Participants: 194
Duration: 62 minutes (briefing: 37 minutes; Q&A: 25 minutes)
Questions: 11 questions from five people

[Questioner A]

Q1: You noted that extending your business to data management in the Industrial IoT (IIoT) market is one of your priorities, but from the customer’s point of view, they need data analysis as well as data management. What is your opinion on this subject?
A1: In the past three years, we have been testing IoT facilities in factories with manufacturers and discussed to what extent we can apply it to our business. We are beginning to extend the scope of IIoT from data collection and management to data analysis through joint development projects with universities and Silicon Valley companies. That said, a difficult aspect of data analysis is that each customer has different needs in terms of the content of analysis. Thus it’s not feasible at present to offer a generalized analysis business and it will take some time before the results of the analysis business makes an impact on earnings results.

Q2: You mentioned that telecom carriers are cutting back on capex, but investment in 5G facilities must be picking up soon. What are your thoughts?
A2: We are a company that grew in scale because of aggressive capex by telecom carriers in the first five of the last 10 years. After that, carriers’ management decision was to cut back on capex in 4G LTE infrastructure and services that use wired IP facilities like FLET’S, and switch to new service businesses. Although not all carriers have similar capex plans for 5G, they will only be investing in base stations, which fall outside the scope of our business, and reusing existing wired IP networks (which are within the scope of our business) to connect those facilities. For this reason, we have not included any 5G business into our business plan. This may change going forward after we have discussed customers’ needs with them, but our understanding is that carriers will be investing in facilities that do not fall within the scope of our business, because we do not supply base stations (i.e., equipment that transmit and receive terrestrial waves).

[Questioner B]

Q3: Will the Tokyo Summer Olympics in 2020 generate a boost in demand for your company’s products and services?
A3: We are not focusing on the Tokyo Olympics. In previous Olympic Games, one of our main partners Cisco Systems was the primary provider of ICT facilities. We expect Cisco to be one of the suppliers of ICT facilities for the 2020 Tokyo Olympics, but considering their budget, we will not be aggressively participating in the business, because we prioritize profit over sales. We can probably reply to the question of whether the Olympics will boost demand with some concrete data in about a year’s time, but for now, I can only say it probably won’t be zero, but not much more than ¥500 million–¥1.0 billion.
Net One Systems Co., Ltd.
Q&A of the 31th Annual Shareholders Meeting (summary)
Thursday, June 14, 2018

[Questioner C]
Q4: Why did your operating income increase?
A4: First, I would like to apologize to all our shareholders for the weak earnings performance of the past few years. Our business model has many competitors (rival companies). In the past two years, we transformed our business model into one that provides value added rather than simply supplying products to differentiate ourselves from the competition and turn us into a company that has an accurate awareness of customers’ needs and shares value with customers. I understand that profit margins decline every year in product sales, but value added that we can share with customers allows us to run a business that secures a fair profit margin. Our profit margin has been improving as a result of switching to this business model, and we will continue to strive for further improvement.

Q5: Can you provide better gifts for shareholders attending the annual shareholders meeting?
A5: We will discuss the matter of gifts for next year onward within the company.

[Questioner D]
Q6: What is the reason for appointing Ryugo Hayano as Outside Executive Director?
A6: Technological innovation is happening as we speak in the ICT business. ICT is being utilized in many different ways, including artificial intelligence (AI) and fintech. We appointed Dr. Hayano, who has engaged in many years of research into the utilization of computers as a theoretical physicist, to advise us as an Executive Director on technological developments in ICT to contribute to the development of the company.

Q7: Did you appoint Ryugo Hayano as an Outside Executive Director because of his ability to communicate information as a scientist?
A7: I am aware that Dr. Hayano communicates a broad range of information. Please visit our website for more details.

[Questioner A]
Q8: You say that you are focusing on the service business. What are you doing about intellectual property rights, especially patents?
A8: We have added optimization to the traditional business areas of system design, integration, maintenance, and operation. Some examples of value-added services are managed security services, which we provide to customers from our cloud for a monthly fee. Last year, we also launched a service that provides a package of services such as consulting, security assurance, and procuring networks to connect customers’ data centers (private cloud) with an external public cloud. We apply for intellectual property rights when required and ensure that we obtain the rights, although we do not make details public due to confidentiality reasons. We are changing the format of our services with a focus on ease of use, lower price, and fair usage, because these are the three main requirements that enable us to fulfill customers’ needs.
Q9: You refer to partner businesses. Who are your main partners?

A9: We cannot answer your question about main partners due to confidentiality issues, but Cisco’s partners are our main partners.

[Questioner E]

Q10: What is the reasoning behind the calculation of Executive Directors’ bonuses in Matters to be Resolved Proposal 4?

A10: We have a formula for calculating the bonus, based on an indicator that shows per-employee productivity relating to consolidated (company-wide) revenue and operating income versus target. For Executive Directors responsible for a business unit, we use a similar indicator for the business unit that they oversee (i.e., per-employee productivity relating to revenue and bookings of the business unit versus target) to calculate their bonuses. Based on the formula discussed by the Advisory Committee, the Board of Directors approves the Executive Directors’ bonus amount.

Q11: You are missing your medium-term business plan target for the global market. What is your view on this matter?

A11: We established a subsidiary in Singapore and invested in companies in Asia, because there was a need among Japanese manufacturers expanding overseas for services in Asia with a similar standard of quality as those in Japan. However, ICT capex in the ASEAN region has not been as substantial as in Japan. Although China and India are larger markets, we have decided not to do business in China. For India, our Singapore subsidiary and a local company that we have invested in are planning businesses in markets including India. We are thus expecting to get closer to our target this fiscal year.

In North America, we have concluded an agreement with a company that already supports Japanese companies to provide installation and maintenance services. We have provided these services covering West Coast to East Coast regions at the request of a Japanese telecom carrier. In Europe, we have been providing services tailored to the requirements of telecom carriers in London, Paris, and other cities. We are planning to expand services for enterprises, so we think development of our business in North America and Europe will be around two years behind the initial plan.