



Results for Q1 FY22

Ended June 30, 2022

Net One Systems Co., Ltd.

August 3, 2022 (Stock Code 7518: JP)

1	FY22 Q1(Apr.-Jun. 3months) Results	P.04-12
2	FY22 Outlook	P.13-15
3	Progress of measures to prevent recurrence	P.16-20

Overview of FY22 Q1

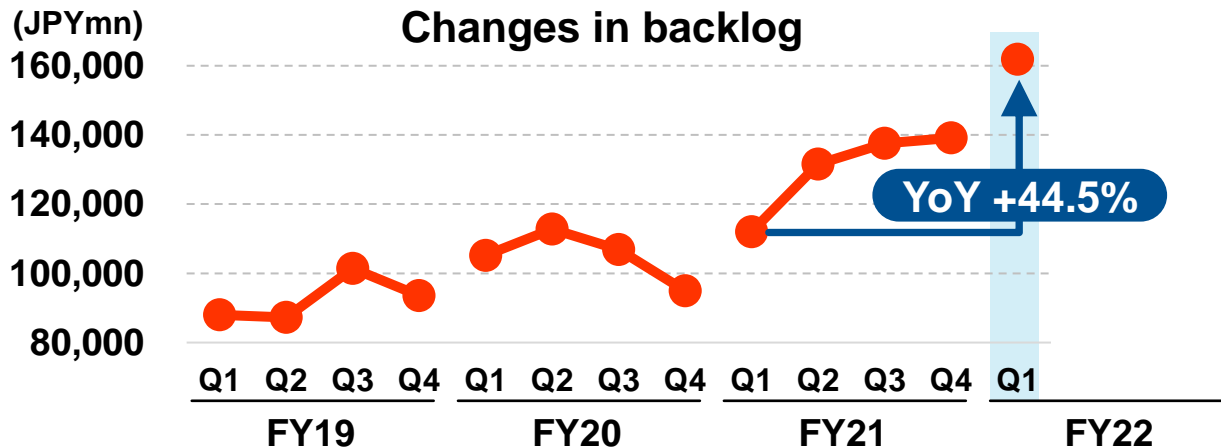
[Bookings]

Reached a record high meeting demands for network enhancement and security reinforcement
In line with digitization

[Revenue, Profit]

Operating income increased YoY.

The lengthening of delivery times for products continued.



Outlook for FY22 Q2

[Bookings]

Expect to remain steady, meeting the demand for DX

[Revenue, Profit]

Expect to increase in revenue and profit YoY

Financial impact

From the presentation material for the financial results for Q4 FY21

Revenue delayed to FY22: JPY12.0bn

Timing of sales forecast

FY22			
Q1	Q2	Q3	Q4
JPY7.0bn	JPY3.0bn	JPY2.0bn	-

- JPY2.2bn (sold)
+JPY2.8bn (another delay)
Revenue delayed from Q1: JPY7.6bn

JPY5.0bn
(no change)

Total amount of delay: JPY12.6bn

Factors / Timing of sales forecast

The following factors caused a more-than-expected impact.

- Products: multiple delays from confirmed delivery date
- Ancillary components: delays in power supply parts and connection modules

Breakdown of JPY12.6bn

Timing of sales forecast

FY22		
Q2	Q3	Q4
JPY8.7bn	JPY3.5bn	JPY0.4bn

Breakdown by market sector

Enterprise	Telecom Carrier	Public	Partner
JPY2.0bn	JPY3.0bn	JPY6.4bn	JPY1.2bn

1

FY22 Q1 (Apr.-Jun. 3months) Results

Accounting for engineering department expenses

We consolidated and reorganized our engineering department and redefined their roles during Q1 FY22 to expand customer contact points and accelerate the shift to services by integrating technology functions, and to strengthen profitability management.

As a result, a portion of the labor costs and other expenses attributed to the engineering department responsible for providing services, which were previously recorded in SG&A expenses, are now recorded as cost of sales.

This change in accounting policy will be applied prospectively from FY22 onward, but will not be applied retrospectively to prior periods.

This change increased costs of uncompleted construction contracts by ¥579 million at the end of Q1. In addition, cost of sales grew ¥715 million and SG&A expenses declined ¥1,295 million, while operating income, ordinary income, and profit before income taxes each increased ¥579 million in Q1. Furthermore, net assets per share and net income per share both rose ¥4.90.

Results summary Q1 FY22 (Apr.-Jun. 3months)

[Reference: the results under the previous accounting policy]

(JPYmn, % to revenue)	FY21 Q1		FY22 Q1		YoY		FY22 Q1		YoY	
					Amount	%			Amount	%
Bookings	53,073		59,252		+6,179	+11.6%	59,252		+6,179	+11.6%
Revenue	36,846	100.0%	36,511	100.0%	(334)	-0.9%	36,511	100.0%	(334)	-0.9%
Cost of sales	25,778	70.0%	26,363	72.2%	+585	+2.3%	25,647	70.2%	(130)	-0.5%
Gross profit	11,068	30.0%	10,147	27.8%	(920)	-8.3%	10,863	29.8%	(204)	-1.8%
SG&A	9,010	24.5%	7,391	20.2%	(1,618)	-18.0%	8,687	23.8%	(322)	-3.6%
Operating Income	2,058	5.6%	2,756	7.5%	+698	+33.9%	2,176	6.0%	+118	+5.8%
Ordinary Income	2,247	6.1%	3,056	8.4%	+808	+36.0%	2,476	6.8%	+228	+10.2%
Net Income attributable to owners of the parent company	1,590	4.3%	1,470	4.0%	(119)	-7.5%	1,068	2.9%	(522)	-32.8%
Backlog	112,064		161,901		+49,837	+44.5%	161,901		+49,837	+44.5%

Bookings were strong, mainly in the Enterprise, Telecom Carrier, and Partner sectors, and reached a record high. Operating income increased YoY. The timing of sales for several projects was delayed due to the prolonged delivery times for products.

(Note) As described on page 5, the accounting policy has been changed from the FY22.

For comparison purposes, the results under the previous accounting policy are shown on the right side of the table.

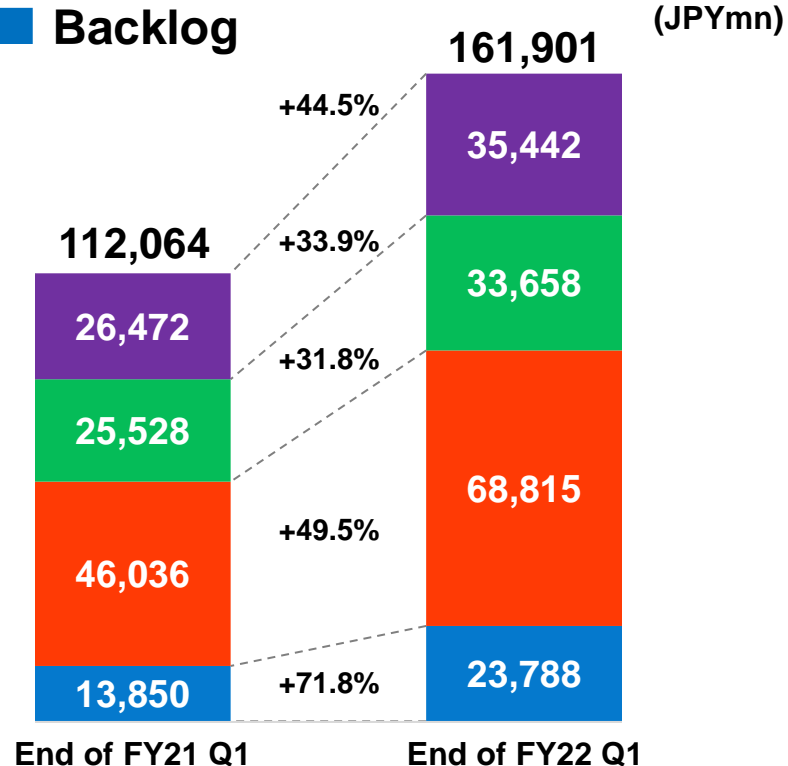
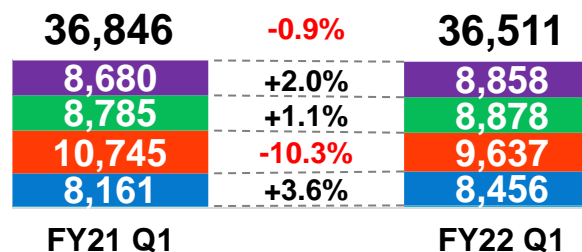
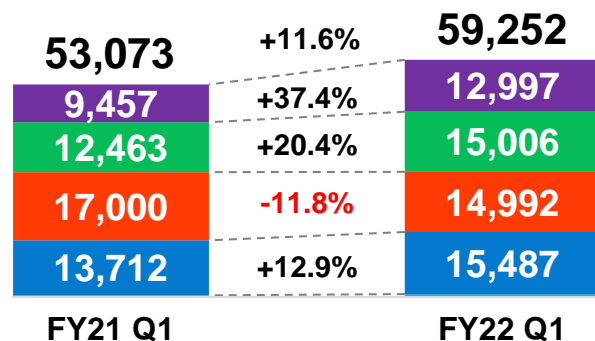
Performance by market sector

■ Bookings

■ Revenue

■ Backlog

(JPYmn)



Enterprise	<p>[Bookings] The manufacturing sector increased due to a recovery in investment by automakers and increased investment by semiconductor manufacturers. The non-manufacturing sector increased mainly in the security enhancement business. The financial sector remained at the same level.</p> <p>[Revenue] The timing of sales was delayed due to the prolonged delivery of products.</p>
Telecom Carrier	<p>[Bookings] Investments in network enhancement, which have been ongoing since last fiscal year in response to the increase in telecommunication volume due to remote working and such, were concentrated in Q1.</p> <p>[Revenue] The timing of sales was delayed due to the prolonged delivery of products.</p>
Public	<p>[Bookings] Local governments' security cloud and security enhancement projects were strong(JPY4.0bn). In addition, projects are expected to be concentrated in Q2.</p> <p>[Revenue] The timing of sales was delayed due to the prolonged delivery of products.</p>
Partner	<p>[Bookings] Network and security enhancement business for key partners and Wi-Fi service business for MSPs were strong.</p> <p>[Revenue] The timing of sales was delayed due to the prolonged delivery of products.</p>

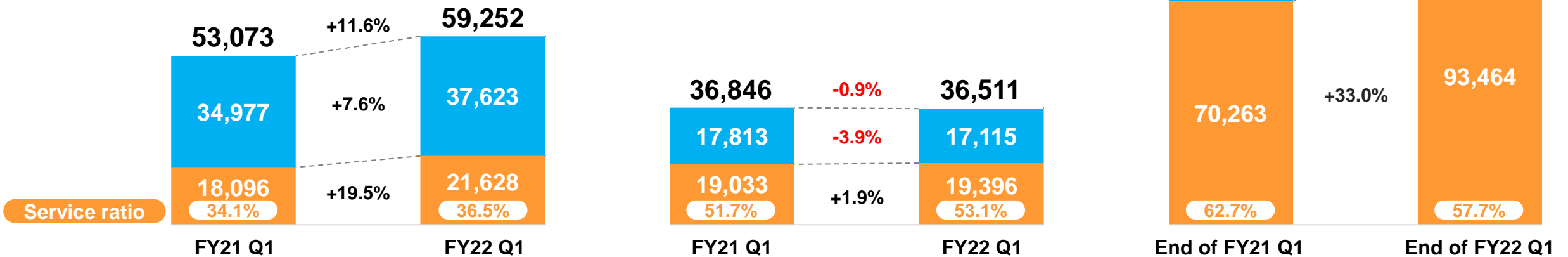
(Note) The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22. The results for FY21 shown in the figure reflected this reclassification.

Performance by product category

Bookings

Revenue

Backlog



Product Bookings increased YoY mainly due to concentrated investment in network enhancement in the Telecom Carrier sector and strong Partner sector. Revenue decreased YoY due to the delay in the timing of sales caused by the prolonged delivery of products.

Service Bookings increased YoY mainly due to a large project of a service-type security cloud for local governments in the Public sector and strong Enterprise sector. Revenue increased YoY only slightly due to delays in the timing of sales of system construction services, which are recorded at the same time as products.

(Note) SaaS (cloud services) was reclassified from product to service from FY22.

In the FY21 Q1, SaaS included bookings of JPY1,326mn, revenue of JPY1,040mn, and backlog of JPY269mn in the product group.

Aim for revenue growth of JPY30bn (compared to the FY21) in the three focus areas of high DX demand

Smart manufacturing

Bookings FY22 Q1	Revenue FY22 Q1
JPY900mn	JPY80mn

Social infrastructure to realize Society 5.0

Bookings FY22 Q1	Revenue FY22 Q1
JPY40mn	JPY30mn

Digital government

Bookings FY22 Q1	Revenue FY22 Q1
JPY3,500mn	JPY0mn

Q1 bookings results

- Projects for automotive & semiconductor manufacturers
- Proof of concept project for the visualization of power consumption for decarbonization
- Collaborative projects with telecom carriers

- [Focus on proposal activities]

- Large project of security cloud for local governments [five-year service type]

Activity topics

- Support from the grand design phase
- Smart Glasses
- Use of wireless, enhanced security

- Edge-computing (MEC)
- Smart building
- Group ICT governance

- Ongoing proposals for security cloud and security enhancement projects for local governments
- DX services at the point of contact between citizens and the local governments

Forecast of bookings from Q2 onward

- Continue to grow steadily

- Expect to concentrate in Q4

- Continue to grow steadily

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				
FY22 Q1 【Result】	Revenue	8,858	8,878	9,637	8,461	35,836	721	36,557	(45)	36,511
	Segment income	503	702	372	1,364	2,943	15	2,958	(202)	2,756
	Segment income margin	5.7%	7.9%	3.9%	16.1%					7.5%
	[Reference: the results under the previous accounting policy]									
	Revenue	8,858	8,878	9,637	8,461	35,836	721	36,557	(45)	36,511
	Segment income	302	604	91	1,364	2,363	15	2,379	(202)	2,176
	Segment income margin	3.4%	6.8%	0.9%	16.1%					6.0%
FY21 Q1 【Previous】	Revenue	8,680	8,785	10,745	8,170	36,381	506	36,887	(40)	36,846
	Segment income	404	818	201	823	2,247	(42)	2,204	(146)	2,058
	Segment income margin	4.7%	9.3%	1.9%	10.1%					5.6%

(Notes)

- As described on page 5, the accounting policy has been changed from the FY22. For comparison purposes, the results under the previous accounting policy are shown on the table.
- The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22. The results for FY21 shown in the table reflected this reclassification.
- The “Other” segment is not included as a reportable segment. It contains the global business.
- 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, 2022	Jun 30, 2022	Change	
	Results	Results	Amount	%
Total assets	161,713	165,042	3,328	+ 2.1%
Current assets	149,334	152,806	3,471	+ 2.3%
Cash and deposits + CD·CP	20,281	30,400	10,118	+ 49.9%
Notes and accounts receivable-trade	51,362	30,963	(20,399)	- 39.7%
Inventory assets	43,928	49,581	5,652	+ 12.9%
Other	33,762	41,862	8,100	+ 24.0%
Noncurrent assets	12,378	12,235	(142)	- 1.2%
Property, plant and equipment	4,728	4,790	61	+ 1.3%
Intangible assets	1,070	1,122	52	+ 4.9%
Investment etc.	6,579	6,323	(256)	- 3.9%
Total liabilities	93,165	95,426	2,260	+ 2.4%
Current liabilities	77,918	80,974	3,055	+ 3.9%
Non-current liabilities	15,247	14,452	(795)	- 5.2%
Total net assets	68,547	69,616	1,068	+ 1.6%
Shareholders' equity	67,406	65,945	(1,461)	- 2.2%
Accumulated other comprehensive income	956	3,493	2,536	+ 265.3%
Subscription rights to shares	168	143	(24)	- 14.7%
Non-controlling interests	15	33	17	+ 120.0%
Total liabilities and net assets	161,019	165,042	4,022	+ 2.5%

Exchange rate, EPS, Employees

	FY21 Q1	FY22 Q1	YoY	
			Amount	%
Exchange rate (\$JPY)	108.14	118.35	+10.21	+9.4%
Earnings per share (JPY)	18.75	17.9	(0.85)	-4.5%

(Note) As described on page 5, the accounting policy has been changed from the FY22.
Compared with the previous accounting policy, earnings per share increased by JPY4.90.

	End of FY21 Q1	End of FY22 Q1	YoY	
			Amount	%
Number of employees	2,701	2,778	+77	+2.9%

2

FY22 Outlook

FY22 outlook (※no change from the previous outlook)

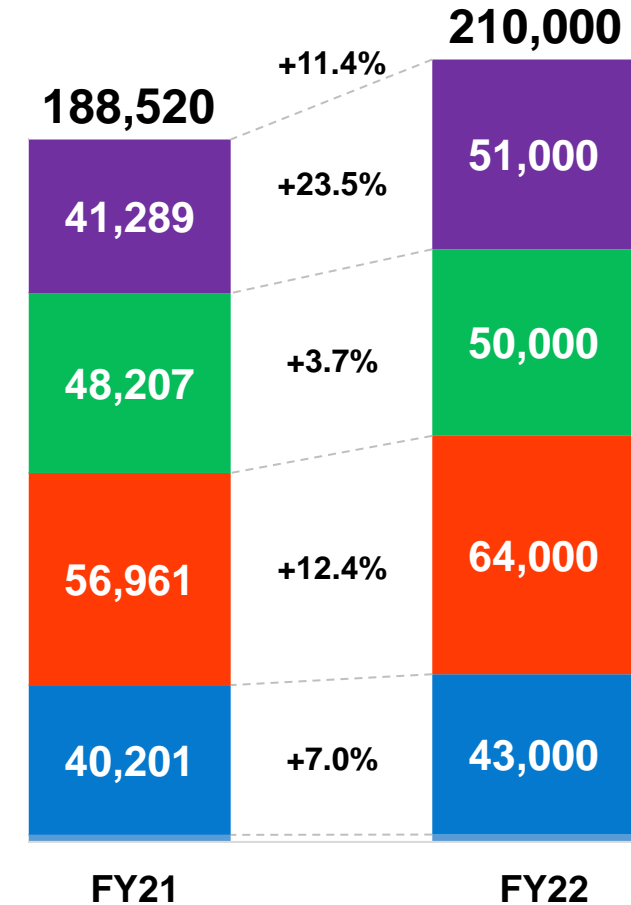
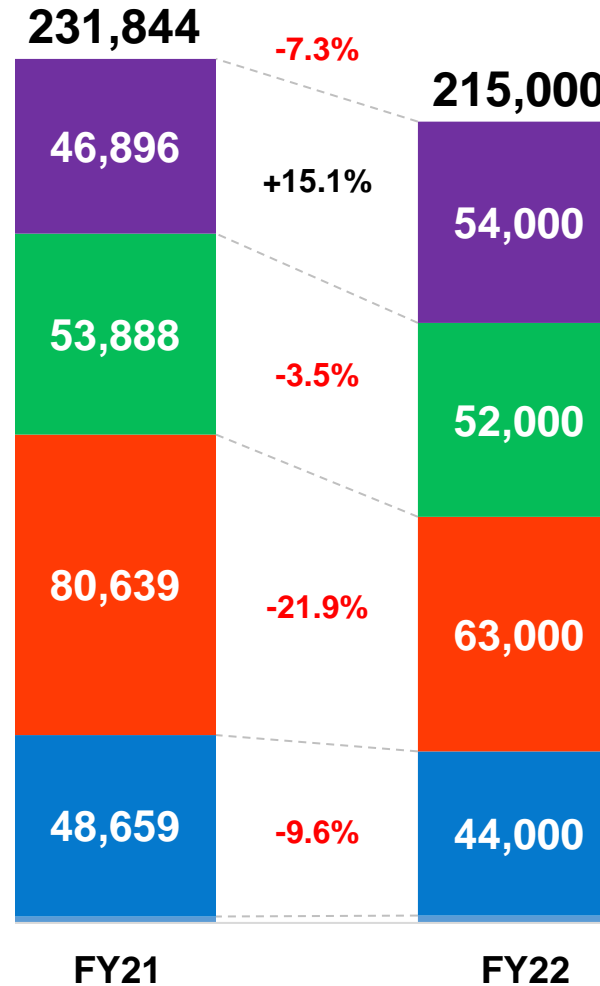
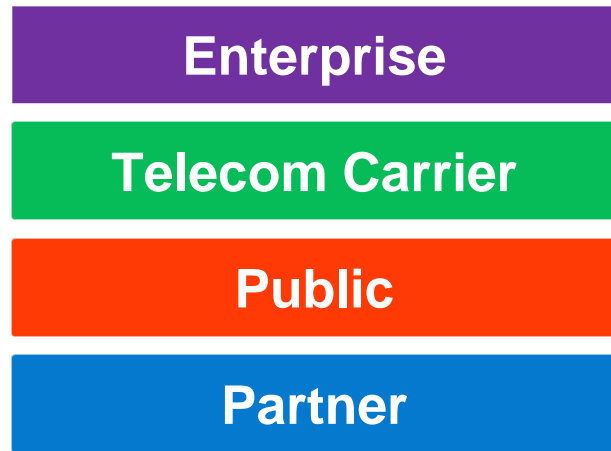
(JPYmn, % to revenue)	H1		H2		Annual		YoY	
	Amount	%	Amount	%	Amount	%	Amount	%
Bookings	106,000		109,000		215,000		(16,844)	-7.3%
Revenue	96,000	100.0%	114,000	100.0%	210,000	100.0%	+21,479	+11.4%
Operating income	8,200	8.5%	13,800	12.1%	22,000	10.5%	+5,209	+31.0%
Ordinary income	7,700	8.0%	13,300	11.7%	21,000	10.0%	+4,167	+24.8%
Net income attributable to owners of the parent	5,200	5.4%	8,800	7.7%	14,000	6.7%	+2,774	+24.7%

FY22 outlook by market sector (※no change from the previous outlook)

■ Bookings

■ Revenue

(JPYmn)



(Note)

The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22. The results for FY21 shown in the figure reflected this reclassification.

3

Progress of measures to prevent recurrence

1. Governance reform and promotion	<i>All measures fully in place or under observation</i>
2. Enhancement of risk management system	<i>All measures fully in place or under observation</i>
3. Strengthening of business execution systems and other internal systems	<i>All measures fully in place or under observation</i>
4. Radical revisions to our auditing system	• Completed review of J-SOX control documents (4.(3)-a)
5. System for collecting employee feedback	<i>All measures fully in place or under observation</i>
6. Reform and creation of organizational culture	<i>All measures fully in place or under observation</i>
7. Accounting literacy education and training and instruction based on prior examples of misconduct	<i>All measures fully in place or under observation</i>
8. Ongoing monitoring	<i>All measures fully in place or under observation</i>

(Note) Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue). All measures have been completed in Q1 FY22, but we will continue to work on improvement activities through ongoing monitoring.

Progress

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Formulated compliance activity plans for FY22 at each division and department (1.(1)-a) • Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management (1.(3)-a) 	<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Continued to inform and train employees on the purpose and necessity of whistleblowing (5.(1)-a) • Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact (5.(2)-a)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Carried out ongoing operation of risk information gathering and response process in accordance with the stipulated operational system under the FY22 organizational structure to consolidate risk information to the Risk Management Committee (2.(2)-c) • Continued internal sharing of risks that have emerged through a portal dedicated to risk information (2.(2)-d) 	<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Conducted internal recruitment of planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture (6.(2)-b/c/d)
<p>3. Strengthening of business execution systems and other internal systems</p>	<ul style="list-style-type: none"> • Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system (3.(1)-a, 3.(2)-a) 	<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Continued activities to promote accounting literacy education and training and instruction based on prior examples of misconduct, such as accounting knowledge training (7.(1)-a) and business rule briefings on learning from previous mistakes or failures (7.(3)-a)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Continued to promote review of J-SOX control documents. Completed development evaluation, and currently promoting operational evaluation (4.(3)-a/b) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • The Governance and Corporate Culture Advisory Committee continuously monitored and provided guidance on internal improvement activities to prevent recurrence, strengthen internal controls, and reform corporate culture, and disclosed “Status of Implementation and Operation in 2H FY21” on April 28, 2022 (available in Japanese only) (8.(1)-a)

(Note) Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

Progress

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Formulated compliance activity plans for FY22 at each division and department (1.(1)-a) • Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management (1.(3)-a) 	<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Continued to inform and train employees on the purpose and necessity of whistleblowing (5.(1)-a) • Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact (5.(2)-a)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Continued internal sharing of risks that have emerged through the portal dedicated to risk information (2.(2)-d) • Continued collaboration with the Governance and Corporate Culture Advisory Committee, which was created in April 2022 after reorganizing the Internal Control Enhancement Council (2.(2)-e) 	<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Recruited and confirmed planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture, and members are currently reviewing plans for promotion activities (6.(2)-b/c/d)
<p>3. Strengthening of business execution systems and other internal systems</p>	<ul style="list-style-type: none"> • Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system (3.(1)-a, 3.(2)-a) 	<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Continued activities to promote accounting literacy education and training and instruction based on prior examples of misconduct, such as accounting knowledge training (7.(1)-a) and business rule briefings on learning from previous mistakes or failures (7.(3)-a)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • Promoted review of J-SOX control documents and completed J-SOX evaluation for FY21 (4.(3)-a/b) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • The Governance and Corporate Culture Advisory Committee continuously monitored and provided guidance on internal improvement activities to prevent recurrence, strengthen internal controls, and reform corporate culture (8.(1)-a)

(Note) Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

Progress

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Held more effective opinion exchange forums to strengthen communication in addition to the existing compliance training (1.(1)-b, 1.(4)-b) • Continued to disseminate messages to employees with enhanced frequency and quality, including distribution of messages from top management (1.(3)-a) 	<p>5. System for collecting employee feedback</p>	<ul style="list-style-type: none"> • Introduced a whistleblower platform that enables anonymous two-way communication through a common point of contact for all Group companies, and provided awareness and training to communicate the purpose and necessity of the platform (5.(1)-a) • Currently promoting improvement activities based on feedback gained through the feedback system utilizing third-party points of contact (5.(2)-a)
<p>2. Enhancement of risk management system</p>	<ul style="list-style-type: none"> • Continued internal sharing of risks that have emerged through the portal dedicated to risk information (2.(2)-d) • Continued collaboration with the Governance and Corporate Culture Advisory Committee, which was created in April 2022 after reorganizing the Internal Control Enhancement Council (2.(2)-e) 	<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Recruited and confirmed planning and management members for activities to promote corporate philosophy in FY22 to reform organizational culture, and members are currently reviewing plans for promotion activities (6.(2)-b/c/d)
<p>3. Strengthening of business execution systems and other internal systems</p>	<ul style="list-style-type: none"> • Continued holding various periodic joint meeting with the first, 1.5th, and second lines of defense to share information across divisions and strengthen the business execution system (3.(1)-a, 3.(2)-a) 	<p>7. Accounting literacy education and training and instruction based on prior examples of misconduct</p>	<ul style="list-style-type: none"> • Currently promoting more advanced accounting literacy and accounting knowledge training that builds on the training provided in FY21 (7.(1)-a) • Held business rule briefings and workshops on learning from previous mistakes or failures, and shared examples of mistakes or failures (7.(3)-a)
<p>4. Radical revisions to our auditing system</p>	<ul style="list-style-type: none"> • The Internal Audit Office reviewed internal audit items based on risk identification and evaluation results, and started internal audits for each organization (4.(1)-b) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • The Governance and Corporate Culture Advisory Committee continuously monitored and provided guidance on internal improvement activities to prevent recurrence, strengthen internal controls, and reform corporate culture (8.(1)-a)

(Note) Please refer to our release entitled “Additional Measures to Prevent Recurrence” dated May 13, 2021 (available in Japanese only) for an itemized list of details regarding specific recurrence prevention measures (in blue).

charge ∠ channel ∠ change



net one