



Enterprise Market

Vision

Contribute to the resolution of social challenges by sharing visions for the future of ICT utilization

Growth strategy

Strategy

- Deliver issue-solving lifecycle services and propose grand designs for the future
- Expand operations into business ICT areas (production technology sectors, etc.)

Focus themes for growth

- Implementation of digital and green transformation
- Smart manufacturing
- Enhancement of security and ICT governance
- Predictive detection of cyber-attacks and system failures

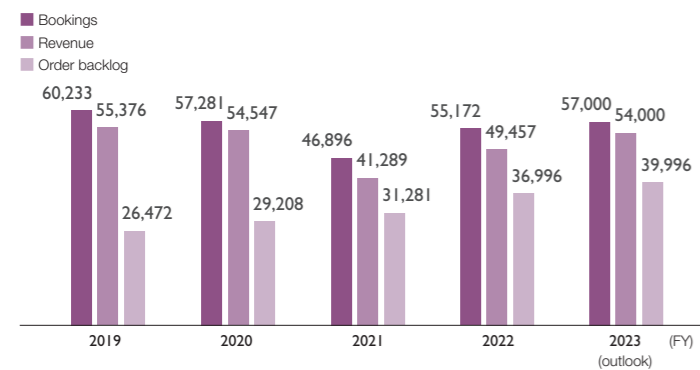
Business overview

Business details

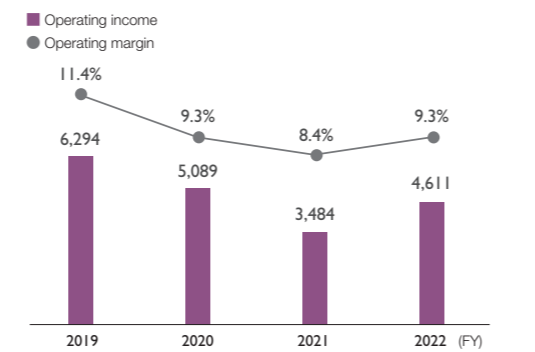
We conduct business for major private companies in the manufacturing and non-manufacturing industries, as well as for domestic financial institutions and foreign companies. Additionally, we support information utilization to enhance competitiveness, work style innovation, and cost reductions through the application of ICT platforms.

Operating environment Demand for security enhancement, cloud systems, and work style innovation remains high.

Bookings / revenue / order backlog (million yen)



Operating income (million yen) / Operating margin (%)



CAGR

(for the three-year period ending with fiscal 2022)

Bookings **-2.9%** Revenue **-3.7%** Operating income **-9.9%**

* Effective from fiscal 2022, we have reclassified the internet service provider (ISP) industry (formerly included under the enterprise market) under the telecom carrier market. Also effective from fiscal 2022, we adjusted our accounting policies and began recording a portion of the labor costs and other expenses incurred through our engineering division as costs of revenue. These changes have been reflected through bookings, revenue, and the order backlog for fiscal 2021 and all subsequent accounting periods, as well as through operating income for fiscal 2022.

Distinguishing features of the business

Growth potential

As digital technology rapidly evolves, we are observing an ongoing need for the application and stable operation of integrated ICT platforms that facilitate the use of advanced digital technologies. At the same time, we are encountering growth in demand for security enhancement supporting the safe application of data dispersed throughout cloud and remote working systems and the well-balanced handling of both data utilization and ICT governance within corporate groups and new sectors (factories, manufacturing sites, etc.). With regard to the financial industry, we have observed relatively constant progress in terms of both technological improvements and infrastructure renewal. In the context of manufacturing and non-manufacturing industries, which are associated with a diverse range of digitalization-related needs, we anticipate ongoing demand for the operational application of ICT.

Profitability

With the largest service ratio among the four markets defined by the Net One Group, the enterprise market is highly profitable, accounting for approximately 60% of total revenue. While providing conventional system maintenance, we have continued to generate high amounts of revenue through service-based operations, including those aimed at generating solutions adopting ICT lifecycle-oriented perspectives. In contrast, the enterprise market's operating margin declined in fiscal 2020 due to COVID-19-related impact before falling again in fiscal 2021 as investment within the manufacturing industry was curtailed in response to semiconductor shortages. Later, in fiscal 2022, both revenue and the operating margin generated through the enterprise market improved thanks to our successful capture of expanding demand in the manufacturing and non-manufacturing industries. Moving forward, we will push forward with efforts aimed at standardizing and automating our operations, target the expansion of remote operations, and endeavor to maintain ongoing profitability.

Medium- to long-term outlook and strategy

Future prospects

Operating environment

Conventionally, investment in offices and data centers has been driven primarily by renewal-related demand. However, with the growing application of ICT outside of corporate environments (for work style innovation, cloud computing, etc.), we expect to observe a growing need for access management and integration related to decentralized data that was formerly collectively managed within closed corporate networks. Moving forward, we will continue to conduct network design predicated upon the combined use of internal ICT platforms and cloud technologies while strengthening zero trust-focused security measures applied to ensure safe access to information assets.

Business opportunities

In terms of new business domains, we plan to facilitate preventative maintenance, traceability, and decarbonization-supporting electricity usage visualization by continuing to apply wireless networks and data generated through production lines and manufacturing equipment, thereby encouraging large-scale networking within factories. At the same time, we aim to push forward with our implementation of cyber security measures. As time progresses, we expect to observe improvements in efficiency and productivity achieved through data sharing conducted throughout and in between supply chains. This sharing will apply to data usage within and between factories, as well as data applied among companies belonging to both the same and different corporate groups.

Focus areas

Smart manufacturing

We are observing growth in PoC activities associated primarily with the on-site application of data and digital twin technologies within manufacturing sectors, as well as decarbonization achieved through the visualization of power consumption. Beginning with the formulation of grand designs aimed at generating new projects, we are undertaking proposal activities associated with a variety of objectives including the implementation of industrial wireless technology and the enhancement of security at business sites.

Social infrastructure to realize Society 5.0

We are undertaking efforts facilitating PoC testing associated with smart buildings. This testing focuses on a range of elements, including the integration of networks supporting the numerous sensors and devices installed within office buildings, the efficiency of data application and administration achieved through the integration of ICT platforms, and the creation of new value accomplished via system linkage utilizing indoor sensors.

Performance and outlook

Fiscal 2022 results

With regard to the manufacturing industry, investment from automakers was robust, particularly in expenditures related to EVs. Meanwhile, in terms of non-manufacturing industries, we observed growth in bookings associated with next-generation ICT platforms and security enhancement business operations (zero trust and secure access service edge [SASE]). As for the financial industry, integration of next-generation infrastructure continued unabated. Revenue increased year on year, driven by sales targeting automakers, among whom investment has been resurgent.

Fiscal 2023 outlook

We project growth in both bookings and revenue. In terms of bookings, we expect expansion in the category of smart manufacturing within the manufacturing industry, particularly among automakers. Meanwhile, within non-manufacturing industries, we anticipate growth in association with security enhancement businesses and service platforms as operational digitalization progresses. We expect bookings generated through the financial industry to remain level year on year, consisting primarily of bookings connected to ongoing projects. Meanwhile, we plan to convert our substantial order backlog into revenue and accordingly project growth in overall enterprise market revenue.



Telecom Carrier Market



Vision Expand new business prospects through co-creation involving telecom carriers



Strategy

- Propose co-creation businesses, including service platform installation and corporate business support, to telecom carriers

Focus themes for growth

- Strengthen corporate business through collaboration with telecom carriers
- Collaborative business in other markets and expansion of solutions for MSPs

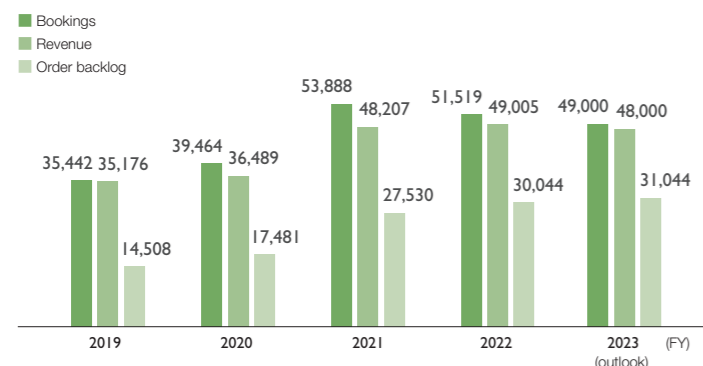
Business overview

Business details

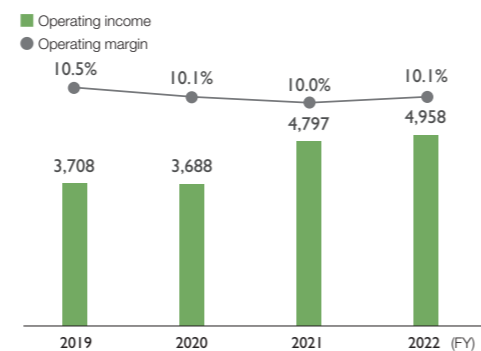
We develop businesses for telecom carriers. Collaborating with clients, we also establish safe and secure ICT platforms that function as social infrastructure.

Operating environment Enthusiasm for investment targeting business expansion among corporate entities is strong. We are focusing on building service platforms associated with cloud computing and other technologies while also concentrating on providing corporate clients with technological support.

Bookings / revenue / order backlog (million yen)



Operating income (million yen) / Operating margin (%)



CAGR (for the three-year period ending with fiscal 2022)
 Bookings | 3.3% Revenue | 1.7% Operating income | 10.2%

* Effective from fiscal 2022, we have reclassified the ISP industry (formerly included under the enterprise market) under the telecom carrier market. Also effective from fiscal 2022, we adjusted our accounting policies and began recording a portion of the labor costs and other expenses incurred through our engineering division as costs of revenue. These changes have been reflected through bookings, revenue, and the order backlog for fiscal 2021 and all subsequent accounting periods, as well as through operating income for fiscal 2022.

Distinguishing features of the business

Growth potential

Until the early 2010s, growth was primarily driven by the delivery of large hardware for network facilities, but new hardware installations have since subsided, and we have also observed a trend of commoditization with regard to hardware. In response, we have been shifting the focus of our operations toward operational support and the integration of service delivery platforms. Recently, amid this shift, revenue has been growing due to investment conducted in pursuit of line reinforcement in response to expansion in remote working and video communication volume. At the same time, operations targeting network facilities focus mainly on product delivery, so the Net One Group is shifting toward domains through which it can provide services on an ongoing basis. We aim to create high added value by supporting the development of services that telecom carriers can provide and through our co-creation business, which focuses on developing businesses for corporate clients in partnership with telecom carriers.

Profitability

Services (delivery of large hardware to telecom carriers, etc.) generate about 40% of revenue achieved through the telecom carrier market, a service ratio that is somewhat lower than those observed within the enterprise and public markets. However, due to a limited client count, we are able to minimize SG&A expenses incurred through this market, which successfully generates operating margins on par with those reported through the other markets. By targeting a shift away from business structures focused on product sales and engaging in platform integration beginning with PoC activities conducted during the service planning stage, we are able to provide advanced operation services in addition to platform maintenance. Currently, we are striving to improve profitability by proposing high-value-added systems capable of contributing to growth in client businesses and providing services that reduce operational burdens following service launches.

Medium- to long-term outlook and strategy

Future prospects

Operating environment

We will continue to make decisions regarding our delivery of large hardware for network facilities based on a comprehensive range of factors, including profitability. Moving forward, our priority operations will focus on areas unrelated to telecommunications, which have become a central target for telecom carriers. Under these circumstances, we aim to develop services that facilitate digital transformation for corporate customers (application of data centers, furnishing of cloud services, etc.) and expand our digitalization-supporting co-creation business. Moving forward, we will contribute to the development of society by expanding our delivery of added value and utilizing growth in client businesses as a conduit for generating transformation in industrial structures.

Business opportunities

In addition to developing security services that support external access to office networks (through remote working, etc.) and the use of multiple cloud systems, we will spearhead technological innovation targeting the realization of Society 5.0, a visionary concept that centrally involves surmounting social challenges through new value created by IoT-based connections between people and things. Moving forward, we will combine the network-related expertise we have cultivated over our many years of existence with 5G and digital technologies to add new value, thereby facilitating co-creation business operations that support expansion in client businesses and creating business within heretofore unexplored domains.

Focus areas

Social infrastructure to realize Society 5.0

We are participating in PoC activities aimed at establishing 5G-based multi-access edge computing (MEC) services, which, through IT service environments located in close proximity to the user, enable the processing of large amounts of data generated by terminals and devices. We are confident that this state-of-the-art solution will achieve low-latency and high-security network usage without the need for Internet connectivity. At the same time, green transformation (GX) is

increasingly drawing attention from telecom carriers as a way to achieve carbon neutrality. While expanding circular economy-conscious measures formulated to extend hardware life, we will also support the businesses of corporate clients by providing both expertise facilitating transitions toward smart factory facilities and joint verification environments, thereby supporting the resolution of technological issues.

Performance and outlook

Fiscal 2022 results

Although investment targeting line reinforcement in response to growth in telecommunications traffic stemming from remote working and other factors has subsided, we also observed strong bookings in connection with co-creation business operations leveraging our expertise concerning large-scale projects and digitalization support. Revenue rose year on year as we recognized proceeds generated through line reinforcement investment conducted since fiscal 2021.

Fiscal 2023 outlook

We project slight decreases in both bookings and revenue. Line reinforcement investment conducted in response to growth in remote working demand had previously boosted bookings generated through the telecom carrier market, but we expect this positive impact will dissipate in fiscal 2023. Regardless, we will continue to focus on supporting the activities of client companies and facilitating digitalization and security enhancement through our co-creation business. Although we expect to book revenue generated through investment targeting line reinforcement, we anticipate a slight decrease in overall telecom carrier market revenue.



Public Market



Vision
Provide a safe and secure ICT platform for social infrastructure and realize a sustainable society



Strategy

- Propose optimization of ICT platforms, including operations, for markets where digitalization is progressing
- Participate in bidding focused on value-added proposals such as ICT utilization and provision of functions

Focus themes for growth

- Shift to cloud computing for ICT platforms, strengthen security
- Social infrastructure to realize Society 5.0

Business overview

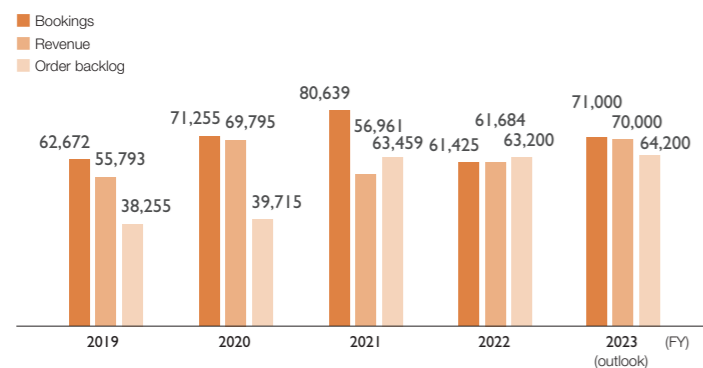
Business details

We conduct business for public institutions such as central and local governments, education (universities and research institutes), companies that provide social infrastructure (power companies, railways, etc.), and healthcare (hospitals). We also establish ICT platforms and enhance security to support the application of public information and other data.

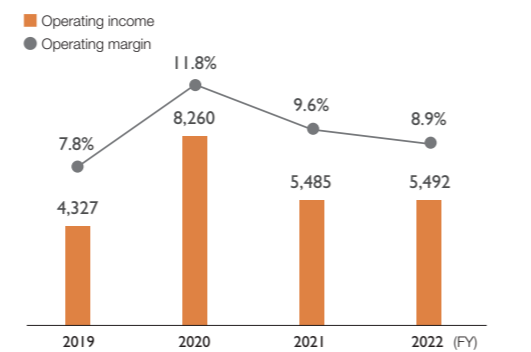
Operating environment

We are observing robust demand surrounding security measures supporting data utilization, cloud systems, and work style innovation.

Bookings / revenue / order backlog (million yen)



Operating income (million yen) / Operating margin (%)



CAGR

(for the three-year period ending with fiscal 2022)

Bookings **-0.7%** Revenue **3.4%** Operating income **8.3%**

* Effective from fiscal 2022, we adjusted our accounting policies and began recording a portion of the labor costs and other expenses incurred through our engineering division as costs of revenue.

Distinguishing features of the business

Growth potential

Capitalizing on drastic municipal security measure overhauls implemented in response to unauthorized access incidents that occurred in 2016, we have steadily captured renewal demand associated with Japan's GIGA school concept initiative and efforts targeting strengthened security cloud systems and enhanced information security. Meanwhile, we continue to observe demand for digital technology application approaches conceived to address changing social conditions and resolve social challenges. With regard to businesses supporting non-municipal daily life infrastructure (associated with electric power, gas, railroads, medical care, etc.), we have witnessed a trend toward revamping information platforms to facilitate structural changes in business operations as a response to liberalization and population decline. As time progresses, we will expand our delivery of comprehensive support services, which cover a wide scope extending from the renewal of ICT platforms enabling digitalization and ICT utilization to the administration of these same platforms.

Profitability

In recent years, we have generated improvements in profitability primarily by conducting a greater volume of direct business transactions, thereby expanding our delivery of maintenance and operations services. By refining our proposal and technological capabilities, we have become able to integrate and maintain entire ICT platforms, which are becoming increasingly sophisticated as a result of security enhancement and applications related to shared infrastructure. Furthermore, with regard to public bidding decisions made based on comprehensive assessments, we are endeavoring to distinguish ourselves through function-oriented proposals that combine designs aimed at fully leveraging our technological capabilities with original financial services. Services generate about 50% of our public market revenue; this service ratio is second only to the service ratio achieved through our enterprise marketing activities, and as a result, the public market is a key profit driver for the Net One Group as a whole. By expanding operational and managed services, we will aim to establish a stable and expanded earnings base moving forward.

Medium- to long-term outlook and strategy

Future prospects

Operating environment

We have hitherto facilitated digitalization by migrating systems originally integrated separately according to their respective applications to a common platform, thereby improving efficiency and reducing operating costs. As time progresses, we will continue to focus on sectors in which ICT application is anticipated, including those associated with municipal governments, school systems, and social infrastructure. Meanwhile, in accordance with a fundamental rationale focused on security enhancement as a system core, we will promote data governance-based security measures while capturing demand surrounding the reorganization of corporate group activities and the fortification of foundational corporate group structures.

Business opportunities

In due course, we plan to improve the convenience of our services using platforms we have developed to date, enhance quality of life in general, and provide support facilitating effective system operation and the delivery of functionality that paves the way for operational streamlining. Moving forward, we must implement security measures and update our network design to accommodate connections with external environments, including those associated with remote working systems and cloud computing setups administered by government agencies. Meanwhile, we project that the use of data will continue to drive business efficiency and revitalization in fields supporting the achievement of a sustainable society, including electric power, gas, rail transport, and medical care.

Focus areas

Digital government

We will expand our business while maintaining a particular focus on sound cloud computing and information security enhancement for municipal government agencies. Additionally, by establishing, and improving the convenience of, platforms that enable the safe and secure use of connections linked to external systems associated primarily with remote working and cloud services, we will facilitate upgrades for regional ICT platforms, the resolution of local challenges through resident service digitalization, and regional revitalization achieved through the digitalization of educational systems.

Social infrastructure to realize Society 5.0

Moving forward, we will support electric power, gas, and railroad infrastructure upgrades that utilize digital technology to ensure efficient facility maintenance and management. At the same time, we will propose platform integration that contributes to the stabilization of social infrastructure by facilitating effective implementation of cyber security measures, stable operation of increasingly complex systems, and operational upgrades enabling the application of data and digital technologies within medical contexts (medical digital transformation).

Performance and outlook

Fiscal 2022 results

With regard to bookings, performance previously observed in association with large social infrastructure projects dissipated, and bookings recorded in connection with information security cloud and security enhancement projects for municipal government agencies compared unfavorably with the relatively high results reported in fiscal 2021. Regardless, we experienced growth in demand surrounding network system renewal projects for research institutes and universities. Revenue rose year on year as we booked proceeds generated primarily through information security cloud and security enhancement projects for municipal governments.

Fiscal 2023 outlook

We project increases in both bookings and revenue. With regard to the former, we anticipate that bookings associated with information security cloud and security enhancement projects for municipal governments will dissipate, but we also expect expansion in bookings recorded in connection with Society 5.0-related digitalization of social infrastructure (electric power, rail transport, etc.). In terms of the latter, we expect revenue to grow as we convert our abundant order backlog, which consists primarily of outstanding orders related to information security cloud and security enhancement projects for municipal governments.



Partner Business

Vision

Readily adopt cutting-edge technology, enabling accommodation of diverse business models

Growth strategy

Strategy

- Establish a collaborative model with partner companies
- Provide timely proposals, assistance, and technical support, as well as strategic products and solutions

Focus themes for growth

- Expand solution businesses for partner companies
- Develop solutions for MSPs

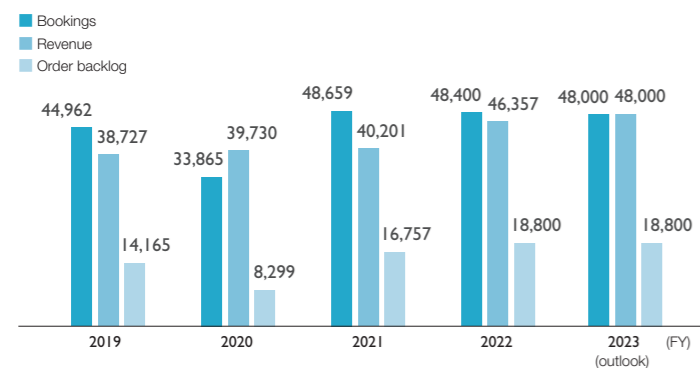
Business overview

Business details

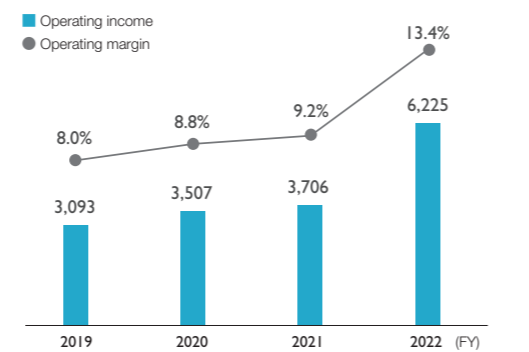
Our partner business focuses on collaboration with partner companies through consolidated subsidiary Net One Partners. By means of this business, we leverage the business foundation of the Net One Group to provide comprehensive support systems that enable our partner companies to concentrate on system integration.

Operating environment Performance from business operations targeting system integrators and MSPs has been strong.

Bookings / revenue / order backlog (million yen)



Operating income (million yen) / Operating margin (%)



CAGR

(for the three-year period ending with fiscal 2022)

Bookings **2.5%**

Revenue **6.2%**

Operating income **26.3%**

Distinguishing features of the business

Growth potential

We are observing steady expansion in sales of ICT platform products, with particular growth in performance coming from network equipment provided by Cisco Systems, which targets system integrators responsible for developing information systems. Growth has been largely driven by sales of products specifically designed for Wi-Fi services provided by partner companies acting as managed service providers (MSPs). Also responsible for growth is relationship enhancement achieved by leveraging the overseas product procurement capabilities and quality control processes that the Net One Group has developed over the years since its founding. Furthermore, growth has been additionally boosted by demand stemming from digital transformation progress and expansion in business opportunities achieved through product resale and our delivery of technical support and products with high added value.

Profitability

The profit structure of the partner business differs significantly from those associated with our other three markets, which concentrate on direct transactions with customers. Indirect wholesale transactions involving products and equipment form the central core of our partner business, so this business generates a lower share of its revenue through services (about 20%) than our other three markets. The activities of this business include evaluation and procurement of proposed equipment and value-added services such as quality assurance, technology verification, and proposal support. Accordingly, the gross profit margin generated through this business approximates our company-wide gross profit margin on products. In contrast, the operating margin of the partner business is similar to those of our other markets because this business operates using a small staff, keeping its SG&A expenses low primarily by entrusting a portion of its processes to Net One Systems.

Medium- to long-term outlook and strategy

Future prospects

Operating environment

As digital transformation demand increases, we aim to establish a strong domestic presence by leveraging our product selection capabilities, technical support, and logistics functions to support system integrators. In addition to providing ICT platform products associated with networks and security, we will facilitate the development of partner businesses by providing high-value-added solutions (information indicating future changes in trends, technical proposal support, etc.) that leverage our strong relationships with vendors.

Business opportunities

In addition to our mainstay network equipment, we will expand our delivery of security products and cloud-based solutions, thereby joining our partners in pursuit of structural societal transformation addressing ever-changing ICT market and business environments and the eventual realization of a prosperous future. With regard to new products, we will support market-wide digital transformation by quickly providing solutions that facilitate ICT application, including both general and PoC testing for equipment targeting local 5G systems, network visualization, and software utilization.

Delivering new value

Customer success

For the first time in Japan, we are providing programs that enable the smooth sale of subscription-based products from Cisco Systems to our partner companies. With initiatives such as these, comprehensive software contract management adapted to accommodate technology use in the digital transformation era, and support covering existing-agreement-related operations ranging from system installation to utilization and usage expansion, we are assisting our partner companies as they aim to maximize their earnings.

Providing business platforms

We have supported, and continue to support, the timely launch of ICT products through initiatives such as our establishment of solution verification labs that test and verify properties including radio wave characteristics, performance, and connectivity for partner companies exploring opportunities for providing local 5G products. Additionally, we provide this same support by furnishing the kitting environments, workforces, and logistic functions necessary for the sale of ICT equipment.

Performance and outlook

Fiscal 2022 results

Despite ongoing strong performance from network enhancement and security reinforcement business operations targeting major partners, bookings fell slightly year on year primarily because bookings associated with Wi-Fi service business operations aimed at MSPs compared unfavorably with those reported for fiscal 2021. Revenue increased year on year, driven by strong proceeds from business operations targeting major partners.

Fiscal 2023 outlook

We project a decline in bookings and growth in revenue. With regard to bookings, we will continue to strengthen our collaborative business activities with major partners, but we do not anticipate any significant year-on-year change in performance from Wi-Fi service business operations targeting MSPs. Regardless, we forecast growth in revenue stemming from our efforts targeting stronger collaborative business activities involving our major partners.