



Results for Q3 FY22

Ended December 31, 2022

Net One Systems Co., Ltd.

February 1, 2023 (Stock Code 7518: JP)

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1. Q1-3 results overview and full-year outlook

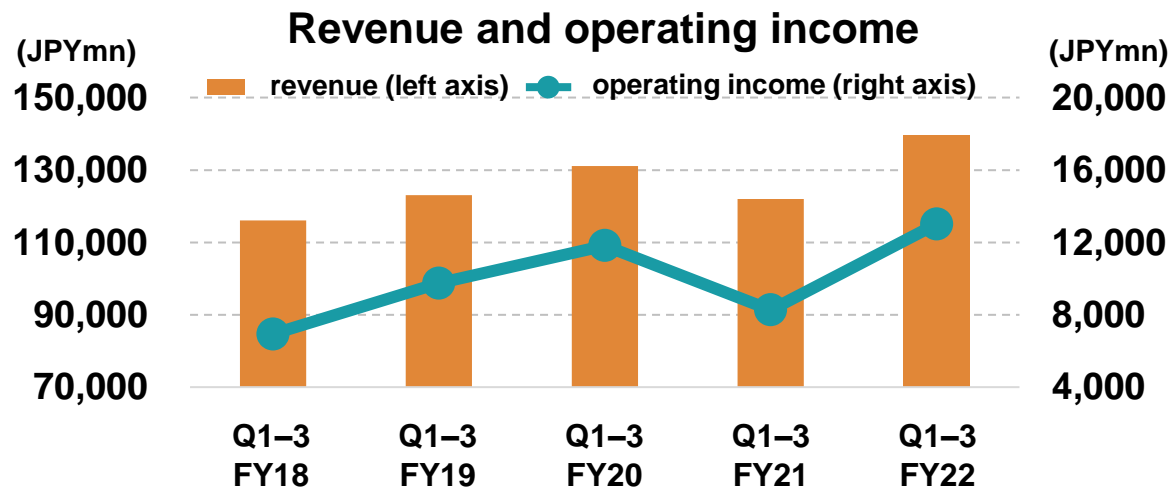
Q1-3 results overview

Bookings

Bookings made steady progress toward full-year forecasts thanks to demand for network enhancement and security reinforcement associated with digitalization

Revenue and profit

Both revenue and operating income increased thanks to successful measures implemented in response to product delivery delays and the conversion of backlogged orders.



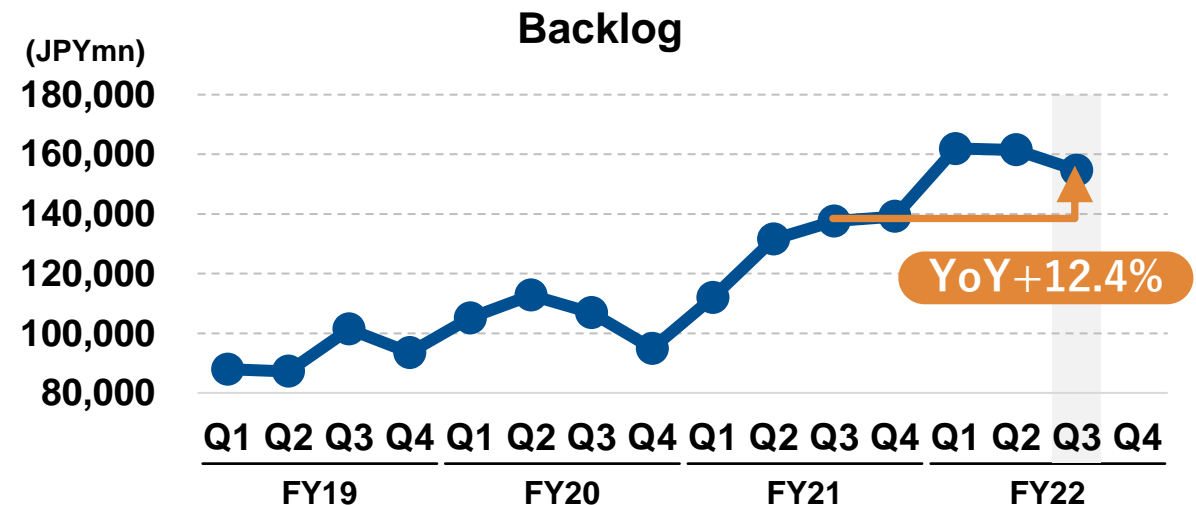
Full-year outlook

Bookings

Ongoing strong growth expected amid demand related to digitalization

Revenue and profit

Revenue and profit projected to be commensurate with corresponding forecasts thanks to an abundant backlog of orders



2. Status of product delivery delays and future projections

Impact

Revenue delayed to FY22

Received JPY3.9bn of delayed products projected for Q3 as scheduled.

Status as of end-Q3

FY22	
Q3(received)	Q4(to be received)
JPY3.9bn	JPY0.4bn

Causes

- Gradual decrease in product delivery re-delays

Future projections

- We will continue to carry out business operations based on assumptions of long delivery times.
- Unrecognized revenue from FY21 is expected to be booked before the end of FY22.

3

Q1-3 FY22(Apr.-Dec. 9 months) 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.

Figures for previous fiscal years cannot be accurately tallied using our newly adopted accounting policy, rendering the retroactive application of this policy impractical. Accordingly, this accounting policy will apply to figures recorded in Q1 FY22 and all subsequent accounting periods.

Due to this change, costs on uncompleted construction contracts were up ¥1,247 million at the end of Q3. In addition, cost of sales grew by ¥2,798 million and SG&A expenses decreased by ¥4,046 million, resulting in ¥1,247 million increases in operating income, ordinary income, and profit before income taxes in Q1–3. Meanwhile, net assets per share climbed upward by ¥10.53, and earnings per share expanded by ¥10.54.

Summary of Q1-3 FY22(Apr.-Dec. 9 months) results

(JPYmn, % to revenue)	Q1-3 FY21 Results (A)		Q1-3 FY22 Results (B)		YoY (B-A)	
	Amount	%	Amount	%	Amount	%
Bookings	163,735		155,154		(8,580)	△5.2%
Revenue	122,007	100.0%	139,699	100.0%	+17,692	14.5%
Cost of sales	87,810	72.0%	105,119	75.2%	+17,308	19.7%
Gross profit	34,196	28.0%	34,580	24.8%	+383	1.1%
SG&A	25,935	21.3%	21,565	15.4%	(4,370)	△16.9%
Operating Income	8,261	6.8%	13,015	9.3%	+4,754	57.5%
Ordinary Income	8,436	6.9%	12,800	9.2%	+4,364	51.7%
Profit attributable to owners of parent	5,227	4.3%	9,709	6.9%	+4,481	85.7%
Backlog	137,565		154,616		+17,050	+12.4%

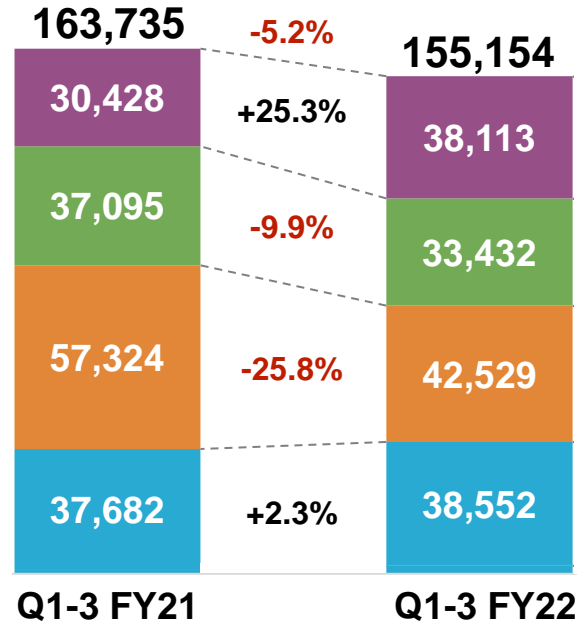
Bookings in the Enterprise market and Partner business remained robust and total bookings remained commensurate with full-year forecasts. Revenue and operating income increased thanks to successful measures implemented in response to product delivery delays and the conversion of abundant backlogged orders.

[Reference] Results under the previous accounting policy

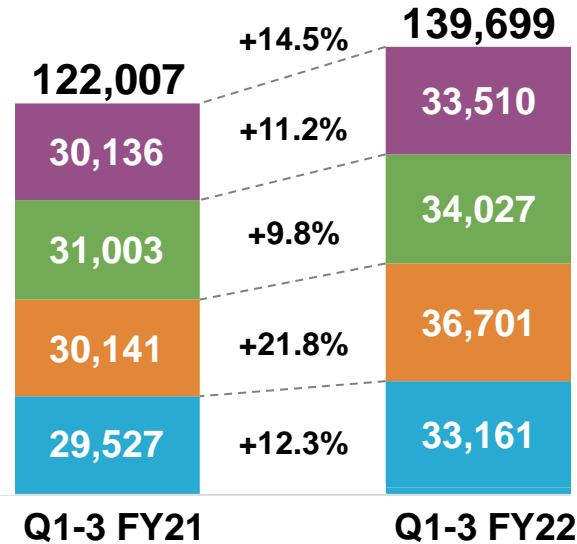
(JPYmn, % to revenue)	Q1-3 FY21 Results (A)		Q1-3 FY22 Results (B)		YoY (B-A)	
	Amount	%	Amount	%	Amount	%
Bookings	163,735		155,154		(8,580)	△5.2%
Revenue	122,007	100.0%	139,699	100.0%	+17,692	14.5%
Cost of sales	87,810	72.0%	102,320	73.2%	+14,510	+16.5%
Gross profit	34,196	28.0%	37,378	26.8%	+3,181	+9.3%
SG&A	25,935	21.3%	25,611	18.3%	(324)	△1.3%
Operating Income	8,261	6.8%	11,767	8.4%	+3,506	+42.4%
Ordinary Income	8,436	6.9%	11,553	8.3%	+3,116	+36.9%
Profit attributable to owners of parent	5,227	4.3%	8,843	6.3%	+3,615	+69.2%
Backlog	137,565		154,616		+17,050	+12.4%

Bookings, revenue, and backlog by market sector

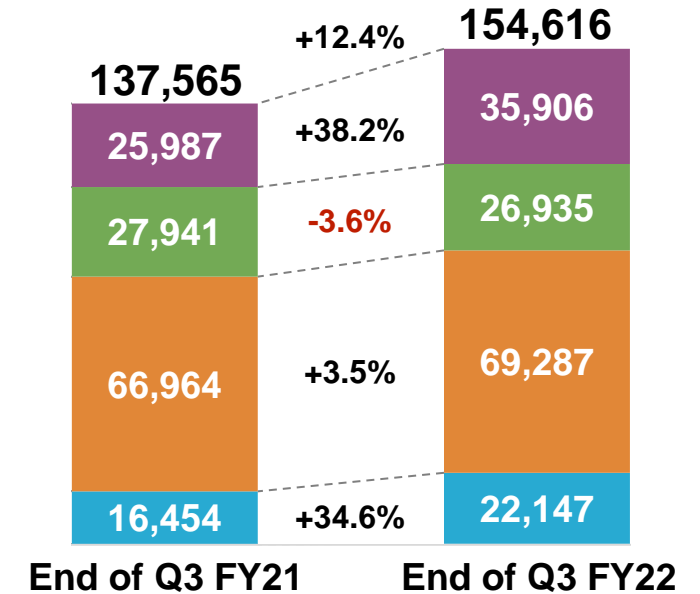
Bookings



Revenue



Backlog



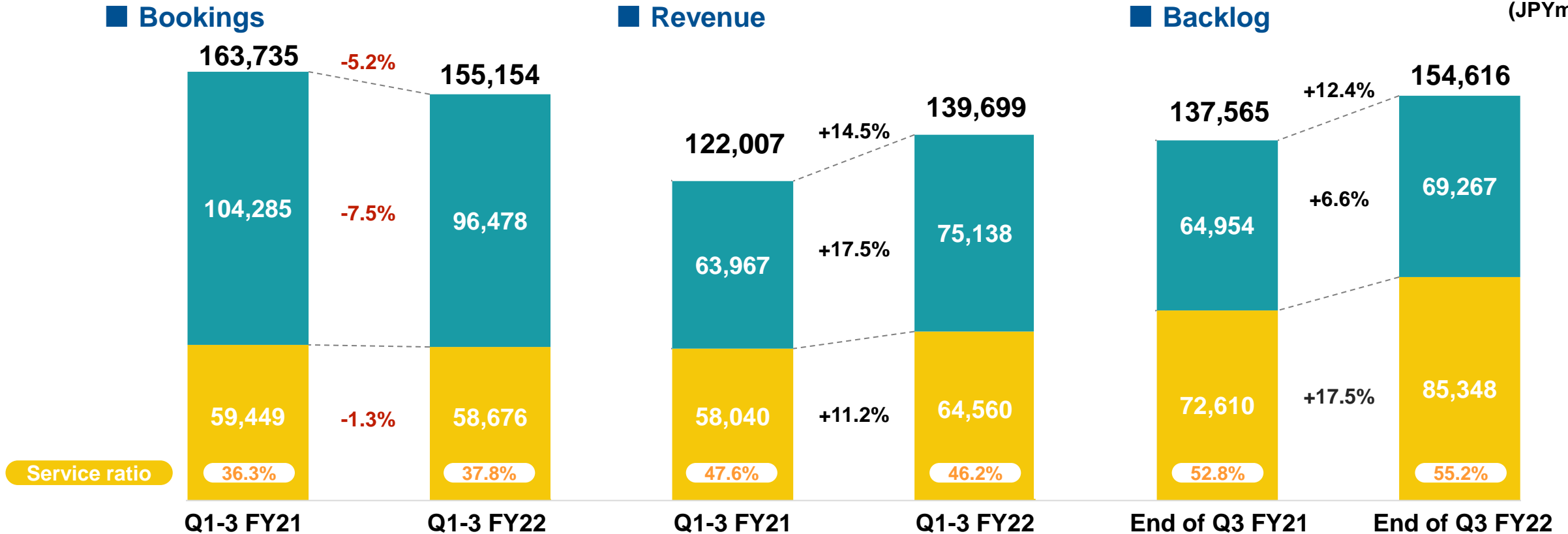
(JPYmn)

Enterprise	We observed strong investment from automakers and semiconductor manufacturers within the manufacturing industry. With regard to non-manufacturing industries, business operations associated with service platforms and security enhancement (Zero Trust/SASE) remained favorable. In the financial industry, we continue to achieve progress through the installation of next-generation network systems.
Telecom Carrier	Priorities have shifted to the joint creation of new businesses, as the investment in network enhancement in response to growth in telecommunication volume due to remote working and such, dissipated.
Public	Bookings declined YoY in part because local governments' security cloud and security enhancement projects dissipated and in part because the Public sector did not receive the boost provided during FY21 by large projects in the universities and research centers category. In the healthcare category, we observed favorable performance from operations associated with virtualized platforms for hospitals.
Partner	Results from the network enhancement and security reinforcement business for key partners remained favorable.

(Note) The internet service provider (ISP) business has been reclassified from the Enterprise sector to the Telecom Carrier sector, effective from the beginning of FY22. Results for FY21 shown in the graphs above have been adjusted to reflect this change.

Bookings, revenue, and backlog by product category

(JPYmn)



Product	Bookings decreased YoY due to slowdown associated with local governments' security cloud projects and a lull in performance generated through the MSP business (part of the Partner business). Revenue increased YoY thanks to successful measures implemented in response to product delivery delays and the conversion of abundant backlogged orders.
Service	Bookings declined YoY due primarily to a deceleration in orders associated with security cloud projects for local governments in the Public market. Meanwhile, revenue rose YoY along with across-the-board service expansion and growth in performance generated through product-related services.

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

In the Q1-3 FY21, SaaS included bookings of JPY3,223mn, revenue of JPY2,942mn, and backlog of JPY613mn in the product group.

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					
Q1-3 FY22 【Result】	Revenue	33,510	34,027	36,701	33,168	137,407	2,455	139,863	(163)	139,699	
	Segment income	3,057	3,213	2,346	4,987	13,605	69	13,675	(659)	13,015	
	Segment income margin	9.1%	9.4%	6.4%	15.0%					9.3%	
	[Reference: the results under the previous accounting policy]										
	Revenue	33,510	34,027	36,701	33,168	137,407	2,455	139,863	(163)	139,699	
	Segment income	2,621	3,009	1,739	4,987	12,357	69	12,427	(659)	11,767	
	Segment income margin	7.8%	8.8%	4.7%	15.0%					8.4%	
Q1-3 FY21 【Previous】	Revenue	30,136	31,003	30,141	29,537	120,818	1,294	122,113	(105)	122,007	
	Segment income	2,607	2,822	760	2,688	8,878	(122)	8,755	(494)	8,261	
	Segment income margin	8.7%	9.1%	2.5%	9.1%					6.8%	

(Notes)

1. 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.
2. 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.
3. The "Other" segment is not included as a reportable segment. It contains the global business.
4. 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 Results	Dec. 31, 2022 Results	Change	
			Amount	%
Total assets	161,713	173,194	+11,481	+7.1%
Current assets	149,334	158,733	+9,398	+6.3%
Cash and deposits	20,281	34,799	+14,518	+71.6%
Notes and accounts receivable-trade	51,362	35,946	(15,415)	-30.0%
Inventory assets	43,928	54,442	+10,513	+23.9%
Other	33,762	33,544	(217)	-0.6%
Noncurrent assets	12,378	14,461	+2,082	+16.8%
Property, plant and equipment	4,728	6,985	+2,257	+47.7%
Intangible assets	1,070	1,367	+297	+27.8%
Investment etc.	6,579	6,107	(472)	-7.2%
Total liabilities	93,165	103,153	+9,987	+10.7%
Current liabilities	77,918	86,110	+8,192	+10.5%
Non-current liabilities	15,247	17,042	+1,794	+11.8%
Total net assets	68,547	70,041	+1,493	+2.2%
Shareholders' equity	67,406	71,279	+3,872	+5.7%
Accumulated other comprehensive income	956	(1,471)	(2,427)	-
Subscription rights to shares	168	143	(24)	-14.7%
Non-controlling interests	15	89	+73	+467.6%
Total liabilities and net assets	161,713	173,194	+11,481	+7.1%

Exchange rate, EPS, Employees

	Q1-3 FY21	Q1-3 FY22	YoY	
			Amount	%
Exchange rate (\$JPY)	109.76	122.42	+12.66	+11.5%
Earnings per share (JPY)	62.09	118.16	+56.07	+90.3%

(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 JPY10.54.

	End of Q3 FY21	End of Q3 FY22	YoY	
			Amount	%
Number of employees	2,702	2,756	+54	+2.0%

4

Topics

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

Smart manufacturing

Q1-3 FY22	
Bookings	Revenue
JPY2,900mn	JPY900mn

Social infrastructure to realize Society 5.0

Q1-3 FY22	
Bookings	Revenue
JPY1,600mn	JPY300mn

Digital government

Q1-3 FY22	
Bookings	Revenue
JPY8,400mn	JPY400mn

Q1-3 bookings results

- Projects for automotive & semiconductor manufacturers
- Proof of concept project for the visualization of power consumption
- Collaborative projects with telecom carriers
- Collaboration with a general electronics manufacturer on a proof-of-concept project focused on next-generation wireless technology
- Proof-of-concept project for a machine tool manufacturer

- Multi-access edge computing (MEC) hub construction projects for telecom carriers

- Large project of security cloud for local governments (five-year service type)
- VDI projects facilitating the development of telework environments

Activity topics

- Support from the grand design phase
- Smart Glasses
- Use of wireless, enhanced security
- Visual representation of networks
- Set up SMf(Smart Manufacturing)-Lab

- Edge-computing (MEC)
- Smart building
- Group ICT governance
- Medical digital transformation (DX)
- Circular economy

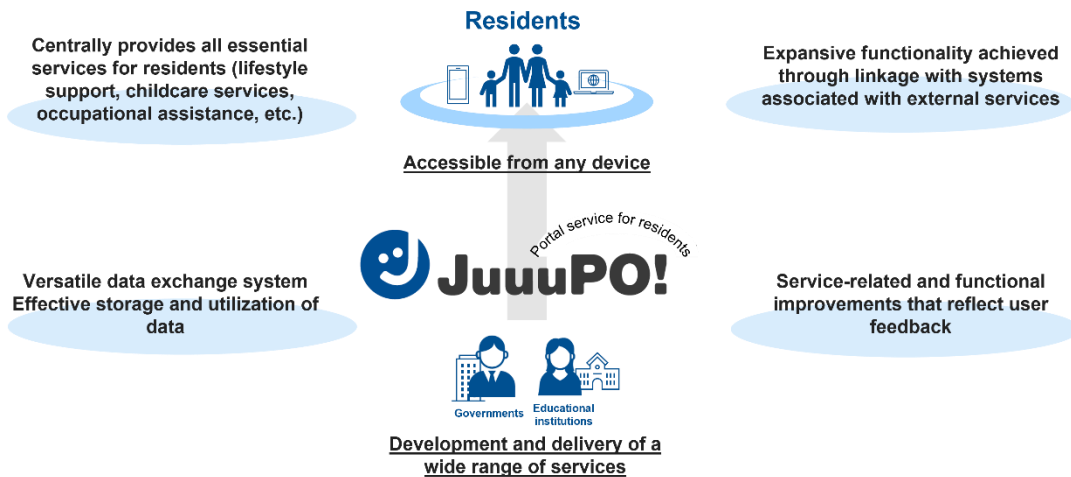
- DX services for local governments
- Strengthen collaboration with cooperative partners
- Activities related to data integration platforms (urban OS, etc.)
- Migration to government-operated cloud environments
- Next-generation digitalization of school-related operations for boards of education

Launched JuuuPO!, a portal service that connects local residents, governments, and educational institutions

Standardized and universalized local municipal CRM service capabilities developed jointly with Higashi-hiroshima City and rolled them out as a service
Subsequently developed into a cloud utility integrating multiple resident services

Helped students form concrete images of potential IT careers by raising their awareness of the IT industry and encouraging interest in related occupations

Net One Systems joined up with Cisco Systems to hold online seminars introducing students to the IT industry, various occupational details, and working styles to find solutions for the shortage of human resources in the IT industry and generally facilitate progress in Japan.



Program details

- IT industry commentary (fundamental information on the IT industry)
- Daily routines of engineers in the IT industry
- IT industry positions in which women have excelled
- Information concerning milestone events and careers
- Balancing work and personal interests



CRM:
Citizen Relationship Management (platform facilitating the exchange of civic information)

Start IT Club:
Community name that is a combination of Start, Star, Start IT and Start it.

eXpert Operation Center (XOC) became the first organization in Japan to renew “COPC® CX Standard, Release 7.0” certification

XOC promotes digital transformation and managerial enhancement to deliver higher-quality services.

COPC® CX Standard, Release 7.0 is an international quality assurance standard developed for companies targeting superior customer experiences (CXs).



- Prompt resolution of incidents
- Attainment of high customer service quality

Introduced Celonis EMS to improve productivity and optimize allocation of operational resources

Enabled visualization of business processes promotes understanding of effects of improvements and facilitates cyclical operational improvements.

Issue

Identifying bottlenecks in business processes to leverage ServiceNow's service integration platform

Effects

Celonis identifies bottlenecks in business processes to visualize improvement measures and their effects

Future expansion

We will enable visualization of companywide operational processes and facilitate operational improvements. Furthermore, we will look into developing services leveraging the experience and expertise we have accumulated through internal implementation of Celonis EMS.

Celonis EMS (Execution Management System):
Celonis EMS is equipped with original process mining technology to enable visualization of business processes and facilitate more efficient improvement activities.

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FY22 forecast

FY22 forecast (※no change from the previous forecast)

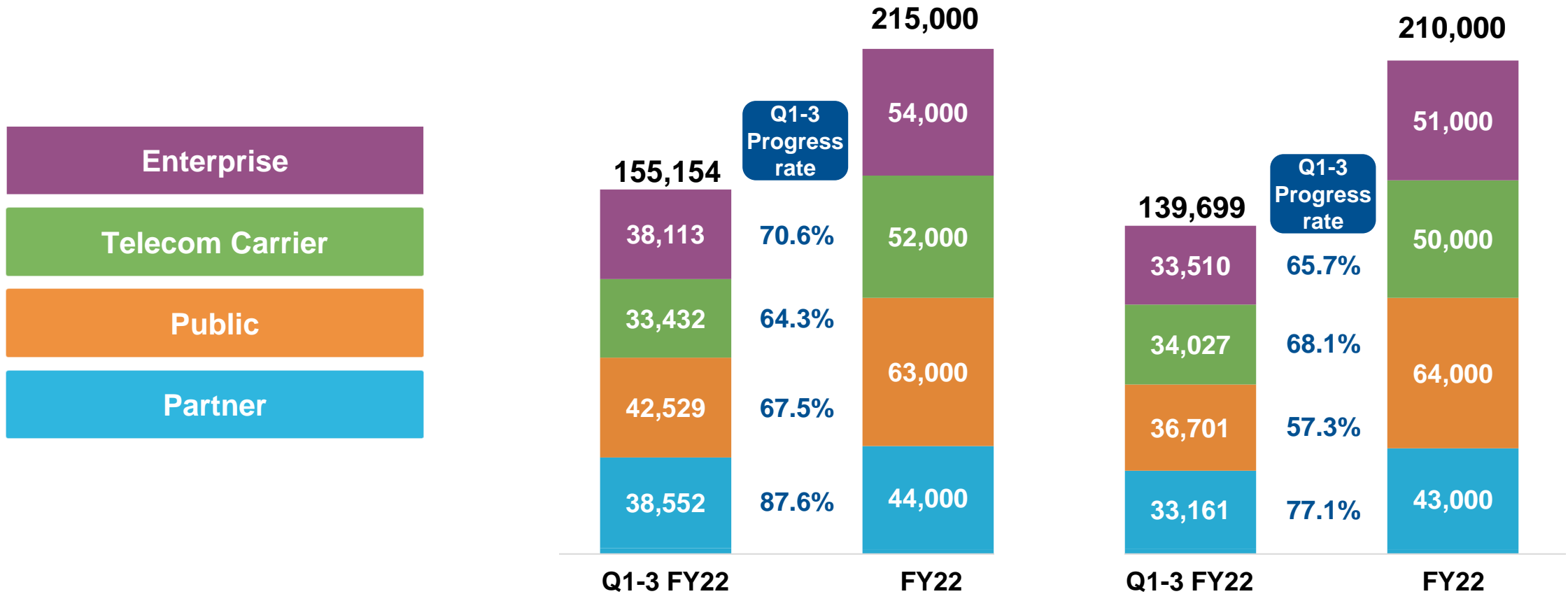
(JPYmn, % to revenue)	H1		H2		Annual		YoY	
	Amount	%	Amount	%	Amount	%	Amount	%
Bookings	106,000		109,000		215,000		(16,844)	-7.3%
Revenue	96,000	100.0%	114,000	100.0%	210,000	100.0%	+21,479	+11.4%
Operating income	8,200	8.5%	13,800	12.1%	22,000	10.5%	+5,209	+31.0%
Ordinary income	7,700	8.0%	13,300	11.7%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

FY22 forecast by market sector

■ Bookings

■ Revenue

(JPYmn)



(Note) The Internet Service Provider (ISP) business was reclassified from the Enterprise sector to the Telecom Carrier sector from FY22.

6

Progress of measures to prevent recurrence

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"> • Explored means of augmenting improvable countermeasures implemented in response to risks identified through the risk survey sheet activities we conducted in FY21; we plan to check for further issues and, if any are detected, make any necessary improvements by end-March 2023 (2.(2)-b) 	<p>6. Reform and creation of organizational culture</p>	<ul style="list-style-type: none"> • Began creating supplemental tools to be used in coordination with our Vision Book and began discussing content to be featured during Vision Week (6.(2)-b/c/d) • Posted a formal Declaration of Conduct pursuant to our new philosophy system on our corporate intranet and began conducting relevant one-on-one meetings between supervisors and individual subordinates (6.(2)-e)
<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"> • Conducted STEP2 training aimed at improving accounting literacy and knowledge for all employees, including executives (content tailored to respective positions), in 1H FY22 (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"> • Updated control documents to ensure their adherence with the internal control assessment plan we established for FY22 in compliance with the Financial Instruments and Exchange Act (J-SOX) and launched assessment associated with their maintenance (4.(3)-a) • Organization-specific internal audits remain underway (4.(1)-b) • Regularly held opinion exchange forums to facilitate communication between outside executive directors (full-time Audit & Supervisory Committee members) and inside executive directors; began allowing outside executive directors who are not Audit & Supervisory Committee members to participate as observers (4.(4)-a) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • In furtherance of monitoring initiatives undertaken by the Governance and Corporate Culture Advisory Committee, we held interviews to gain employee insight and used this insight to submit proposals regarding operational improvements with the potential to strengthen the effectiveness of recurrence prevention measures (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 case study workshops focusing on past misconduct (deceptive handling of money through the use of fraudulent outsourcing fees) to instill awareness of compliance and governance that will facilitate recurrence prevention (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"> • Prepared supplemental tools to be used in coordination with our Vision Book, launched RCTs* targeting its implementation, and began discussing content to be featured during Vision Week (1.(3)-a, 6.(2)-b/c/d) • Posted a formal Declaration of Conduct pursuant to our new philosophy system on our corporate intranet and began conducting relevant one-on-one meetings between supervisors and individual subordinates (6.(2)-e)
<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"> • Reported to the Management Committee regarding the extent to which the STEP2 accounting literacy and knowledge improvement training held in 1H FY22 had an impact (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"> • Organization-specific internal audits remain underway (4.(1)-b) • Maintenance and evaluation operations conducted in accordance with the internal control assessment plan we established for FY22 in compliance with J-SOX (4.(3)-a) • Regularly held opinion exchange forums to facilitate communication between outside executive directors (full-time Audit & Supervisory Committee members) and inside executive directors (4.(4)-a) • Prepared training content to facilitate understanding of J-SOX (4.(3)-d) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • In furtherance of monitoring initiatives undertaken by the Governance and Corporate Culture Advisory Committee, we held interviews to gain employee insight and used this insight to submit proposals regarding operational improvements with the potential to strengthen the effectiveness of recurrence prevention measures (8.(1)-a)

(Note) 1. 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).

2. Respect, Communication, and Teamwork (RCT): An event through which management and a small group of employees can meet and communicate with each other

Progress

<p>1. Governance reform and promotion</p>	<ul style="list-style-type: none"> • Held case study workshops focusing on past misconduct (deceptive handling of money through the use of fraudulent outsourcing fees) to instill awareness of compliance and governance that will facilitate recurrence prevention (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"> • Prepared pictograms as supplementary tools to be used to disseminate our WAY (Code of Conduct), launched RCTs*, and considered content to be featured during Vision Week (1.(3)-a, 6.(2)-b/c/d) • Posted a formal Declaration of Conduct pursuant to our new philosophy system on our corporate intranet and continued conducting relevant one-on-one meetings between supervisors and individual subordinates (6.(2)-e)
<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 implementing our STEP2 training program in 2H FY22 for all employees, including executives (content tailored to respective positions), to improve accounting literacy and knowledge (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"> • Organization-specific internal audits remain underway (4.(1)-b) • Maintenance and evaluation operations conducted in accordance with the internal control assessment plan we established for FY22 in compliance with J-SOX; reported to the Management Committee regarding the status of these evaluations (4.(3)-a) • Regularly held opinion exchange forums to facilitate communication between outside executive directors (full-time Audit & Supervisory Committee members) and inside executive directors (4.(4)-a) • Launched training aimed at fostering understanding of J-SOX (4.(3)-d) 	<p>8. Ongoing monitoring</p>	<ul style="list-style-type: none"> • Continued selecting new thematic areas of focus for periodic investigations other than our internal audits; pushed forward with preparations of methodologies and schedules with the goal of conducting these investigations in FY23 (8.(2)-a)

(Note) 1. 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).

2. Respect, Communication, and Teamwork (RCT): An event through which management and a small group of employees can meet and communicate with each other

charge ∠ channel ∠ change



net one