



Results for Q3 FY21

Ended December 31, 2021

Net One Systems Co., Ltd.

February 2, 2022 (Stock Code 7518: JP)

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Q1-3 summary

- **Measures to prevent recurrence**

Implementing measures for governance and corporate culture reform as planned

- **Financial results**

Business remained strong. Bookings and order backlog reached a record high in Q1-3.

On the other hand, revenue and profits decreased due to the prolonged delivery time for products caused by the shortage of semiconductors, although product inventory measures from Q3.

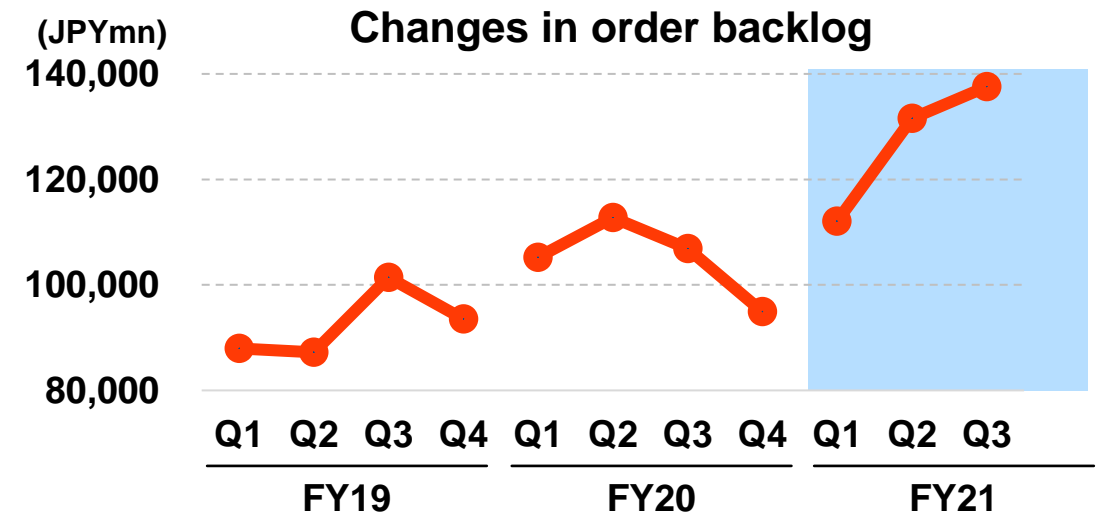
Full-year forecast

- **Measures to prevent recurrence**

Focus on productivity improvement while implementing each measure as planned

- **Financial forecast**

We have a record order backlog but still assessing the impact of the longer delivery times.



1

FY21 Q1-3(Apr-Dec 9months) Results

Results summary FY21 Q1-3(Apr-Dec 9months)

(JPYmn, % to revenue)	FY20 Q1-3 Results		FY21 Q1-3 Results		YoY	
					Amount	%
Bookings	144,518		163,735		+19,216	+13.3%
Revenue	131,147	100.0%	122,007	100.0%	(9,139)	-7.0%
Cost of revenue	94,672	72.2%	87,810	72.0%	(6,862)	-7.2%
Gross profit	36,474	27.8%	34,196	28.0%	(2,277)	-6.2%
SG&A	24,655	18.8%	25,935	21.3%	+1,280	+5.2%
Operating Income	11,819	9.0%	8,261	6.8%	(3,558)	-30.1%
Ordinary Income	10,451	8.0%	8,436	6.9%	(2,015)	-19.3%
Net Income attributable to owners of the parent company	7,261	5.5%	5,227	4.3%	(2,033)	-28.0%
Backlog	106,888		137,565		+30,676	+28.7%

Bookings were strong, mainly in the telecom carrier, public, and partner sectors, and reached a record high in the first three quarters.

Order backlog also reached a record high at the end of the third quarter.

On the other hand, revenue and profits decreased due to delays in the revenue timing of several projects due to the prolonged delivery times for products caused by semiconductor shortages.

Results summary FY21 Q3(Oct-Dec 3months)

(JPYmn, % to revenue)	FY20 Q3 Results		FY21 Q3 Results		YoY	
					Amount	%
Bookings	42,846		50,128	113.6%	+7,281	+17.0%
Revenue	48,724	100.0%	44,120	100.0%	(4,604)	-9.5%
Cost of revenue	35,317	72.5%	31,994	72.5%	(3,322)	-9.4%
Gross profit	13,407	27.5%	12,125	27.5%	(1,282)	-9.6%
SG&A	8,253	16.9%	8,382	19.0%	+129	+1.6%
Operating Income	5,154	10.6%	3,742	8.5%	(1,411)	-27.4%
Ordinary Income	3,964	8.1%	3,559	8.1%	(404)	-10.2%
Net Income attributable to owners of the parent company	2,748	5.6%	1,837	4.2%	(911)	-33.2%

Bookings were strong, mainly in the telecom carrier, public, and partner sectors.

On the other hand, revenue and profits decreased due to delays in the revenue timing of several projects due to the prolonged delivery times for products caused by semiconductor shortages.

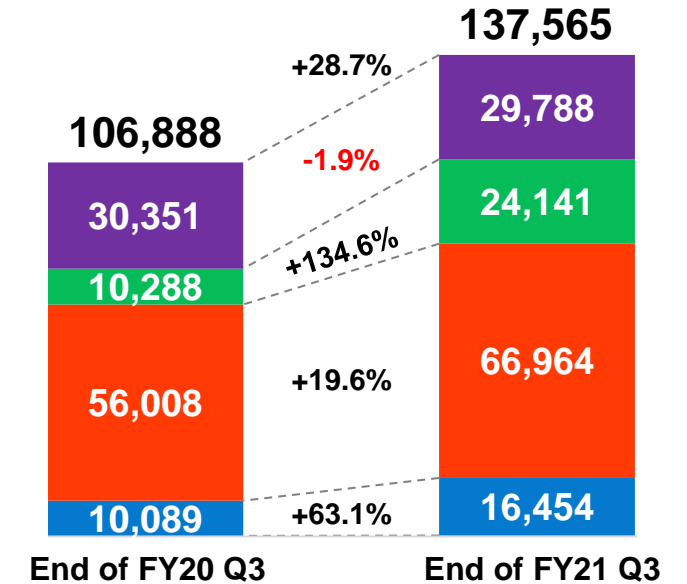
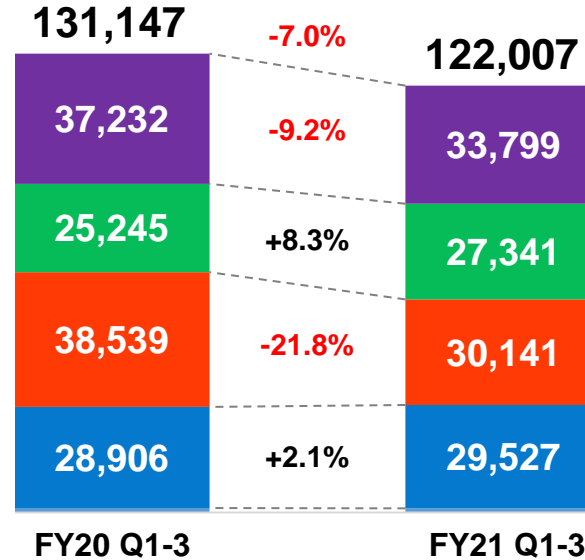
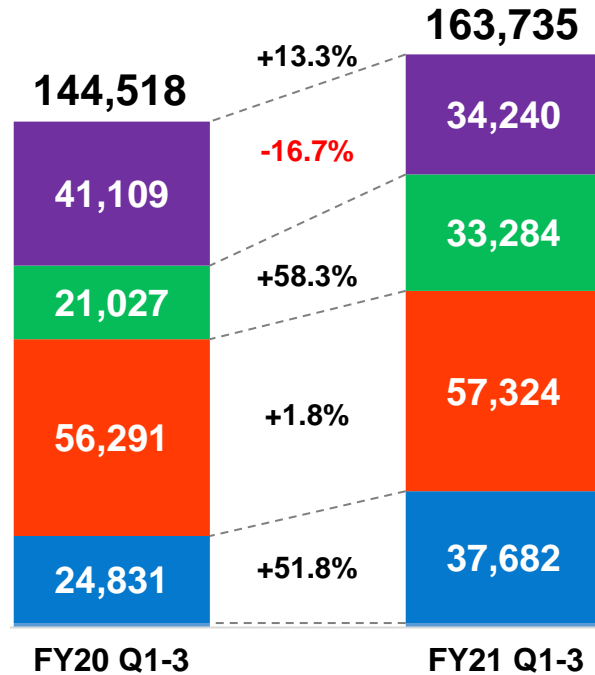
Performance by market sector

Bookings

Revenue

Backlog

(JPYmn)



Enterprise

In the manufacturing industry, bookings decreased 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 continued to place 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.

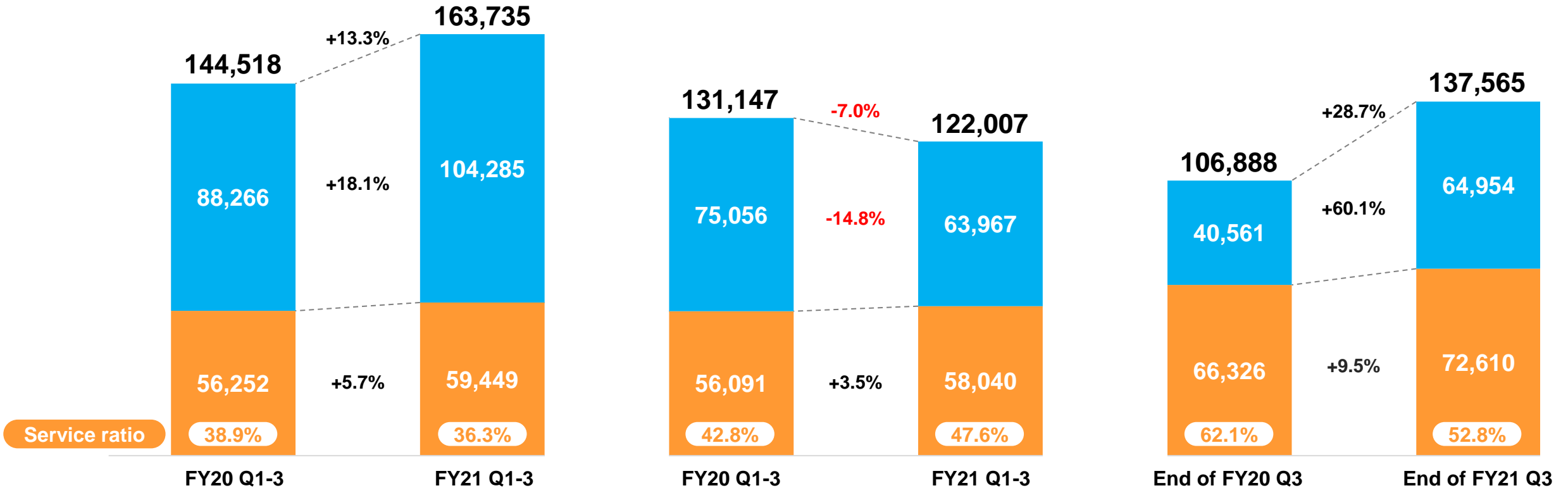
Performance by product category

(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. As a result, the backlog increased significantly.

Service business

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

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



Healthcare

FY20 Q1-3	FY21 Q1-3
JPY1.9bn	JPY3.0bn

Q1-3 results: customers gradually restarted projects
 Q4 forecast: continue to recover gradually



School system

FY20 Q1-3	FY21 Q1-3
JPY21.2bn	JPY6.9bn

Q1-3 results: decreased in GIGA school projects
 Q4 forecast: the peak of bookings for this fiscal year has passed, but we continue to accumulate bookings



Smart factory

FY20 Q1-3	FY21 Q1-3
JPY4.8bn	JPY6.2bn

Q1-3 results: slightly over plan
 Q4 forecast: continue upward trend



MSP

FY20 Q1-3	FY21 Q1-3
JPY6.2bn	JPY15.8bn

Q1-3 results: strong in security solution
 Q4 forecast: continue strong performance



Refurbishment

FY20 Q1-3	FY21 Q1-3
JPY1.0bn	JPY1.2bn

Q1-3 results: focus on new proposals
 Q4 forecast: the peak of bookings for this fiscal year, and continue good profits

Security cloud and security enhancement projects for local governments

FY21 Q1-3
JPY15.5bn

Q1-3 results: strong with large projects in Q2
 Q4 forecast: the peak of bookings for this fiscal year has passed, but we continue to accumulate bookings

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 Q1-3 【Result】	Revenue	33,799	27,341	30,141	29,537	120,818	1,294	122,113	(105)	122,007
	Segment income	2,817	2,612	760	2,688	8,878	(122)	8,755	(494)	8,261
	Segment income margin	8.3%	9.6%	2.5%	9.1%					6.8%
FY20 Q1-3 【Previous】	Revenue	37,240	25,248	38,545	28,919	129,953	1,258	131,212	(64)	131,147
	Segment income	3,753	2,719	3,461	2,590	12,524	(66)	12,458	(639)	11,819
	Segment income margin	10.1%	10.8%	9.0%	9.0%					9.0%

(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	Dec 31, 2021	Change	
	Results	Results	Amount	%
Total assets	155,782	154,755	(1,027)	- 0.7%
Current assets	142,482	143,478	996	+ 0.7%
Cash and deposits + CD·CP	32,429	21,448	(10,980)	- 33.9%
Notes and accounts receivable-trade	63,027	32,592	(30,434)	- 48.3%
Inventory assets	17,592	53,577	35,984	+ 204.5%
Other	29,432	35,860	6,427	+ 21.8%
Noncurrent assets	13,300	11,276	(2,024)	- 15.2%
Property, plant and equipment	4,504	4,475	(29)	- 0.6%
Intangible assets	1,467	990	(476)	- 32.5%
Investment etc.	7,328	5,810	(1,518)	- 20.7%
Total liabilities	81,987	92,625	10,638	+ 13.0%
Current liabilities	66,637	78,827	12,190	+ 18.3%
Non-current liabilities	15,350	13,798	(1,551)	- 10.1%
Total net assets	73,795	62,129	(11,666)	- 15.8%
Shareholders' equity	73,075	61,408	(11,666)	- 16.0%
Accumulated other comprehensive income	438	551	113	+ 26.0%
Subscription rights to shares	222	168	(53)	- 24.0%
Non-controlling interests	60	0	(60)	- 100.0%
Total liabilities and net assets	155,782	154,755	(1,027)	- 0.7%

Exchange rate, EPS, Employees

	FY20 Q1-3	FY21 Q1-3	YoY	
			Amount	%
Exchange rate (\$JPY)	106.58	109.76	+3.18	+3.0%
Earnings per share (JPY)	85.70	62.09	(23.61)	-27.5%

	End of FY20 Q3	End of FY21 Q3	YoY	
			Amount	%
Number of employees	2,547	2,702	+155	+6.1%

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FY21 Outlook

FY21 outlook (※no change from the previous outlook)

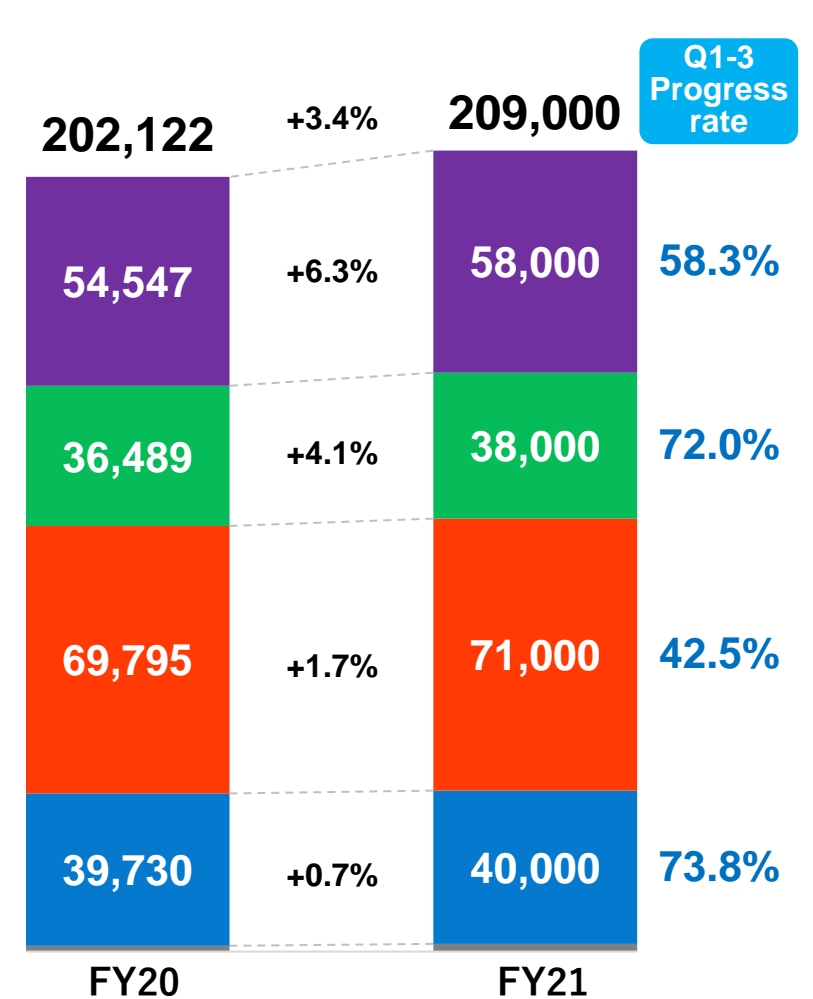
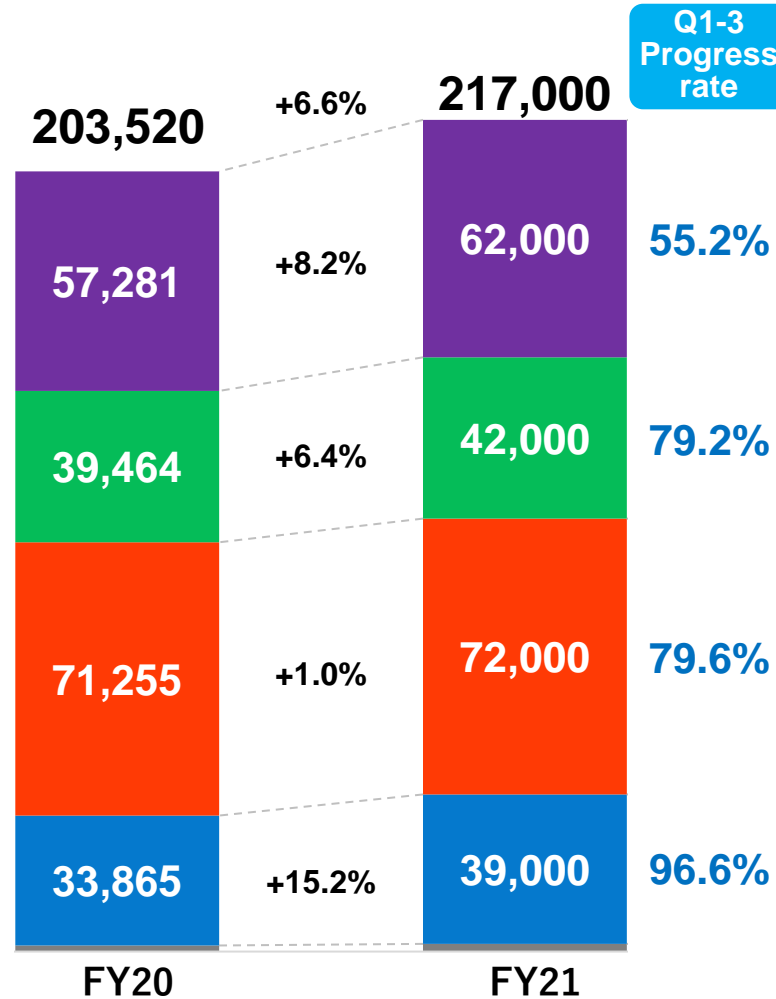
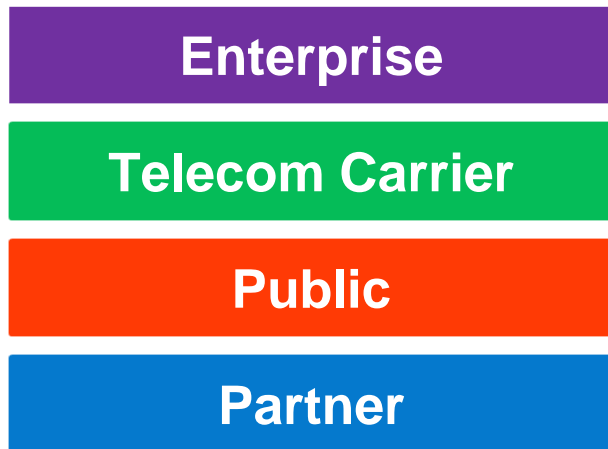
(JPYmn, % to revenue)	FY20 Results		FY21 Outlook		YoY	
					Amount	%
Bookings	203,520		217,000		+13,479	+6.6%
Revenue	202,122	100.0%	209,000	100.0%	+6,877	+3.4%
Cost of sales	146,209	72.3%	151,200	72.3%	+4,990	+3.4%
Gross profit	55,913	27.7%	57,800	27.7%	+1,886	+3.4%
SG&A	36,239	17.9%	35,800	17.1%	(439)	-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)



3

Progress of measures to prevent recurrence

Actions taken in FY21 Q3

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Began full-scale implementation of checklists for strengthening checking functions (1.(2)-b/c/d)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Established structures that centralize all risk information within the Risk Management Committee (2.(2)-c) • Began internal disclosure of emerging risks (2.(2)-d)
<p>3. Strengthening of business execution systems (first and second lines) and other internal systems</p>	<ul style="list-style-type: none"> • Established and launched operations of a checking system under the direction of the Finance & Accounting Department (3.(2)-b) • Launched individual project verifications performed by the Finance & Accounting Department (3.(3)-a) • Began operation of an updated and improved cost control system to prevent improper cost substitutions (3.(3)-b)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Completed review of policy regarding the establishment of career paths for positions within the Internal Audit Office and launched corresponding operations (4.(2)-a) • Began e-learning-based training regarding Japan's Financial Instruments and Exchange Act (J-SOX) (4.(3)-d)
<p>5. System for collecting employee feedback</p>	<p>All measures have been fully established or are currently under observation.</p>
<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Fully established a system for managing personnel rotation information and revised relevant documents (6.(3)-a)
<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<p>All measures have been fully established or are currently under observation.</p>
<p>8. Ongoing monitoring</p>	<p>All measures have been fully established or are currently 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.

Actions planned for FY21 Q4

1. Governance reform and promotion	<ul style="list-style-type: none"> Review criteria for the selection of executive director candidates and vice presidents and complete preparation of relevant documents (1.(7)-a)
2. Enhancement of risk management system	All measures fully established or under observation
3. Strengthening of business execution systems (first and second lines) and other internal systems	All measures fully established or under observation
4. Radical revisions to our auditing system	<ul style="list-style-type: none"> Complete in-house review of internal control documents related to J-SOX (final completion expected in June 2022) (4.(3)-a)
5. System for collecting employee feedback	All measures fully established or under observation
6. Reform and creation of organizational culture	<ul style="list-style-type: none"> Begin internal disclosure of documents related to personnel rotation (6.(3)-a) Complete review of our management vision and Code of Conduct and launch relevant internal disclosure through electronic bulletin boards (6.(2)-b/c) Complete revisions to the electronic edition of our Vision Book that reflects changes indicated above and begin internal disclosure of the book (6.(2)-c)
7. Accounting literacy education and training and instruction based on prior examples of misconduct	All measures fully established or under observation
8. Ongoing monitoring	All measures fully established or under observation

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



net one