Results for Q2 FY03/2018
Ended September 30, 2017

Net One Systems Co., Ltd.
October 30, 2017(Stock Code 7518: JP)
Agenda

- Q2 FY03/18 (Apr-Sep 6months) Results  P. 2-11
- Progress of Three-year Business Plan  P. 12-21
Q2 FY03/18 (Apr-Sep 6months) Results
Bookings, revenue and profit exceeded the company plan. Improvement in gross profit margin continued. Public sector, Enterprise sector and Partner sector performed strongly.

(Note) From the current fiscal year, revenue of vendor support for period contracts has been changed to monthly.
Performance by market sector

- **Bookings**
  - Q1-2 FY03/17: 75,479
  - 2017/3 Q1-2: 8,060
  - 2018/3 Q1-2: 7,728
  - Q1-2 FY03/18: 79,821
  - 2017/3 Q2: 24,167
  - 2018/3 Q2: 23,660

- **Revenue**
  - Q1-2 FY03/17: 66,539
  - 2017/3 Q1-2: 20,914
  - 2018/3 Q1-2: 19,774
  - Q1-2 FY03/18: 70,696
  - 2017/3 Q2: 15,777
  - 2018/3 Q2: 10,270

- **Backlog**
  - End of Q2 FY03/17: 62,306
  - 2017/3 Q2: 8,060
  - 2018/3 Q2: 10,170
  - End of Q2 FY03/18: 69,189
  - 2017/3 Q2: 24,167
  - 2018/3 Q2: 27,447

### Demand for security, cloud and workstyle innovation continued to be strong

- **Enterprise**
  - Telecommunications and Cloud Service Infrastructure Business expanded

- **Public**
  - Security and cloud business in municipalities, healthcare, universities, and education committee performed strongly

- **Partner**
  - Key partners business and managed service via Telecom Carrier remained robust

(Note) From the current fiscal year, revenue of vendor support for period contracts has been changed to monthly.
Performance by product category

**Bookings**
- Q1-2 FY03/17: 75,479
- Q1-2 FY03/18: 79,821
- Change: +3.2%

**Revenue**
- Q1-2 FY03/17: 66,539
- Q1-2 FY03/18: 70,696
- Change: +7.1%

**Backlog**
- End of Q2 FY03/17: 62,306
- End of Q2 FY03/18: 69,189
- Change: +4.1%

**Products**
- Security and cloud business remained robust

**Service business**
- Advances in solution proposals, projects including design, construction, maintenance and operation services increased
## Consolidated balance sheets

<table>
<thead>
<tr>
<th>(million yen)</th>
<th>Sep 30, 2017</th>
<th>Change</th>
<th>Mar 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Results</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>98,205</td>
<td>(5,160)</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Current assets</td>
<td>87,699</td>
<td>(4,726)</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Cash and deposits + CD・CP</td>
<td>21,570</td>
<td>4,333</td>
<td>+25.1%</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>30,994</td>
<td>(13,536)</td>
<td>-30.4%</td>
</tr>
<tr>
<td>Inventory assets</td>
<td>21,296</td>
<td>4,654</td>
<td>+28.0%</td>
</tr>
<tr>
<td>Other</td>
<td>13,837</td>
<td>(177)</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>10,505</td>
<td>(434)</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>5,189</td>
<td>(316)</td>
<td>-5.8%</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>1,959</td>
<td>(183)</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Investment etc.</td>
<td>3,357</td>
<td>65</td>
<td>+2.0%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>40,365</td>
<td>(5,672)</td>
<td>-12.3%</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>35,591</td>
<td>(5,417)</td>
<td>-13.2%</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>4,773</td>
<td>(254)</td>
<td>-5.1%</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>57,839</td>
<td>511</td>
<td>+0.9%</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>57,526</td>
<td>340</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>152</td>
<td>138</td>
<td>-</td>
</tr>
<tr>
<td>Subscription rights to shares</td>
<td>160</td>
<td>32</td>
<td>+25.5%</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>98,205</td>
<td>(5,160)</td>
<td>-5.0%</td>
</tr>
</tbody>
</table>
Revenue and P/L by reportable segment

<table>
<thead>
<tr>
<th>(JPYmn)</th>
<th>Enterprise</th>
<th>Telecom Carrier</th>
<th>Public</th>
<th>NOP</th>
<th>Sub-total</th>
<th>Other</th>
<th>Total</th>
<th>Adjustment</th>
<th>Amount recorded in consolidated income statements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ended Sep 30, 2017</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(558)</td>
<td>70,696</td>
</tr>
<tr>
<td>Revenue</td>
<td>21,615</td>
<td>13,691</td>
<td>20,732</td>
<td>14,434</td>
<td>70,473</td>
<td>781</td>
<td>71,255</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment income</td>
<td>581</td>
<td>715</td>
<td>512</td>
<td>695</td>
<td>2,505</td>
<td>22</td>
<td>2,527</td>
<td>(216)</td>
<td>2,311</td>
</tr>
<tr>
<td>Segment income margin</td>
<td>2.7%</td>
<td>5.2%</td>
<td>2.5%</td>
<td>4.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Ended Sep 30, 2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(484)</td>
<td>66,539</td>
</tr>
<tr>
<td>Revenue</td>
<td>20,915</td>
<td>15,777</td>
<td>18,864</td>
<td>10,669</td>
<td>66,227</td>
<td>795</td>
<td>67,023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment income</td>
<td>271</td>
<td>717</td>
<td>(298)</td>
<td>(93)</td>
<td>596</td>
<td>3</td>
<td>599</td>
<td>(303)</td>
<td>296</td>
</tr>
<tr>
<td>Segment income margin</td>
<td>1.3%</td>
<td>4.5%</td>
<td>- 1.6%</td>
<td>- 0.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.4%</td>
</tr>
</tbody>
</table>

(Notes) 1. The adjustment in segment income included corporate expenses not attributable to any reportable segment.
2. The “Other” segment is not included as a reportable segment. It contains the server service business and other businesses. Corporate expenses are mainly related to general administrative expenses not attributable to reportable segment.
Q1-2 topics

Mainly driven by the “Cloud system with security” IoT for manufacturing industry (Industrial IoT) remained robust

- **Enterprise**: Steady growth (YoY +11.0%)
  - Cloud infrastructure and security measures in all industries
  - Industrial IoT in manufacturing industry
  - Workstyle innovation

- **Public**: Exceeded the high-level performance of the previous term (YoY +4.4%)
  - Continuing security measure in municipalities
  - Security measure in universities and education committee
  - Cloud Infrastructure in healthcare

- **Partner**: Significant increase (YoY +24.3%)
  - Continuing and expanding key partner business
  - Expansion of specific product for telecom carrier

- **Telecom Carrier**:
  Although the cloud service infrastructure expanded, it was decreased compared to the previous term
### Exchange rate, EPS, Employees

<table>
<thead>
<tr>
<th></th>
<th>FY03/18 Q1-2</th>
<th>YoY</th>
<th>FY03/17 Q1-2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Change</td>
<td>Ratio</td>
<td>Change</td>
</tr>
<tr>
<td>Exchange rate ($JPY)</td>
<td>111.14</td>
<td>(3.36)</td>
<td>- 2.9%</td>
</tr>
<tr>
<td>Earnings per share (JPY)</td>
<td>18.56</td>
<td>17.05</td>
<td>-</td>
</tr>
<tr>
<td>Dividends per share (JPY)</td>
<td>15.00</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>End of FY03/18 Q2</th>
<th>YoY</th>
<th>End of FY03/17 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Change</td>
<td>Ratio</td>
<td>Change</td>
</tr>
<tr>
<td>Employees</td>
<td>2,288</td>
<td>35</td>
<td>1.6%</td>
</tr>
</tbody>
</table>
# FY03/18 Outlook (※no change from the previous outlook)

<table>
<thead>
<tr>
<th>(JPYmn, % to revenue)</th>
<th>FY03/18 Outlook</th>
<th>YoY</th>
<th>FY03/17 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Change</td>
<td>Ratio</td>
</tr>
<tr>
<td>Bookings</td>
<td>160,000</td>
<td>(3,935)</td>
<td>△ 2.4%</td>
</tr>
<tr>
<td>Revenue</td>
<td>157,000</td>
<td>100.0%</td>
<td>(236)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>121,275</td>
<td>77.2%</td>
<td>(738)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>35,724</td>
<td>22.8%</td>
<td>500</td>
</tr>
<tr>
<td>SG&amp;A</td>
<td>28,524</td>
<td>18.2%</td>
<td>(951)</td>
</tr>
<tr>
<td>Operating income</td>
<td>7,200</td>
<td>4.6%</td>
<td>1,452</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>7,200</td>
<td>4.6%</td>
<td>1,498</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>4,600</td>
<td>2.9%</td>
<td>777</td>
</tr>
</tbody>
</table>
FY03/18 Outlook by market sector (※no change from the previous outlook)

<table>
<thead>
<tr>
<th>Market Sector</th>
<th>Bookings FY03/17</th>
<th>Bookings FY03/18</th>
<th>Revenue FY03/17</th>
<th>Revenue FY03/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>49,967 (+4.1%)</td>
<td>52,000 (46.8%)</td>
<td>47,788 (+4.6%)</td>
<td>50,000 (43.2%)</td>
</tr>
<tr>
<td>Telecom Carrier</td>
<td>37,372 (-6.3%)</td>
<td>35,000 (36.8%)</td>
<td>37,231 (-6.0%)</td>
<td>35,000 (39.1%)</td>
</tr>
<tr>
<td>Public</td>
<td>50,738 (-10.3%)</td>
<td>45,500 (58.5%)</td>
<td>46,715 (-2.6%)</td>
<td>45,500 (45.6%)</td>
</tr>
<tr>
<td>Partner</td>
<td>25,294 (+6.7%)</td>
<td>27,000 (57.8%)</td>
<td>24,917 (+4.3%)</td>
<td>26,000 (55.5%)</td>
</tr>
</tbody>
</table>

1H Progress ratio:

- Enterprise: 46.8%
- Telecom Carrier: 36.8%
- Public: 58.5%
- Partner: 57.8%

Revenue Progress ratio:

- Enterprise: 43.2%
- Telecom Carrier: 39.1%
- Public: 45.6%
- Partner: 55.5%
Progress of Three-year Business Plan
Market trend

Investment driver:
Security, Cloud, and ICT utilization

Forecast of Japan security market size (June 5, 2017, IDC Japan)
✓ Security product market: The CAGR of 2016 to 2021 is forecast to be 4.1%, 2021 is forecast to be 347.7 billion yen
✓ Security service market: The CAGR for 2016 to 2021 is forecast to be 5.6%, 2021 for 943.4 billion yen

User trend survey result of Japan cloud market (August 17, 2017, IDC Japan)
✓ Japan companies emphasize "strengthening IT security" as a factor for promoting cloud introduction
✓ "Reduction of IT budget" has a lower priority than the previous survey

Forecast of Japan private cloud market (October 17, 2017, IDC Japan)
✓ It is predicted that the market size of 2021 will be 1,604.5 billion yen, 5.2 times higher than 2016
✓ Continuing high growth with "transition from conventional IT" and "DX platform"
The value of Net One Systems

Management philosophy

Contribute to social innovation through the utilization of ICT

Core competence
Integration

Differentiated value
Utilization know-how through in-house practice
Architecture-oriented solution by multi-vendor products

Market demand
Cloud with security
ICT utilization (Workstyle innovation and IIoT etc.)
Growth strategy: Driving/Initiative incremental business

Development of new market
- IIoT market
- Global market
- Corporate market

Driving service business
- Provide “function”

Expansion of installed base
- Cloud system with security

New Opp.
Keep of installed base
Three-year Business Plan

- Revenue: JPY145.1bn
- Operating income: JPY2.4bn
- Operating margin: 1.7%

1st year (FY16):
- Revenue: JPY157.2bn
- Operating income: JPY5.7bn
- Operating margin: 3.7%

2nd year (FY17):
- Revenue: JPY157.0bn
- Operating income: JPY7.2bn
- Operating margin: 4.6%

3rd year (FY18):
- Revenue: JPY170.0bn (+: JPY24.0bn)
- Operating income: JPY11.0bn
- Operating margin: 6.5%

Breakdown:
- IIoT market: JPY4.0bn
- Global market: JPY4.0bn
- Corporate market: JPY6.0bn
- Cloud system with security: JPY10.0bn
- New market/New solution: JPY10.0bn

FY15: JPY145.1bn
FY16: JPY157.2bn
FY17: JPY157.0bn
FY18: JPY170.0bn

Operating income:
- FY15: JPY2.4bn
- FY16: JPY5.7bn
- FY17: JPY7.2bn
- FY18: JPY11.0bn

Operating margin:
- FY15: 1.7%
- FY16: 3.7%
- FY17: 4.6%
- FY18: 6.5%
Progress of new market/new solution in FY17 1H

“Cloud system with security” and “IIoT market” remained robust

- Cloud system with security
  ✓ Remained strong in ENT/PUB/SP

- IIoT (Industrial IoT) market
  ✓ Shifting to the full-scale operation in manufacturing industry

- Global market and Corporate market
  ✓ Steady according to plan

(FY16 result)
To achieve FY18 plan

To further increase revenue and gross profit margin:
Driving the service business

Conventional customer's request: Product ownership
Sell products and accompany services

Transform business model

Future customer's request: Use of "function"

- Provide “function” by services and accompany products
- Develop more valuable architecture-oriented solutions
To expand service business ratio

In FY18, bring the ratio of Products and Services close to 1 : 1

New services
New developed services with Products (as solution)

Conventional services
Design, construction, maintenance and operation service

Component ratio of bookings in FY16
Services 39%
Products 61%

Component ratio of bookings in FY17 1H
Conventional services 36%
Products 58%
New services 6%

Component ratio scenario in FY18
Conventional services 40%
Products 50%
New services 10%
New security service

MDR service (Managed Detection and Response)

Innovative security monitoring and operation service to prevent information leakage from malware infected terminals

Focus on handling at the terminal level

Suspicious behavior detection
Identify infected terminals
Isolation from LAN
Information leak prevention
Architecture-oriented solutions

Integration of products
- Cisco
- Arista
- VMware
- Palo Alto Networks
- DELL EMC
- NetApp

Integration of software
- net one CONNECT
- SD-HCI software

Integration of services
- New developed services
  - Cloud HUB service
  - SD-WAN service
  - Security service
- Conventional services

ICT utilization know-how

Provide "function" required by customers

Security

Private cloud

Monitoring

Public cloud / internet