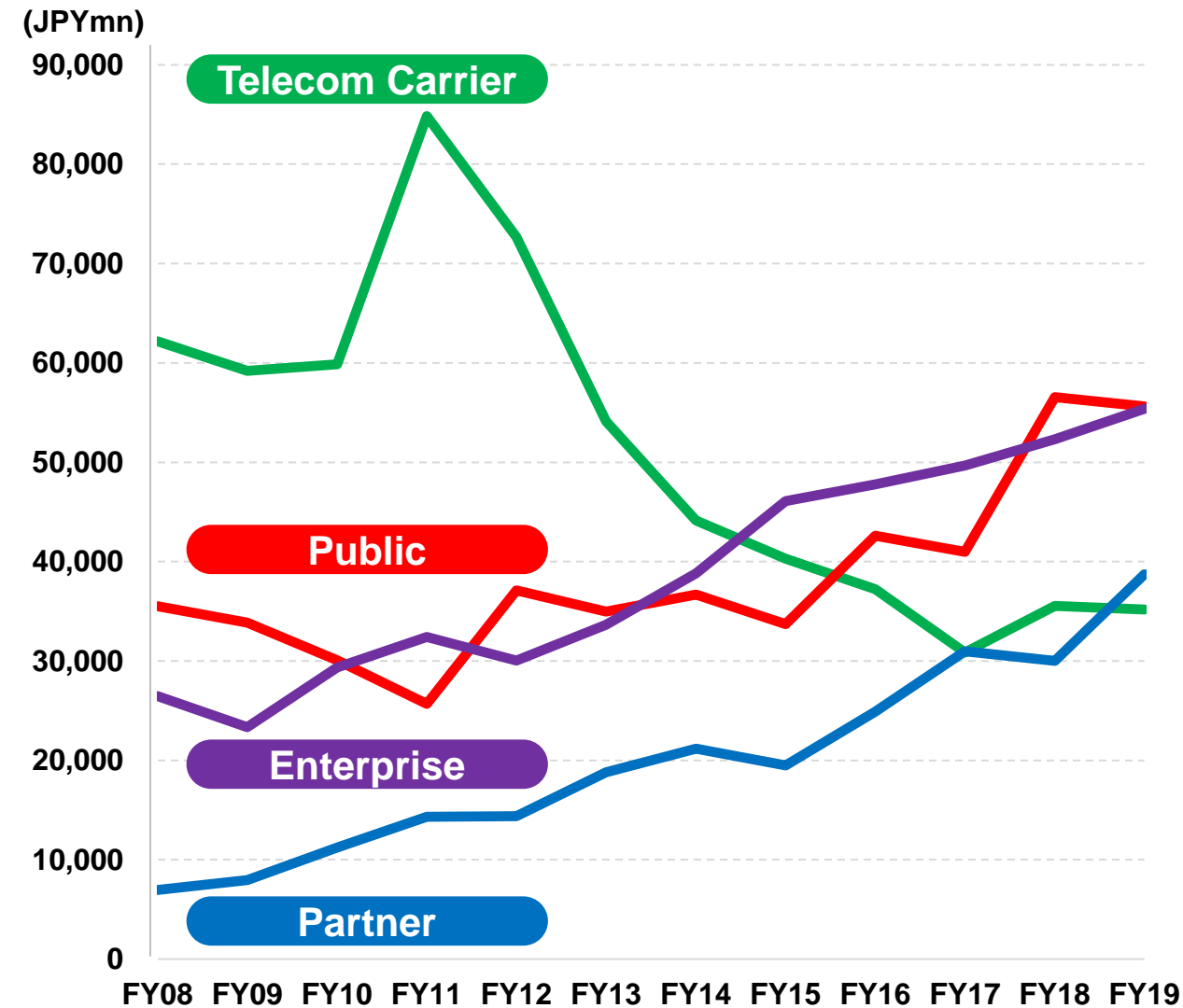
Products

Service business

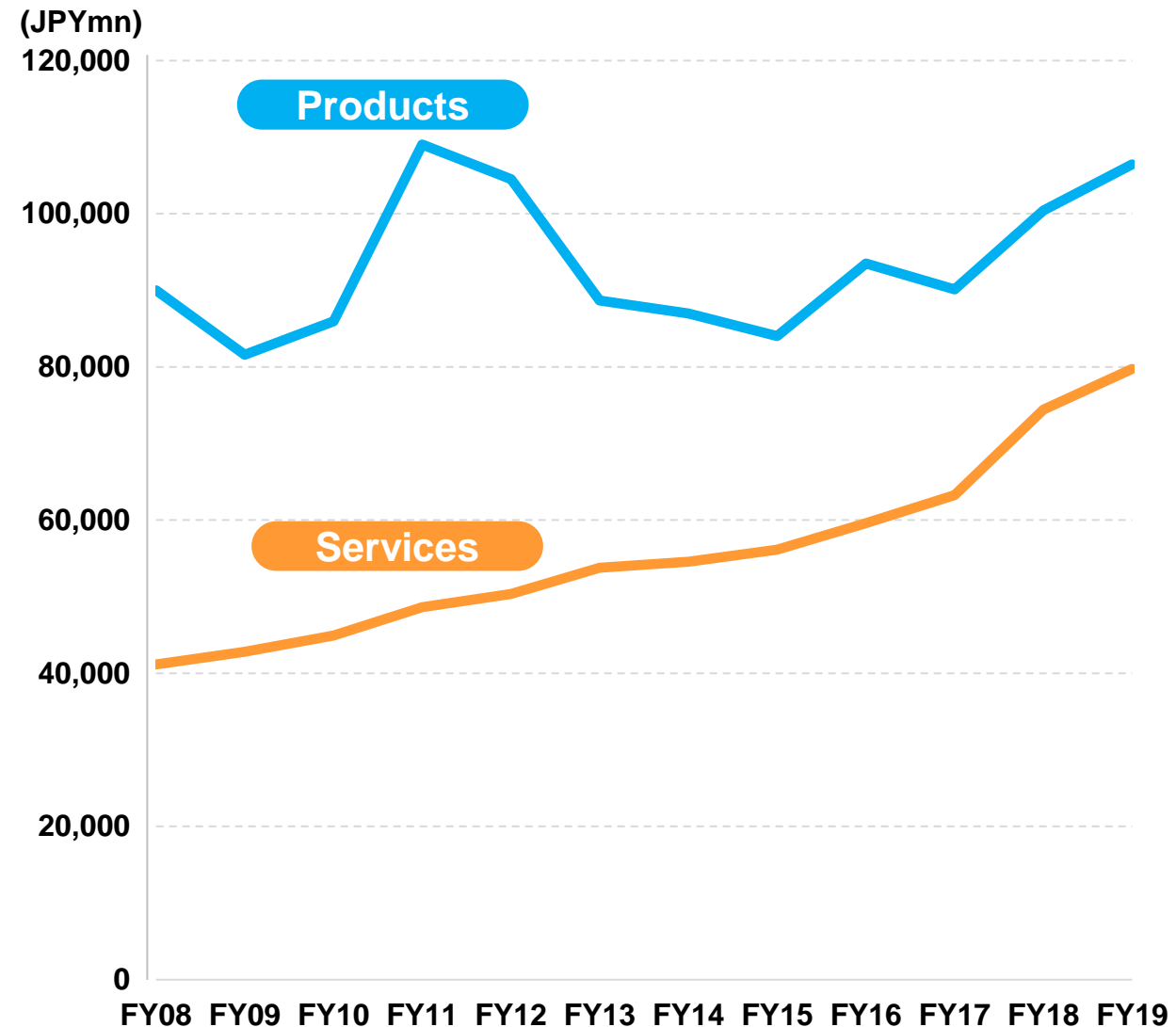
Due to the expansion of “Integrated Services Business”, service business increased for bookings, revenue, and backlog. On the other hand, the service ratio of bookings and backlog were lower due to 5G business mainly composed of hardware.

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				
FY19 【Result】	Revenue	55,384	35,180	55,616	38,735	184,916	1,290	186,207	(37)	186,169
	Segment income	6,294	3,708	4,304	3,093	17,401	(39)	17,361	(885)	16,476
	Segment income margin	11.4%	10.5%	7.7%	8.0%					8.9%
FY18 【Previous】	Revenue	52,329	35,552	56,569	30,028	174,480	470	174,950	(112)	174,838
	Segment income	3,263	3,454	3,842	2,117	12,677	153	12,831	(665)	12,166
	Segment income margin	6.2%	9.7%	6.8%	7.1%					7.0%

(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	Mar 31, 2020	Change	
	Results	Results	Amount	%
Total assets	118,313	136,111	17,797	+ 15.0%
Current assets	106,225	124,980	18,754	+ 17.7%
Cash and deposits + CD・CP	25,305	31,473	6,167	+ 24.4%
Notes and accounts receivable-trade	42,928	52,845	9,916	+ 23.1%
Inventory assets	14,290	15,657	1,366	+ 9.6%
Other	23,700	25,004	1,303	+ 5.5%
Noncurrent assets	12,087	11,131	(956)	- 7.9%
Property, plant and equipment	5,240	4,709	(530)	- 10.1%
Intangible assets	1,434	1,501	66	+ 4.6%
Investment etc.	5,412	4,920	(492)	- 9.1%
Total liabilities	58,699	69,437	10,737	+ 18.3%
Current liabilities	49,906	57,704	7,797	+ 15.6%
Non-current liabilities	8,793	11,732	2,939	+ 33.4%
Total net assets	59,614	66,674	7,059	+ 11.8%
Shareholders' equity	59,387	66,094	6,707	+ 11.3%
Accumulated other comprehensive income	62	286	223	+ 355.4%
Subscription rights to shares	163	180	16	+ 10.1%
Non-controlling interests	-	112	112	-
Total liabilities and net assets	118,313	136,111	17,797	+ 15.0%

Exchange rate, EPS, Employees

	FY18	FY19	YoY	
			Amount	%
Exchange rate (\$JPY)	110.15	108.78	(1.37)	- 1.2%
Earnings per share (JPY)	51.07	119.52	+68.45	+134.0%

	End of FY18	End of FY19	YoY	
			Amount	%
Employees	2,294	2,431	+137	+6.0%

(Notes)

1. On November 15, 2019, an interim dividend of 21.00 yen per share was paid to shareholders of record as of September 30, 2019.
2. The Company is planning to increase the year-end dividend payment by 3.00 yen per share from 21.00 yen to 24.00 yen per share. (announced on April 23, 2020)
3. 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 FY19 was 2264.

2 Progress of measures to prevent recurrence

Measures to Prevent Recurrence and Progress Status - 1

Basic policy on business transactions	Eliminate risk of fictitious transactions	Only deal with projects where our Group's added value (our unique services and solutions) is recognized	Started February 13, 2020
		Prohibit projects with no specifications, recorded as "a set of ..."	Started February 13, 2020
		Only deal with projects where the client receiving the delivery and vendor supplying the goods are clearly stated and transactions are made directly with them	Started February 13, 2020
		Close Kasumigaseki office, whose clients are central government ministries and agencies	Closed March 31, 2020
		Strengthen of project screening by PMS (Process Management System)	To begin in May 2020
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"	Completed April 1, 2020
		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.	Completed April 22, 2020
	Identify and evaluate significant major risks in each division	Formulate action plans	Completed April 22, 2020
		Each division to conduct risk analysis of its own division at the start of fiscal year and submit risk survey sheet to the risk management office Risk management office to examine risk survey sheet and make judgments from an objective viewpoint	To be implemented year-round from May 2020

Measures to Prevent Recurrence and Progress Status - 2

Enhance business controls	Review authority of sales divisions	Separate authority to place orders and manage acceptances from sales divisions	Started April 2020
		Revise operating rules regarding approval of estimates, receiving order and sales, placing orders, and checking deliveries and acceptances	To begin in June 2020
		Revise operating rules and associated system modifications	To begin in June 2020
	Strengthen purchasing functions	Make purchasing function independent by establishing group purchasing department (currently performed by the group procurement and logistics department)	Completed April 1, 2020
		Redefine and strengthen procurement process and functions related to purchasing and acceptances	To begin in June 2020
	Improve effectiveness of measures to prevent recurrence	Establish sales management office under direct control of the president to oversee and manage company-wide changes in business rules to prevent recurrence	Completed April 1, 2020
Review compliance activities	Prevent overreliance on certain individuals	Implement personnel rotation within divisions	Completed April 1, 2020
	Revise operation of whistleblower system	Change the way the whistleblower system is run to make it more effective, such as separate channels for reporting harassment and wrongdoing	To be implemented in June 2020
	Strengthen compliance awareness	Conduct training for all employees (including officers and other executives)	To be implemented year-round
		All divisions must prepare a compliance action plan at the start of fiscal year	To be implemented in May 2020
		All officers and executives must declare their own compliance implementation targets, to be reviewed quarterly by the Board of Directors and Management Committee	To be implemented year-round
	Create new corporate culture	Form vision inculcation committee, with outside executive directors participating to ensure it provides objective feedback and assessment	Completed April 22, 2020
		Update the vision book, which contains the Group's goals, mission, and code of conduct, based on discussions by the vision inculcation committee, and redouble efforts to inculcate this throughout the Company	Vision book to be updated in September 2020; to ensure inculcation throughout the Company thereafter

3

Progress of Medium-Term Business Plan

Overview of Medium-Term Business Plan (FY19-21)

Three growth steps: Making an attractive company providing new value

Growth of employees
- Initiative -

Growth of the company
- Uniqueness -

Growth of Customer/Partner
- Value co-creation -

Three basic strategies

**Expanding focus markets
& new models**

+

**Driving
“Integrated Service Business”**

+

Implementation of DX

Growth to FY21

Increasing revenue
JPY175bn→JPY220bn

+

Increasing GPM
24.9%→26.4%

+

Reducing SG&A ratio
17.9%→16.9%

FY21 Target

OP
JPY21bn

OPM
9.5%

Strong



Healthcare

Target: Large hospitals

Bookings: +JPY2.0bn [compared to FY18]
(FY21 target: +JPY5.0bn)

Customer needs

Unbundling medical app and infra
Work style reform for medical workers



Unified platform(private cloud)
Hospital Wi-Fi / Security

Strong



School system

Target: K-12(Large municipalities)

Bookings: +JPY2.5bn [compared to FY18]
(FY21 target: +JPY5.0bn)

Customer needs

ICT utilization for education
Consolidate infra of education systems



School LAN(Wi-Fi) / Security
Unified platform / Cloud utilization

Strong



Smart factory

Target: Large manufacturers

Bookings: +JPY2.7bn [compared to FY18]
(FY21 target: +JPY5.0bn)

Customer needs

Data collection, visualization, and
analysis to improve productivity



Factory LAN / Security
Edge cloud / AI / Data analysis

As planned



MSP(Managed service provider)

Provide solutions to support MSP services

Bookings: +JPY1.0bn [compared to FY18]
(FY21 target: +JPY5.0bn)

Customer needs

Service provider: Co-creation of highly operational services
End user: Shift to usage models due to lack of engineer



Integrated management and simplified deployment solutions
for network, security, and data sharing

As planned



Refurbishment

Provide refurbishment products and third-party maintenance

Bookings: +JPY1.5bn [compared to FY18]
(FY21 target: +JPY5.0bn)

Customer needs

Efficient investment using refurbishment products
Shift from ownership to using function



Refurbishment products / Third-party maintenance service
Rental service / Subscription service

Strong



Integrated Service Business

Creating high value by customer success, supporting the entire lifecycle, and supporting the transition to the usage model

Service bookings: +JPY9.1bn, Service ratio in bookings: -0.6pt [compared to FY18]
(FY21 target: Service ratio 50%)

Customer needs

Support for ICT utilization from the grand design stage
Continuous optimization throughout the lifecycle by linking operational support with improvement proposals



Step-by-step delivery of high value solutions in line with the "what it should be" and roadmap created with customers
Understand specific issues in daily ICT utilization and continuously optimize the infrastructure

Slight delay



Implementation of DX

**Improve operational speed, quality, and governance through business process reform and digitalization
Providing success and failure knowledge to customers [netone on netone]**

**Response to the new revenue recognition standards has been postponed by one year
due to a response to fraudulent act**

FY19: Ready to digitalization

Restructured business processes and developed digital infrastructure policies

FY20: Gradual start of digitization

Linking business processes and data to automate business operations and provide useful information

**- Drastic change in customer awareness -
Business continuity and work style reform through ICT utilization**

Provide telework environment to support customers' business continuity

Provide telework systems such as video/web conferencing, virtual desktop, and file sharing services

- **network infrastructure to ensure the stable operation of these systems**
- **security measures to prevent information leaks even in outside work**
- **knowledge of the work style reforms that our group has been promoting for 10 years**



Accelerate DX to improve our company business continuity

Create a system that does not affect the provision of services to customers

- **stronger promotion of DX through digitization of remaining paper slips and contracts, expansion of electronic commerce (EDI), etc.**
- **strengthen remote operating systems to support customers' ICT infrastructure**

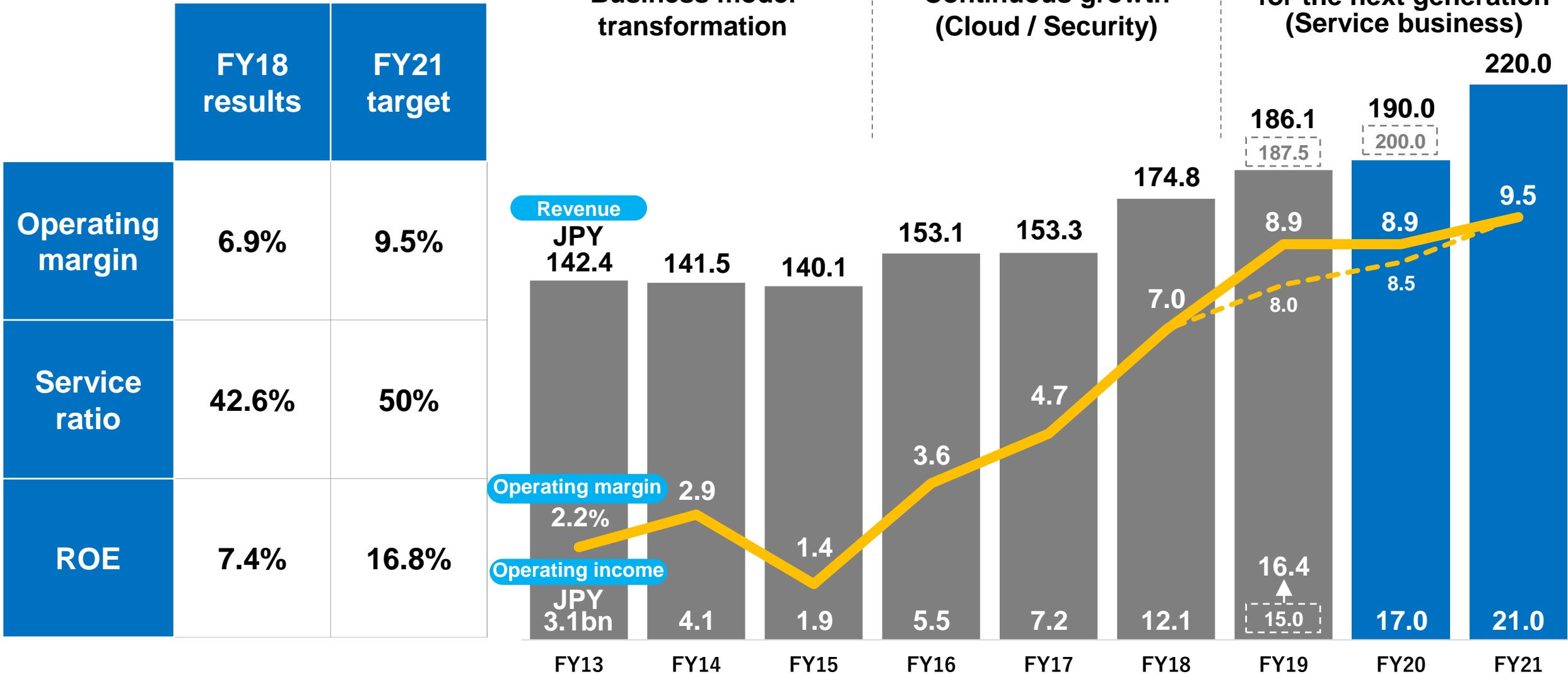
Medium-Term Business Plan Targets

Dotted line: Original plan

Business model transformation

Continuous growth
(Cloud / Security)

Transformation
for the next generation
(Service business)



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FY20 Outlook

FY20 outlook

(JPYmn, % to revenue)	H1		H2		Annual	
Bookings	90,000		115,000		205,000	
Revenue	80,000	100.0%	110,000	100.0%	190,000	100.0%
Cost of sales	59,000	73.8%	81,000	73.6%	140,000	73.7%
Gross profit	21,000	26.3%	29,000	26.4%	50,000	26.3%
SG&A	16,000	20.0%	17,000	15.5%	33,000	17.4%
Operating income	5,000	6.3%	12,000	10.9%	17,000	8.9%
Ordinary income	5,000	6.3%	12,000	10.9%	17,000	8.9%
Net income attributable to owners of the parent	3,300	4.1%	8,200	7.5%	11,500	6.1%
Dividends per share	24.00 Yen		24.00 Yen		48.00 Yen	

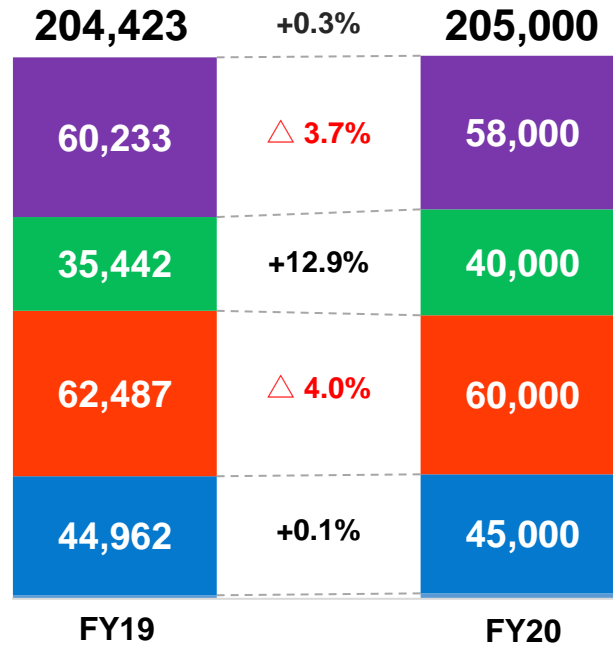
Operating income is expected to increase in line with the mid-term business plan due to improvements in GPM and productivity. On the other hand, revenue is expected at the same level as in the previous fiscal year due to the impact of the new coronavirus.

(Note) This outlook is based on currently information including backlog and business environment, and estimates based on reasonable assumptions. The full-year business outlook may be revised depending on the situation in the first half.

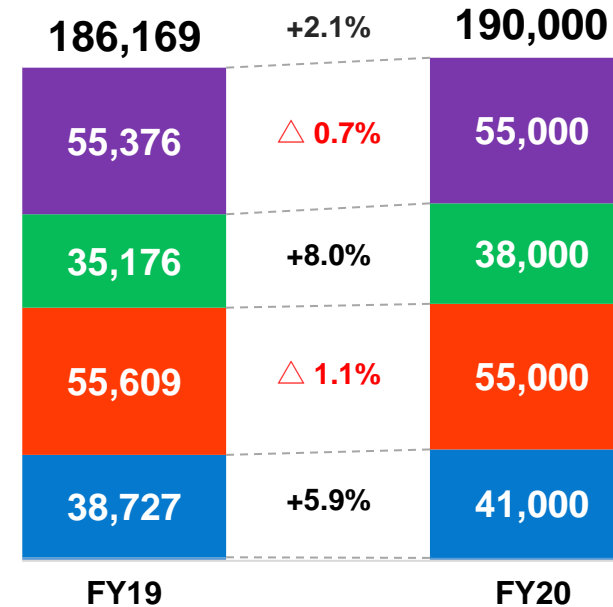
FY20 outlook by market sector

(JPYmn)

Bookings



Revenue

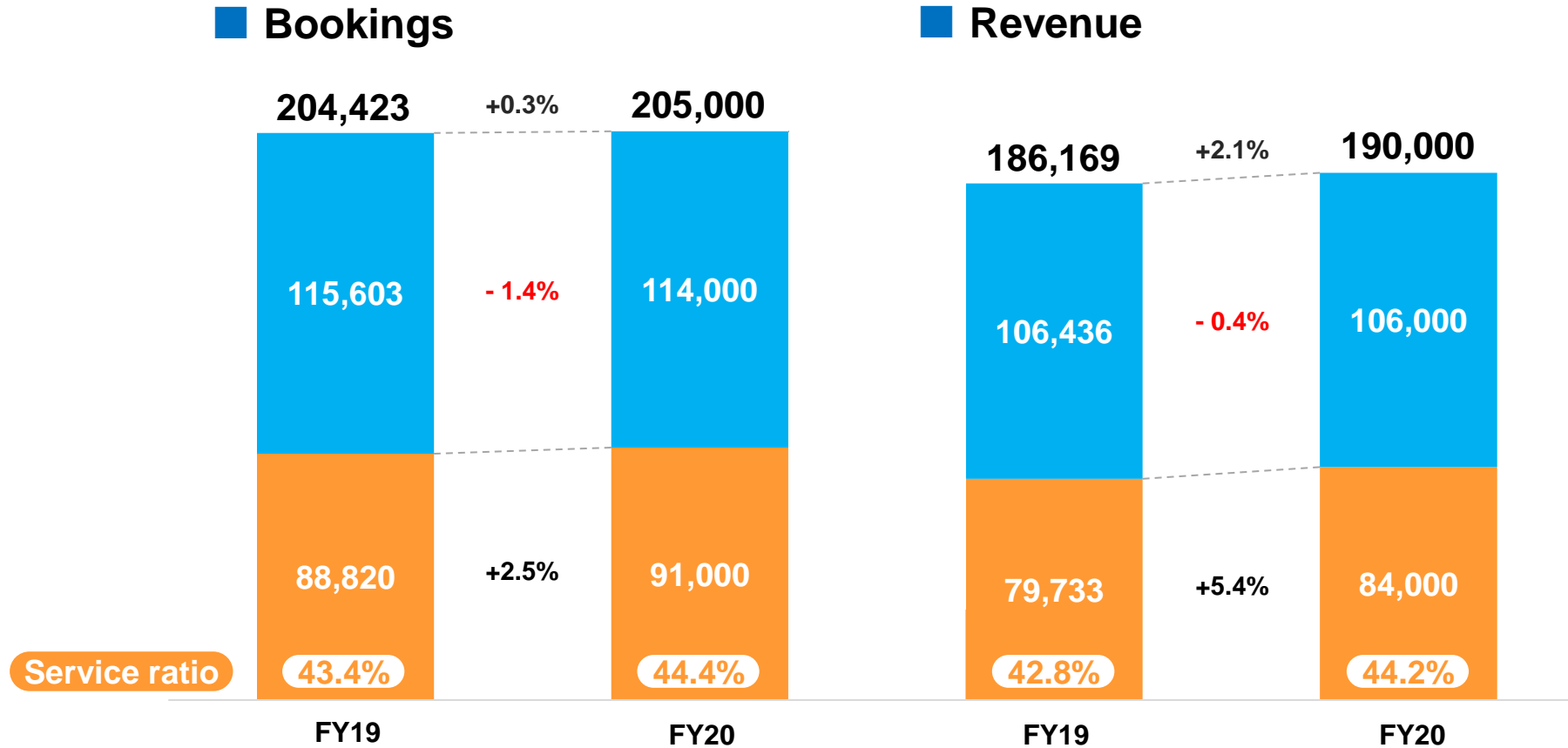


Enterprise	Continue to focus on security, cloud infrastructure, work style innovation, and smart factory business
Telecom Carrier	Expand service infrastructure business including MSP model
Public	Continue to focus on security and cloud infrastructure business mainly in local government, healthcare, and school system
Partner	Expand business with key partners and MSP

(Note) This outlook is based on currently information including backlog and business environment, and estimates based on reasonable assumptions.
The full-year business outlook may be revised depending on the situation in the first half.

FY20 outlook by product category

(JPYmn)



Products	
Service business	Continue to expand "Integrated Services Business" that create high added value, and increase bookings and revenue of services, as well as the service ratio

(Note) This outlook is based on currently information including backlog and business environment, and estimates based on reasonable assumptions.
The full-year business outlook may be revised depending on the situation in the first half.

Basic policy

Aiming to increase shareholder profits by improving corporate value, we will strive to expand our management base and enhance shareholders' equity, which is a source of growth potential, and return profits stably and appropriately reflecting business performance over the long term.

Dividends

Current dividend payout ratio target
"Consolidated dividend payout ratio of 30% or more"

FY19 Consolidated net income: JPY10.1bn



The year-end dividend was revised to 24.00 yen, an increase of 3.00 yen from the forecast, as the result exceeded the earnings forecast.

	Annual dividend	Dividend payout ratio
FY18	37.00 yen	35.1% (before revision)
FY19	45.00 yen	37.7%
FY20	48.00 yen (forecast)	35.4% (forecast)

Share buybacks

Current policy
"Consider measures to return profits, including share buybacks, if cash on hand regularly exceeds JPY30bn"

Cash and deposits at the end of FY19: JPY31.4bn



Considering the spread of new coronavirus infections, we decided to temporarily maintain cash reserves. We will make a decision after carefully assessing the situation of new coronavirus infection.

charge ∠ channel ∠ change



net one