



Results for Q2 FY21

Ended September 30, 2021

Net One Systems Co., Ltd.

November 4, 2021 (Stock Code 7518: JP)

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First half summary

- **Measures to prevent recurrence**

Implementing measures for governance and corporate culture reform as planned

- **Financial results**

Bookings were the highest ever in H1. On the other hand, revenue and profits fell short of the plan due to the prolonged delivery time for products caused by the shortage of semiconductors

Full-year forecast

- **Measures to prevent recurrence**

Focus on productivity improvement while implementing each measure as planned

- **Financial forecast**

Achieve more revenue from a larger order backlog. Product delivery times has been prolonged and unclear, but the impact is expected to diminish gradually from Q3 onward with the secure inventory measures

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FY21 Q1-2(Apr-Sep 6months) Results

Results summary FY21 Q1-2(Apr-Sep 6months)

(JPYmn, % to revenue)	FY20 Q1-2 Results (A)		FY21 Q1-2 Results (B)		YoY (B-A)		FY21 Q1-2 Initial outlook (C)		Compare to Initial Outlook (B-C)	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Bookings	101,671		113,607		+11,935	+11.7%	103,000		+10,607	+10.3%
Revenue	82,422	100.0%	77,887	100.0%	(4,535)	-5.5%	87,000	100.0%	(9,112)	-10.5%
Cost of revenue	59,355	72.0%	55,815	71.7%	(3,539)	-6.0%	62,800	72.2%	(6,984)	-11.1%
Gross profit	23,067	28.0%	22,071	28.3%	(995)	-4.3%	24,200	27.8%	(2,128)	-8.8%
SG&A	16,402	19.9%	17,552	22.5%	+1,150	+7.0%	17,500	20.1%	+52	+0.3%
Operating Income	6,665	8.1%	4,518	5.8%	(2,146)	-32.2%	6,700	7.7%	(2,181)	-32.6%
Ordinary Income	6,486	7.9%	4,876	6.3%	(1,610)	-24.8%	6,700	7.7%	(1,823)	-27.2%
Net Income attributable to owners of the parent company	4,512	5.5%	3,390	4.4%	(1,122)	-24.9%	4,700	5.4%	(1,309)	-27.9%
Backlog	112,766		131,557		+18,790	+16.7%	-		-	-

Bookings were strong, mainly in the telecom carrier, public, and partner sectors, and reached a record high in the first half. On the other hand, revenue and profits fell short of the plan due to delays in the revenue timing of several projects into the second half of the fiscal year due to the prolonged delivery times for products caused by semiconductor shortages.

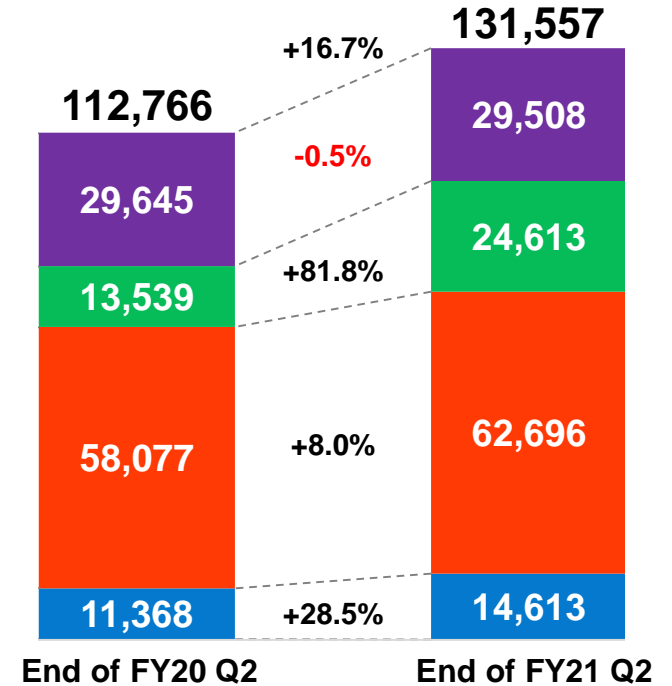
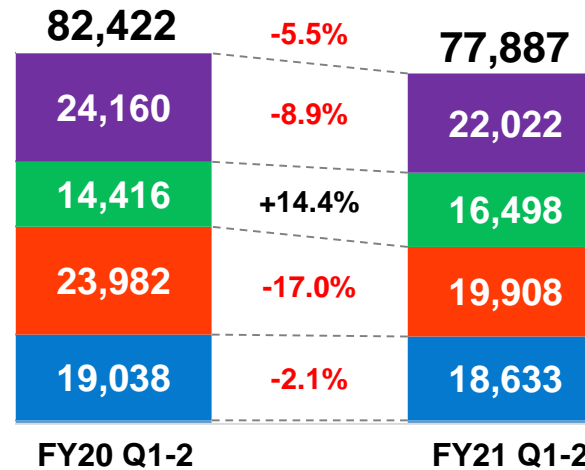
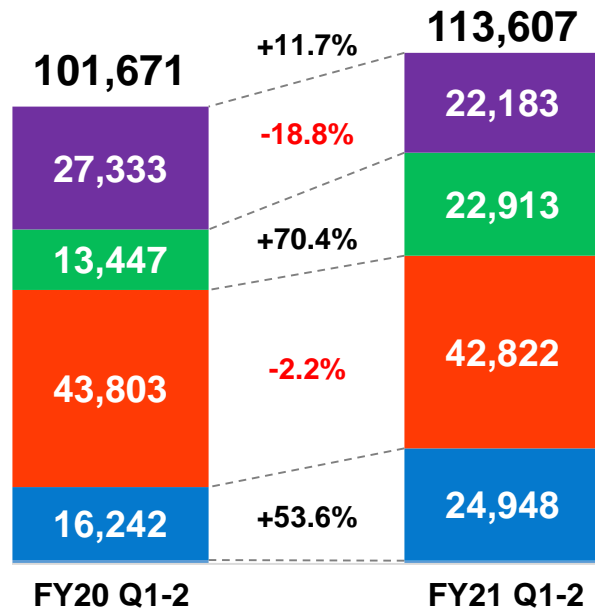
Performance by market sector

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 financial industry, Q2 was a trough in the investment period. The timing of revenue was delayed due to the prolonged delivery of products.

Telecom Carrier

Due to semiconductor shortages, telecom carriers placed orders ahead in anticipation of longer delivery times for network products. Support for MSP and corporate business continued to be strong. On the other hand, revenue timing was delayed due to the prolonged delivery of products.

Public

Bookings for the security cloud and security enhancement projects for local governments were strong, which offset the loss of orders for the GIGA school projects in the previous fiscal year. On the other hand, the timing of revenue was delayed due to the prolonged delivery of products.

Partner

The business of key partners, which had been affected by the COVID-19, showed an overall recovery trend. We received an order for a JPY3bn 5G project in Q1. MSP business remained strong. On the other hand, the timing of revenue was delayed due to the prolonged delivery of products.

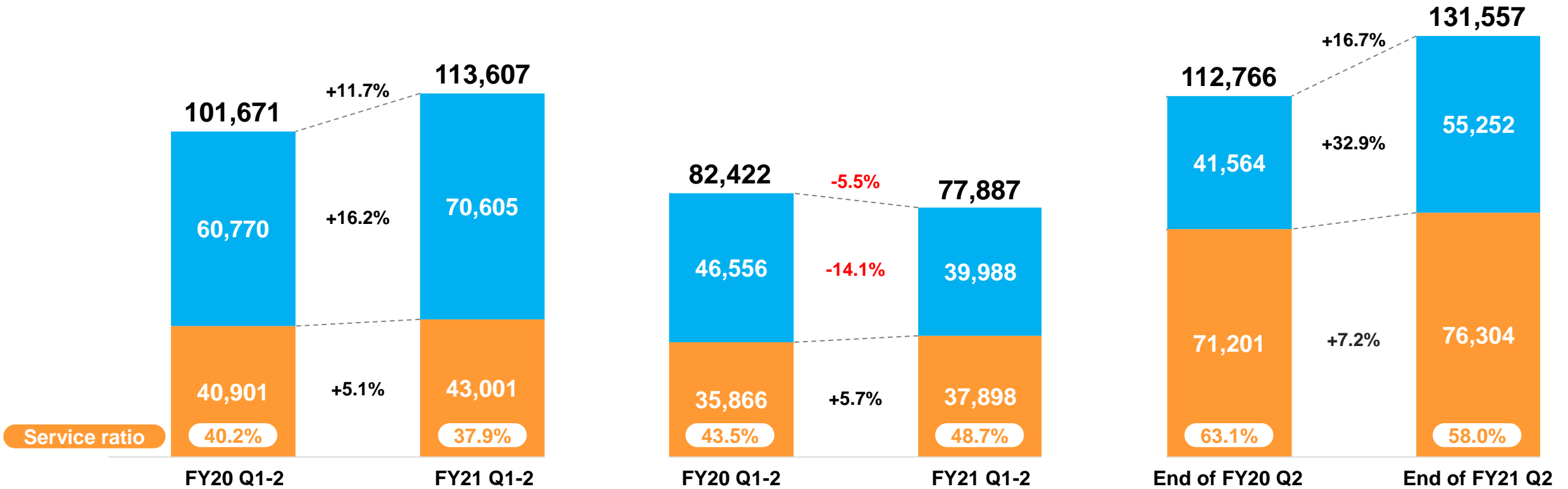
Performance by product category

(JPYmn)

Bookings

Revenue

Backlog



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 the timing of revenue caused by the prolonged delivery of products in each sector.

Service business

Bookings, revenue, and backlog increased due to progress in the “Integrated Services Business”.

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 Q1-2 【Result】	Revenue	22,022	16,498	19,908	18,643	77,072	887	77,959	(72)	77,887
	Segment income	1,696	1,345	129	1,753	4,925	(70)	4,855	(336)	4,518
	Segment income margin	7.7%	8.2%	0.7%	9.4%					5.8%
FY20 Q1-2 【Previous】	Revenue	24,165	14,418	23,986	19,047	81,617	851	82,469	(46)	82,422
	Segment income	2,293	1,320	1,941	1,601	7,157	(41)	7,115	(450)	6,665
	Segment income margin	9.5%	9.2%	8.1%	8.4%					8.1%

(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 the reportable segment.

Consolidated balance sheets

(JPYmn)	Mar 31, 2021	Sep 30, 2021	Change	
	Results	Results	Amount	%
Total assets	155,782	149,191	(6,590)	- 4.2%
Current assets	142,482	136,727	(5,754)	- 4.0%
Cash and deposits + CD·CP	32,429	29,250	(3,179)	- 9.8%
Notes and accounts receivable-trade	63,027	34,491	(28,536)	- 45.3%
Inventory assets	17,592	37,254	19,662	+ 111.8%
Other	29,432	35,731	6,298	+ 21.4%
Noncurrent assets	13,300	12,464	(836)	- 6.3%
Property, plant and equipment	4,504	4,641	136	+ 3.0%
Intangible assets	1,467	1,521	53	+ 3.6%
Investment etc.	7,328	6,302	(1,026)	- 14.0%
Total liabilities	81,987	77,817	(4,170)	- 5.1%
Current liabilities	66,637	63,457	(3,180)	- 4.8%
Non-current liabilities	15,350	14,359	(990)	- 6.4%
Total net assets	73,795	71,374	(2,420)	- 3.3%
Shareholders' equity	73,075	70,817	(2,257)	- 3.1%
Accumulated other comprehensive income	438	338	(99)	- 22.8%
Subscription rights to shares	222	168	(53)	- 24.0%
Non-controlling interests	60	50	(9)	- 16.7%
Total liabilities and net assets	155,782	149,191	(6,590)	- 4.2%

Exchange rate, EPS, Employees

	FY20 Q1-2	FY21 Q1-2	YoY	
			Amount	%
Exchange rate (\$JPY)	107.13	109.11	+1.98	+1.8%
Earnings per share (JPY)	53.26	39.98	(13.28)	-24.9%
Dividends per share (JPY)	24.00	36.00	+12.00	+50.0%

	End of FY20 Q2	End of FY21 Q2	YoY	
			Amount	%
Number of employees	2,518	2,708	+190	+7.5%

2

Progress of medium-term business plan

FY21 Outlook

The direction of the next medium-term management plan

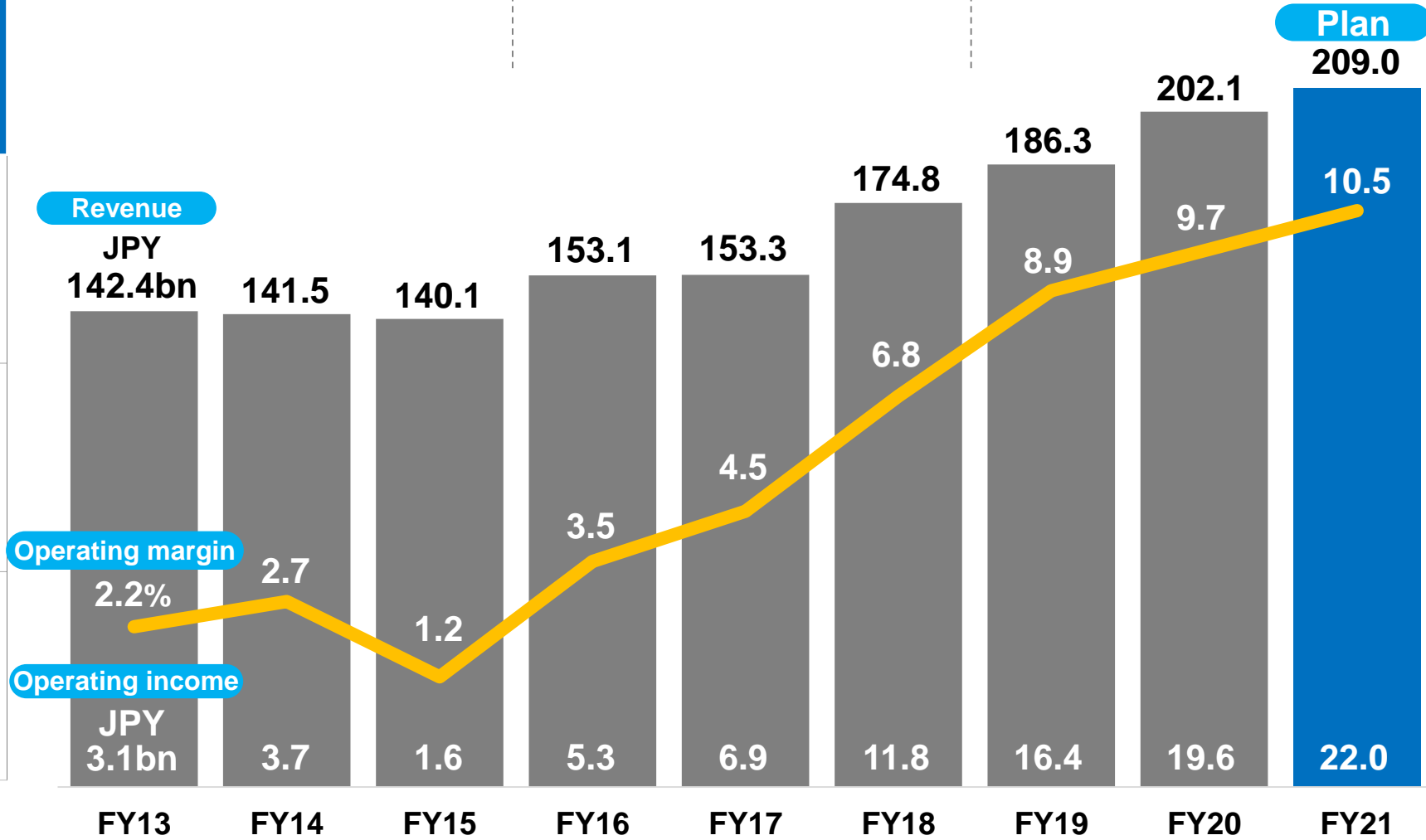
Medium-term business plan targets

	FY18 results	FY21 plan
Operating margin	6.8%	10.5%
Service ratio	42.6%	45.0%
ROE	12.8%	19.2%

Business model transformation

Continued growth (cloud and security)

Transformation for the next generation (service business)



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



Healthcare

FY20 Q1-2	FY21 Q1-2
JPY1.2bn	JPY1.8bn

H1 results: although the effects of COVID-19 continued, customers gradually restarted projects
H2 forecast: expect to recover gradually



School system

FY20 Q1-2	FY21 Q1-2
JPY17.0bn	JPY6.4bn

H1 results: decreased in GIGA school projects
H2 forecast: the peak of bookings for this fiscal year has passed, but we continue to accumulate bookings



Smart factory

FY20 Q1-2	FY21 Q1-2
JPY3.2bn	JPY4.2bn

H1 results: slightly over plan
H2 forecast: continue upward trend



MSP

FY20 Q1-2	FY21 Q1-2
JPY3.8bn	JPY9.2bn

H1 results: strong in security solution
H2 forecast: continue strong performance



Refurbishment

FY20 Q1-2	FY21 Q1-2
JPY0.74bn	JPY0.68bn

H1 results: focus on new proposals (bookings will be concentrate in Q4)
H2 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 Q1-2
JPY13.7bn

H1 results: strong with large projects in Q2
H2 forecast: the peak of bookings for this fiscal year has passed, but we continue to accumulate bookings

We gained many renewal projects with our advanced network/security/operation technology.

Many renewal projects are scheduled for the next fiscal year,

and we will continue to support the digitization of local governments over the medium to long term

Security cloud

Target: prefectures

Bookings in H1: 9 projects, JPY1.7bn

&

Security enhancement

Target: municipalities

Bookings in H1: 9 projects, JPY12.0bn

Security system for internet access



Security measures to segregate networks according to the importance of information



Deploy in two ways

Creating new markets with the "co-creation" with customers

Co-creation of new businesses

Target: service providers

Demand: creating new services to accelerate corporate business

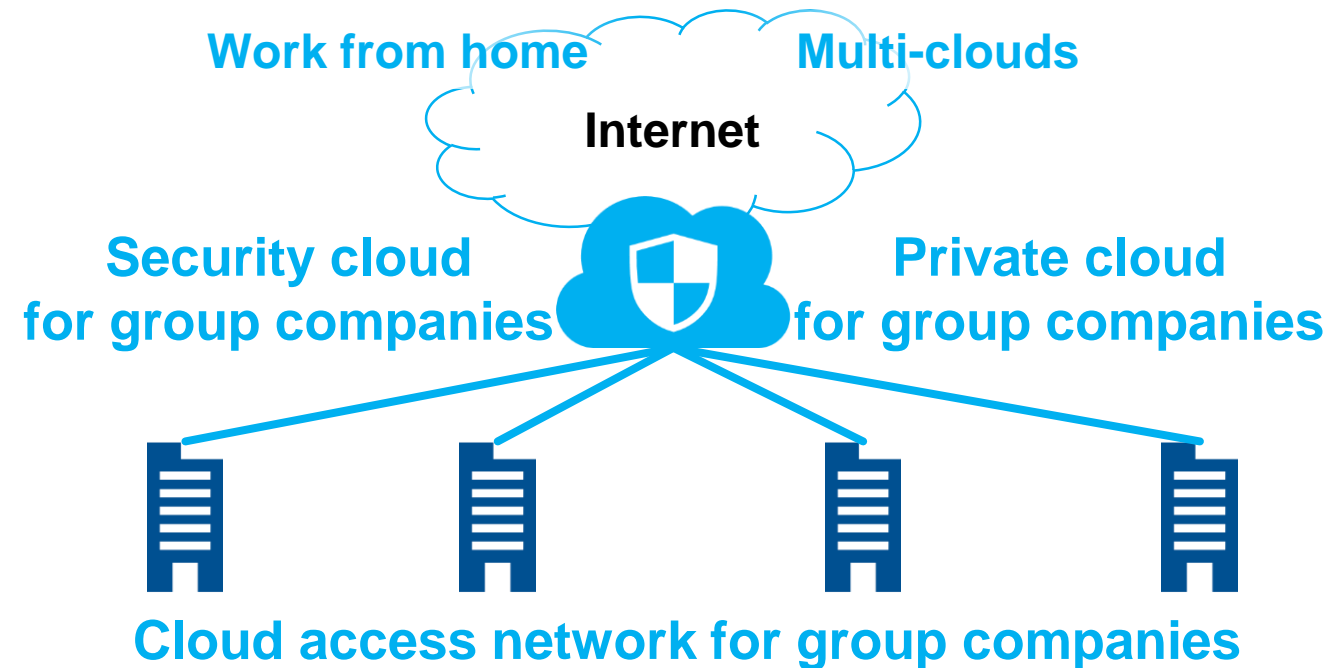
5G edge computing infrastructure

Security service for teleworkers

Service support for group companies

Target: large-scale companies

Demand: ICT governance, new normal





Integrated Service Business

Service bookings

FY20 Q1-2	FY21 Q1-2
JPY40.9bn	JPY43.0bn



Implementation of DX

80% of employees work from home

Accelerating the co-creation of office workers and teleworkers for the new normal

Feedback of practical knowledge to customers

- Fusion of digital and real / Multi-cloud application and security

Accelerate proposals/optimization along the DX lifecycle

Evolution to a service delivery model

- ✓ value co-creation: nBC(netone Briefing Center)
- ✓ hypothesis verification: LaaS(Lab as a Service)

Secure work style reform for the new normal

- ✓ Remote: HR system reform, multi-cloud utilization
- ✓ Office: reduction of space, renovation for co-creation with teleworkers, the opening of touchdown offices

FY21 outlook (※no change from the previous outlook)

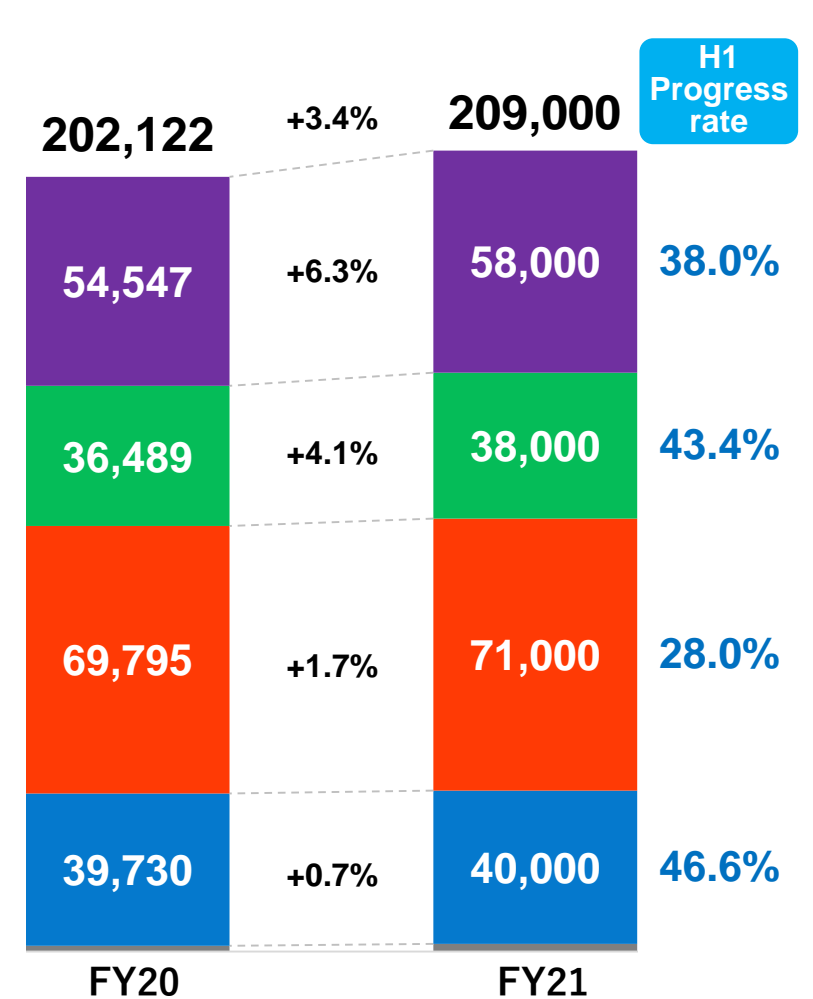
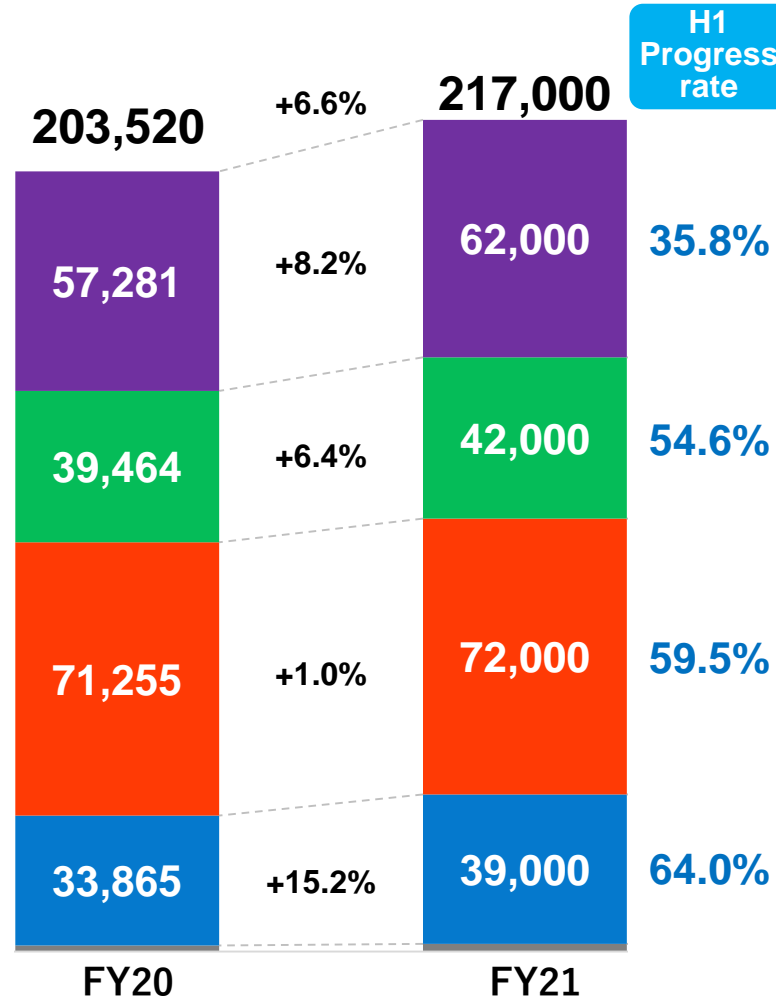
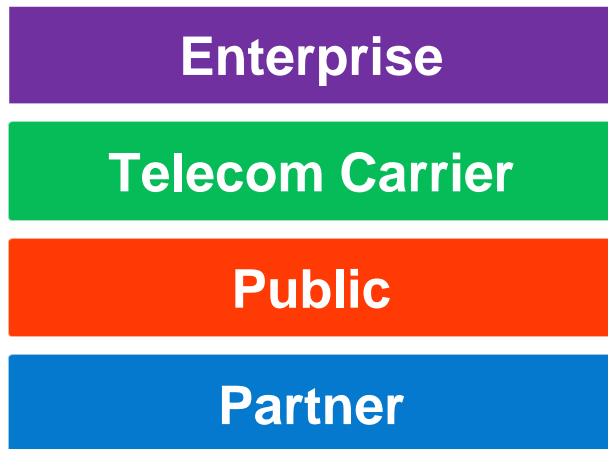
(JPYmn, % to revenue)	FY20 Results		FY21 Outlook		YoY	
					Amount	%
Bookings	203,520		217,000		+13,479	+6.6%
Revenue	202,122	100.0%	209,000	100.0%	+6,877	+3.4%
Cost of sales	146,209	72.3%	151,200	72.3%	+4,990	+3.4%
Gross profit	55,913	27.7%	57,800	27.7%	+1,886	+3.4%
SG&A	36,239	17.9%	35,800	17.1%	(439)	-1.2%
Operating income	19,673	9.7%	22,000	10.5%	+2,326	+11.8%
Ordinary income	18,208	9.0%	22,000	10.5%	+3,791	+20.8%
Net income attributable to owners of the parent	12,321	6.1%	15,000	7.2%	+2,678	+21.7%

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

■ Bookings

■ Revenue

(JPYmn)



Manufacturing industry

- Reduced production due to shortage of semiconductors, especially in the automotive industry, caused a reassessment of investment
- On the other hand, investment in digitalization as smart factories continued
- Bookings recovered in Q2 compared to Q1. The recovery trend is expected to continue in the H2

Financial industry

- Q2 was a trough of investment. Full-year bookings expected to be in line with plan
- Promote proposals for security measures when using the cloud and support for digitalization

Non-manufacturing industry

- Orders in H1 were at the same level as the previous fiscal year
- Continue to accelerate capturing demand for digitalization, which directly contributes to customers' business

Continuous improvement of corporate value
Effective prevention of recurrence

Formulate a long-term grand design for 9 years (FY2022 - FY2030)
- Identify our value and ways to contribute to major changes in the social environment -



Next medium-term management plan: 3 years (FY2022 - FY2024)

Formulate the following strategies
to improve competitiveness and achieve stable growth

1) Market, 2) Finance, 3) Services, 4) Human resources and operations

3

Progress of measures to prevent recurrence

Actions taken in FY21 Q2

1. Governance reform and promotion	<ul style="list-style-type: none"> • Strengthened checking functions by implementing checklists that have been fully prepared and additional checklists as they are completed (1.(2)-b/c/d) • Held forums for opinion exchange to discuss compliance activity plans within each business division (1.(4)-b) • Held discussions between management and selected members of employees' association (1.(4)-e) • Formulated a policy regarding dialogue between outside executive directors and shareholders and included this policy in our Corporate Governance Guidelines (1.(6)-e)
2. Enhancement of risk management system	<ul style="list-style-type: none"> • Conducted paper-based risk surveys after formulating policies for FY21 (2.(2)-b) • Supported the establishment of structures that centralize all risk information within the Risk Management Committee (2.(2)-c) • Prepared an emergency response manual (2.(5)-a)
3. Strengthening of business execution systems (first and second lines) and other internal systems	<ul style="list-style-type: none"> • Adjusted regulations concerning sales and purchasing processes (3.(1)-b) • Began implementing cost control rules that reflect actual business practices on a trial basis (3.(3)-b) • Reviewed rules concerning applications for additional costs that eliminate excessive pressure (3.(3)-c) • Created pull-down menus for assessment of value added (3.(3)-d)
4. Radical revisions to our auditing system	<ul style="list-style-type: none"> • Formulated guidelines for strengthening the Internal Audit Office system (4.(1)-b) • Completed review of assessments related to the Financial Instruments and Exchange Act (J-SOX) (4.(3)-b) • Secured approval during the Annual Shareholders Meeting for the appointment of an individual who is well-versed in the field of accounting as a full-time Audit & Supervisory Board member (4.(4)-d) • Began holding meetings to facilitate opinion exchange between the Internal Audit Office and accounting auditors (4.(5)-a)
5. System for collecting employee feedback	<ul style="list-style-type: none"> • Established a feedback system that utilizes third-party points of contact (5.(2)-a)
6. Reform and creation of organizational culture	<ul style="list-style-type: none"> • Began using compliance checksheets for self-inspection at performance appraisal meetings (6.(1)-b)
7. Accounting literacy education and training and instruction based on prior examples of misconduct	<ul style="list-style-type: none"> • Adopted e-learning to improve accounting knowledge among all employees and introduced group training for general managers and directors (7.(1)-a) • Held study sessions and workshops to facilitate learning from prior examples of misconduct and daily mistakes (7.(1)-b)
8. Ongoing monitoring	<ul style="list-style-type: none"> • Decided on implementation policies for regular surveys targeting all fraud, which will be performed separately from internal audits (8.(2)-a)

Note: Please see our “Additional Measures to Prevent Recurrence” dated May 13, 2021 for details of recurrence prevention measures shown in blue text and parentheses.

Actions planned for FY21 Q3

1. Governance reform and promotion	<ul style="list-style-type: none"> • Begin full-scale implementation of checklists for strengthening checking functions (1.(2)-b/c/d) • Complete review of criteria for the selection of executive director and vice president candidates (1(7)-a)
2. Enhancement of risk management system	<ul style="list-style-type: none"> • Build structures that centralize all risk information within the Risk Management Committee (2.(2)-c/d)
3. Strengthening of business execution systems (first and second lines) and other internal systems	<ul style="list-style-type: none"> • Establish a checking system for implementation under the direction of the Finance & Accounting Department (3.(2)-b) • Launch individual project verifications to be conducted by the Finance and Accounting Department on a trial basis (3.(3)-a) • Begin trial operation of an updated and improved cost control system to prevent improper cost substitutions (3.(3)-b)
4. Radical revisions to our auditing system	<ul style="list-style-type: none"> • Complete review of rules targeting the establishment of career paths for positions within the Internal Audit Office (4(2)-a)
5. System for collecting employee feedback	<p style="text-align: center;">All measures fully established or under observation</p>
6. Reform and creation of organizational culture	<ul style="list-style-type: none"> • Complete review of our management vision and Code of Conduct (6.(2)-a) • Fully establish a system for managing personnel rotation information and revise relevant rules and regulations (6.(3)-a)
7. Accounting literacy education and training and instruction based on prior examples of misconduct	<p style="text-align: center;">All measures fully established or under observation</p>
8. Ongoing monitoring	<p style="text-align: center;">All measures fully established or under observation</p>

Note: Please see our “Additional Measures to Prevent Recurrence” dated May 13, 2021 for details of recurrence prevention measures shown in blue text and parentheses.

charge ∠ channel ∠ change



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