



Results for Q1 FY21

Ended June 30, 2021

Net One Systems Co., Ltd.

August 4, 2021 (Stock Code 7518: JP)

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Measures to prevent recurrence

Implementing measures for governance and corporate culture reform as planned

Scheduled to submit an improvement measures status report to Tokyo Stock Exchange on August 5

Financial results

**Record high bookings for Q1
Expect to maintain strong bookings in Q2**

Record high GPM for Q1 due to the solid progress in Integrated Service Business

On the other hand, Q1 revenue and operating income were lower than planned due to delays in the timing of revenue in each market sector

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FY21 Q1(Apr-Jun 3months) Results

Results summary Q1 FY21 (Apr-Jun 3months)

(JPYmn, % to revenue)	FY20 Q1 Results		FY21 Q1 Results		YoY	
					Amount	%
Bookings	48,217		53,073		+4,856	+10.1%
Revenue	36,505	100.0%	36,846	100.0%	+341	+0.9%
Cost of revenue	26,082	71.4%	25,778	70.0%	(304)	-1.2%
Gross profit	10,423	28.6%	11,068	30.0%	+645	+6.2%
SG&A	7,804	21.4%	9,010	24.5%	+1,205	+15.5%
Operating Income	2,618	7.2%	2,058	5.6%	(560)	-21.4%
Ordinary Income	2,699	7.4%	2,247	6.1%	(451)	-16.7%
Net Income attributable to owners of the parent company	1,907	5.2%	1,590	4.3%	(316)	-16.6%
Backlog	105,228		112,064		+6,835	+6.5%

Bookings increased by strong progress in the Telecom Carrier sector and the Public sector.

Gross profit margin improved, and gross profit also increased.

On the other hand, operating income decreased due to an increase in SG&A caused by an increase in the number of employees, capital investment and accelerated recurrence prevention measures.

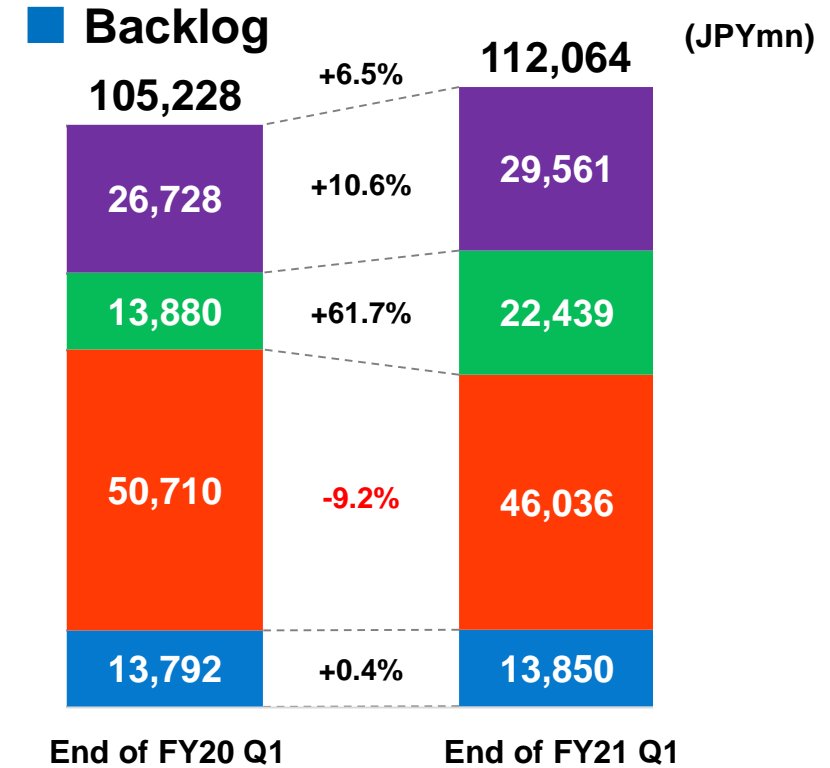
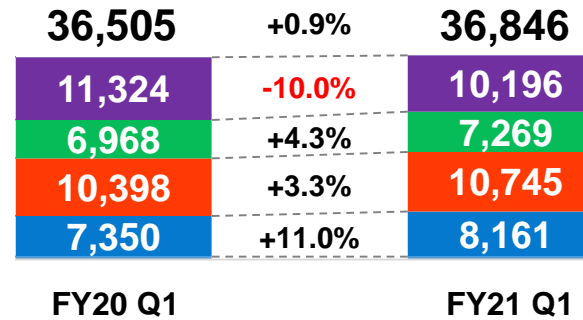
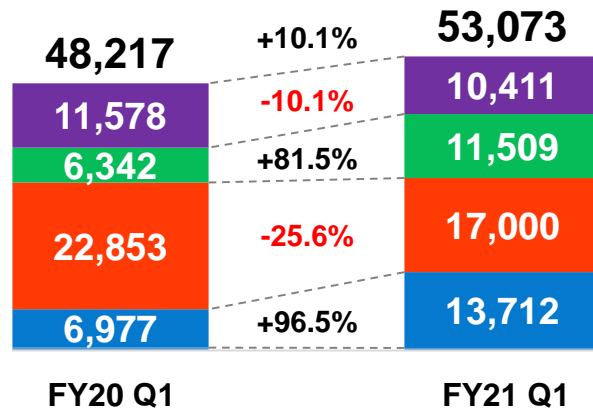
Performance by market sector

Bookings

Revenue

Backlog

(JPYmn)



Enterprise In the manufacturing industry, bookings decreased, and the timing of revenue was delayed due to restrained investment against the impact of semiconductor shortages. In the non-manufacturing industries, demand for zero-trust security for telework and cloud infrastructure continued.

Telecom Carrier Due to semiconductor shortages, orders were placed ahead in anticipation of longer delivery times for high-end network products. On the other hand, the revenue timing was delayed for the same reason. Support for MSP and corporate business continued to be strong.

Public We gained the security cloud and security enhancement projects for local governments as planned. The GIGA school project was decreased. The timing of revenue for some projects was delayed due to the prolonged delivery of hardware.

Partner The business of key partners, which had been affected by the COVID-19, showed an overall recovery trend. MSP business was also strong. In addition, we received an order for a JPY3bn 5G project, but the timing of the order was later than expected, which delayed the timing of revenue.

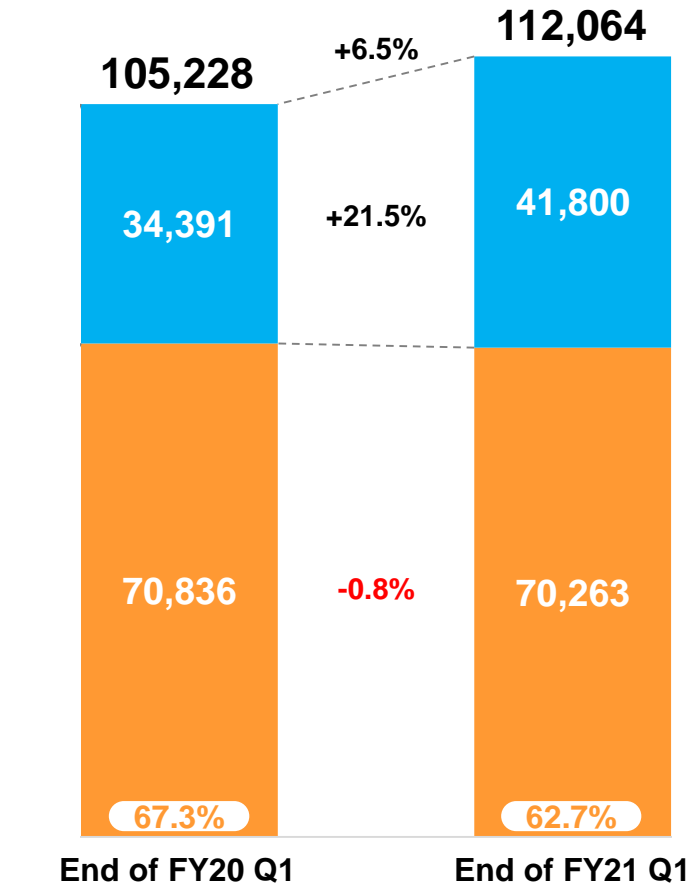
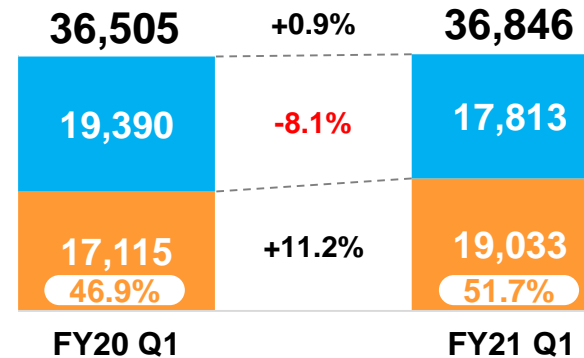
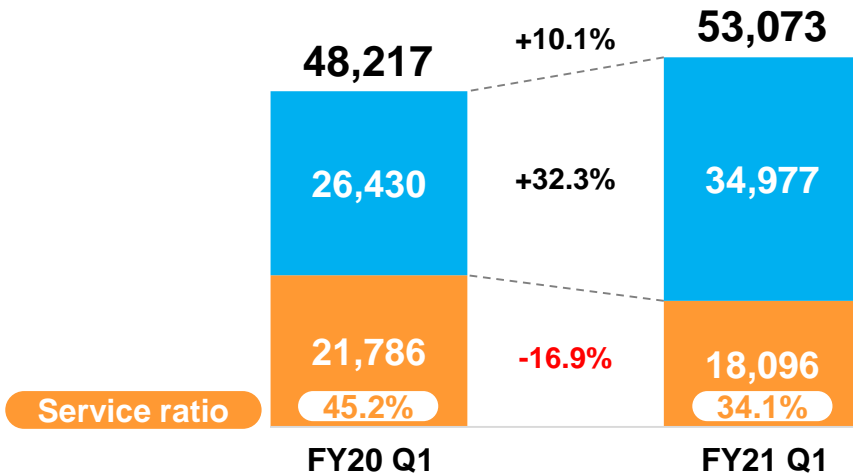
Performance by product category

Bookings

Revenue

Backlog

(JPYmn)



Products

Bookings increased due to the advanced ordering of network products in the telecom carrier sector and the 5G project in the partner sector. Revenue decreased due to the delay in revenue timing in each sector.

Service business

Bookings decreased mainly in the Public sector due to the service portion of orders for some projects were received later. Revenue increased due to an increase in recurring services such as maintenance and operation by Integrated Service Business.

Booking of focus markets and new models, and booking of security cloud and security enhancement projects for local governments

Healthcare

FY20 Q1	FY21 Q1
JPY0.62bn	JPY0.57bn

Q1 results: continued effects of COVID-19
Q2 forecast: remain weak

School system

FY20 Q1	FY21 Q1
JPY8.4bn	JPY1.7bn

Q1 results: decreased in GIGA school project
Q2 forecast: strong with a large project

Smart factory

FY20 Q1	FY21 Q1
JPY1.1bn	JPY1.5bn

Q1 results: increased, although slightly below plan
Q2 forecast: continue upward trend

MSP

FY20 Q1	FY21 Q1
JPY2.0bn	JPY3.2bn

Q1 results: strong in security solution
Q2 forecast: continue strong performance

Refurbishment

FY20 Q1	FY21 Q1
JPY0.51bn	JPY0.38bn

Q1 results: focus on new proposals (booking will concentrated in Q4)
Q2 forecast: continue to focus on increasing the total volume of projects, and continue good profits

Security cloud and security enhancement projects for local governments

FY21 Q1
JPY4.6bn

Q1 results: gained target projects
Q2 forecast: strong with large projects

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				
FY21 Q1 【Result】	Revenue	10,196	7,269	10,745	8,170	36,381	506	36,887	(40)	36,846
	Segment income	487	735	201	823	2,247	(42)	2,204	(146)	2,058
	Segment income margin	4.8%	10.1%	1.9%	10.1%					5.6%
FY20 Q1 【Previous】	Revenue	11,326	6,969	10,400	7,359	36,054	469	36,524	(18)	36,505
	Segment income	991	688	520	630	2,830	(13)	2,816	(197)	2,618
	Segment income margin	8.7%	9.9%	5.0%	8.6%					7.2%

(Notes)

1. The “Other” segment is not included as a reportable segment. It contains the global business.
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, 2021 Results	June 30, 2021 Results	Change Amount	%
Total assets	155,782	145,920	(9,862)	- 6.3%
Current assets	142,482	132,662	(9,819)	- 6.9%
Cash and deposits + CD·CP	32,429	41,791	9,362	+ 28.9%
Notes and accounts receivable-trade	63,027	30,908	(32,119)	- 51.0%
Inventory assets	17,592	25,072	7,480	+ 42.5%
Other	29,432	34,889	5,457	+ 18.5%
Noncurrent assets	13,300	13,257	(42)	- 0.3%
Property, plant and equipment	4,504	4,889	385	+ 8.5%
Intangible assets	1,467	1,493	25	+ 1.8%
Investment etc.	7,328	6,874	(453)	- 6.2%
Total liabilities	81,987	74,630	(7,356)	- 9.0%
Current liabilities	66,637	60,085	(6,551)	- 9.8%
Non-current liabilities	15,350	14,544	(805)	- 5.2%
Total net assets	73,795	71,290	(2,505)	- 3.4%
Shareholders' equity	73,075	70,736	(2,338)	- 3.2%
Accumulated other comprehensive income	438	375	(62)	- 14.4%
Subscription rights to shares	222	117	(105)	- 47.3%
Non-controlling interests	60	61	1	+ 1.7%
Total liabilities and net assets	155,782	145,920	(9,862)	- 6.3%

Exchange rate, EPS, Employees

	FY20 Q1	FY21 Q1	YoY	
			Amount	%
Exchange rate (\$JPY)	107.58	108.14	+0.56	+0.5%
Earnings per share (JPY)	22.51	18.75	(3.76)	△ 16.7%

	End of FY20 Q1	End of FY21 Q1	YoY	
			Amount	%
Number of employees	2,506	2,701	+195	+7.8%

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FY21 Outlook

FY21 outlook (※no change from the previous outlook)

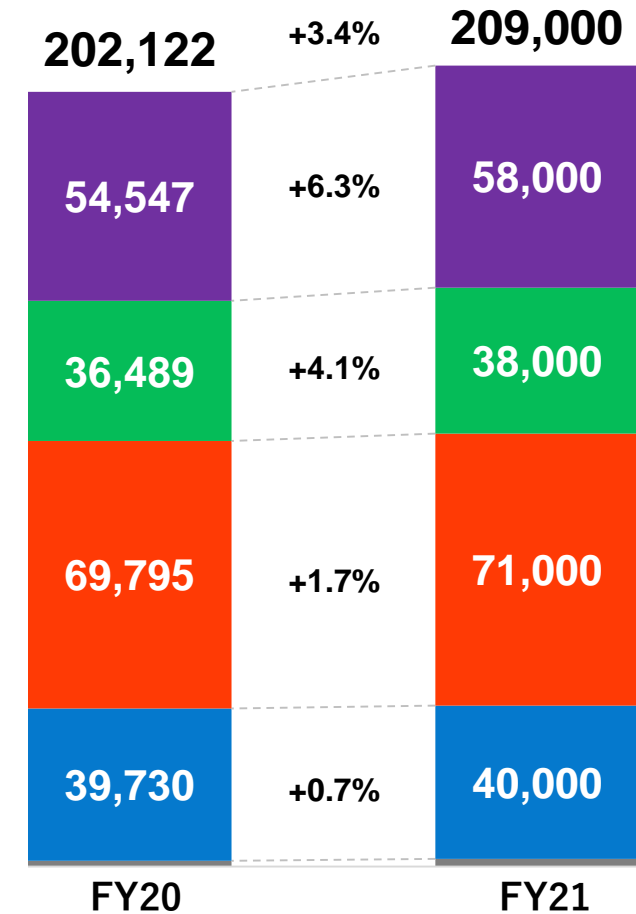
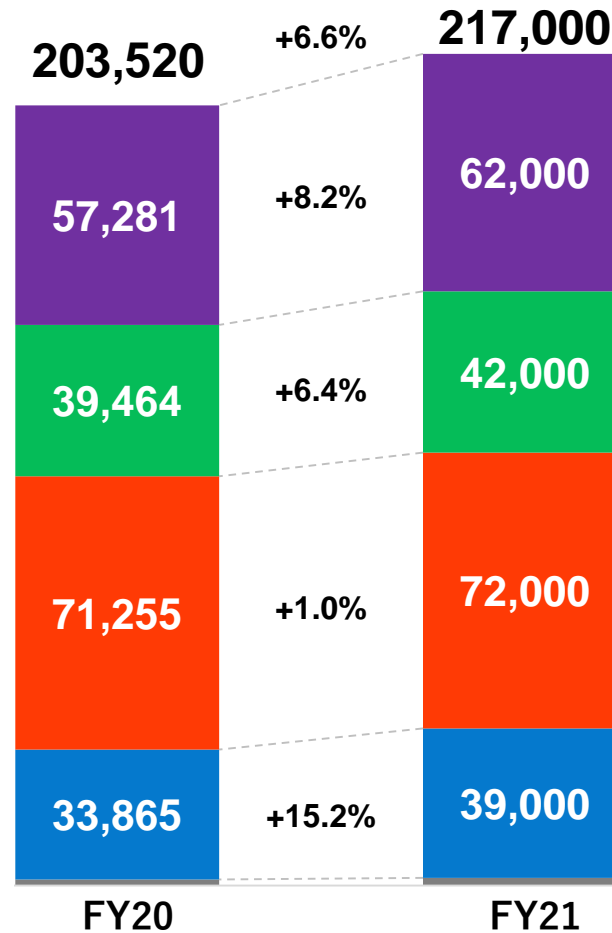
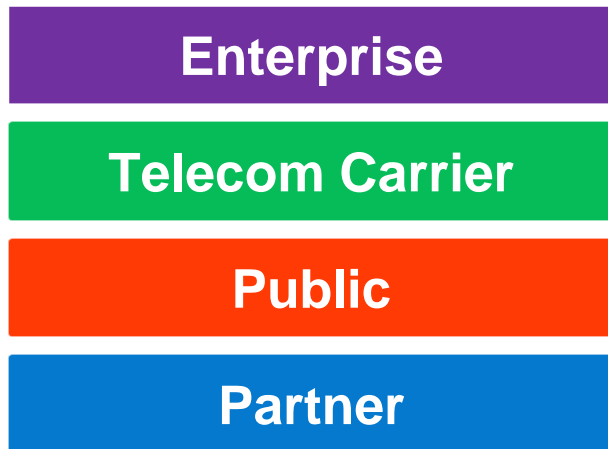
(JPYmn, % to revenue)	H1		H2		Annual	
Bookings	103,000		114,000		217,000	
Revenue	87,000	100.0%	122,000	100.0%	209,000	100.0%
Cost of sales	62,800	72.2%	88,400	72.5%	151,200	72.3%
Gross profit	24,200	27.8%	33,600	27.5%	57,800	27.7%
SG&A	17,500	20.1%	18,300	15.0%	35,800	17.1%
Operating income	6,700	7.7%	15,300	12.5%	22,000	10.5%
Ordinary income	6,700	7.7%	15,300	12.5%	22,000	10.5%
Net income attributable to owners of the parent	4,700	5.4%	10,300	8.4%	15,000	7.2%

FY21 outlook by market sector (※no change from the previous outlook)

■ Bookings

■ Revenue

(JPYmn)



3

Progress of measures to prevent recurrence

Actions taken in Q1 FY21

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Completed transition to a new organizational structure on April 1, 2021 (1.(2)-a/f/g) • Built framework to strengthen collaboration between officers and between officers and the Internal Audit Office (1.(4)-a, 1.(5)-d/e, 1.(6)-a/b/c/d) • Continued to promote initiatives such as creating work environments that enhance communication (1.(4)-c) and formulating a checklist to strengthen checking functions (1.(2)-b/c/d) • Prepare for private or small meetings between outside directors and shareholders (1.(6)-e)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Appointed head of the Risk Management Office on April 1, 2021 (2.(3)-a) • The Risk Management Office (as the administrative body for the Risk Management Committee) played a central role in building a structure to strengthen comprehensive and independent management capabilities through the Risk Management Committee (Other, general)
<p>3. Strengthening of business execution systems (first and second lines) and other internal systems</p>	<ul style="list-style-type: none"> • Began providing opportunities for regular information sharing and discussions to strengthen checking and support functions within and between the first and second lines (3.(1)-a, 3.(2)-a) • Continued to reevaluate regulations and specific methods for strengthening cost control systems (3.(1)-b, 3.(2)-b, all items under 3.(3))
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Completed reexamination of the role of the Internal Audit Office and establishment of internal rules that specify all obligations related to cooperation with internal audits (4.(1)-e/f) • In process of fundamental review of J-SOX-related operations and internal audit policies (4.(1)-b, 4.(3)-a/b), including collaboration with Audit & Supervisory Board members (4.(4)-b)
<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Revised whistleblowing regulations to ensure confidentiality of whistleblowers and fully informed employees (5.(1)-a) • Feedback system under review, working with broad range of parties within the Company to make it easier to provide feedback and operate (5.(2)-a)
<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Revised a personnel evaluation system (added compliance evaluation items and abolished rules covering incentives for individual sales personnel) (6.(1)-a/b) • Established the Reform Committee of Corporate Culture (6.(2)-a) and promoting various initiatives aimed at disseminating and revising management vision (6.(2)-b/c/d/e)
<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Began implementing initiatives for improving accounting literacy (7.(1)-a) and providing training and discussion opportunities to learn from prior examples of misconduct and daily mistakes (7.(1)-b, 7.(2)-a, 7.(3)-a)
<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • Started holding weekly Internal Control Strengthening Council meetings to monitor progress of recurrence prevention measures and established structures to discuss problems promptly when they arise (8.(1)-a)

Actions planned for Q2 FY21

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Begin implementing checklists for strengthening checking functions (1.(2)-b-d) • Hold forums for opinion exchange to discuss compliance activity plans within each business division (1.(4)-b) • Hold discussions between management and selected members of employees' association (1.(4)-e)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Implement risk survey sheets (2.(2)-b) • Build structures that centralize all risk information at the Risk Management Committee (2.(2)-c) • Prepare an emergency response manual (2.(5)-a)
<p>3. Strengthening of business execution systems (first and second lines) and other internal systems</p>	<ul style="list-style-type: none"> • Begin implementing cost control rules that reflect actual business practices (3.(3)-b) • Review of rules concerning applications for additional costs that eliminates excessive pressure (3.(3)-c) • Create pull-down menus for assessment of value added (3.(3)-d)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Formulate guidelines for strengthening the Internal Audit Office system (4.(1)-b) • Hold meetings to exchange opinions between the Internal Audit Office and accounting auditors (4.(5)-a)
<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Establish a feedback system that utilizes third-party points of contact (5.(2)-a)
<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Begin use of compliance checksheets for self-inspection at performance appraisal meetings (6.(1)-b)
<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Run e-learning to improve accounting literacy for all employees (7.(1)-a) • Hold study group sessions and workshops to learn from prior examples of misconduct and daily mistakes (7.(1)-b)
<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • Decide on implementation policies for regular surveys targeting all fraud, which are to be performed separately from internal audits (8.(2)-a)

About the June 24, 2021 release, “Major deficiencies that should be disclosed regarding internal controls of financial reporting”

As of March 31, 2021, deficiencies had not been rectified regarding the following three matters. Improvement, implementation, and operation are being made through recurrence prevention measures.

■ 1. Governance and corporate culture

- **Deficiencies:** The management team was not fully informed about on-the-ground circumstances, and the corporate culture prioritized performance of individual salespeople due to a management structure focused on short-term earnings.
- **Matter for improvement:** Improvement by implementing and operation the recurrence prevention measures 4. (4) “Strengthening of communication aimed at bridging the gap between on-the-ground staff and management” and 6. “Reform and creation of organizational culture”

■ 2. Whistleblower system

- **Deficiencies:** When a series of fraudulent transactions occurred in the past, systems to encourage internal reporting (whistleblowing) were inadequate.
- **Matter for improvement:** Improvement by implementing and operation the recurrence prevention measure 5. “System for collecting employee feedback”

■ 3. Management of individual projects

- **Deficiencies:** Some issues remained regarding the construction and operation of an internal control system that takes into consideration the specific characteristics of accounting practices in the IT services industry.
- **Matter for improvement:** Improvement by implementing and operation the recurrence prevention measure 3. (3) “Strengthening of cost control systems”

charge ∠ channel ∠ change



net one