On July 26, 2018, Net One Systems Co., Ltd (Net one) announced earnings results for Q1 FY03/19.

<table>
<thead>
<tr>
<th>Quarterly earnings (JPYmn)</th>
<th>FY03/17</th>
<th>FY03/18</th>
<th>FY03/19</th>
<th>% of 1H FY03/19</th>
<th>% of FY03/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>29,475</td>
<td>37,064</td>
<td>31,993</td>
<td>58,704</td>
<td>58,704</td>
</tr>
<tr>
<td>YoY</td>
<td>0.9%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>6,400</td>
<td>7,834</td>
<td>7,671</td>
<td>13,318</td>
<td>13,318</td>
</tr>
<tr>
<td>YoY</td>
<td>-1.7%</td>
<td>10.2%</td>
<td>26.9%</td>
<td>30.8%</td>
<td>30.8%</td>
</tr>
<tr>
<td>GPM</td>
<td>21.7%</td>
<td>21.3%</td>
<td>24.0%</td>
<td>22.7%</td>
<td>22.7%</td>
</tr>
<tr>
<td>SG&amp;A expenses</td>
<td>6,673</td>
<td>7,264</td>
<td>7,106</td>
<td>8,432</td>
<td>8,432</td>
</tr>
<tr>
<td>YoY</td>
<td>-3.0%</td>
<td>6.6%</td>
<td>14.3%</td>
<td>12.7%</td>
<td>12.7%</td>
</tr>
<tr>
<td>SG&amp;A ratio</td>
<td>22.6%</td>
<td>19.6%</td>
<td>22.2%</td>
<td>14.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>-273</td>
<td>569</td>
<td>566</td>
<td>4,885</td>
<td>4,885</td>
</tr>
<tr>
<td>YoY</td>
<td>-96.2%</td>
<td>-80.9%</td>
<td>-15.6%</td>
<td>-10.3%</td>
<td>-10.3%</td>
</tr>
<tr>
<td>OPM</td>
<td>-1.5%</td>
<td>1.8%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Recurring profit</td>
<td>-333</td>
<td>607</td>
<td>476</td>
<td>4,951</td>
<td>4,951</td>
</tr>
<tr>
<td>YoY</td>
<td>-61.4%</td>
<td>-82.8%</td>
<td>-10.9%</td>
<td>-10.3%</td>
<td>-10.3%</td>
</tr>
<tr>
<td>RPM</td>
<td>1.6%</td>
<td>1.5%</td>
<td>8.4%</td>
<td>8.3%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Net income attributable to parent company shareholders</td>
<td>-256</td>
<td>383</td>
<td>314</td>
<td>3,381</td>
<td>3,381</td>
</tr>
<tr>
<td>YoY</td>
<td>-96.4%</td>
<td>-101.0%</td>
<td>-92.7%</td>
<td>-100.0%</td>
<td>-100.0%</td>
</tr>
<tr>
<td>Net margin</td>
<td>-1.0%</td>
<td>1.0%</td>
<td>5.8%</td>
<td>5.7%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Quarterly earnings (JPYmn)

Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 % of 1H 1H Est.

Sales

29,475 37,064 31,993 58,704 29,794 40,902 36,679 53,732 33,418 - - - 45.3% 75,800

YoY

0.9% 0.9% 1.0% 1.1% 1.0% 1.1% - - - - - - - - - - -

Gross profit

6,400 7,834 7,671 13,318 7,298 9,300 8,675 12,556 8,791 - - - - - - - - - - -

YoY

-1.7% 10.2% 26.9% 30.8% 14.0% 18.7% 13.1% -5.7% - - - - - - - - - - -

GPM

21.7% 21.3% 24.0% 22.7% 24.9% 22.7% 23.7% 23.4% 26.3% - - - - - - - - - - -

SG&A expenses

6,673 7,264 7,106 8,432 6,884 7,403 7,126 8,174 7,279 - - - - - - - - - - -

YoY

-3.0% 6.6% 14.3% 12.7% 3.2% 1.9% 0.3% -3.1% - - - - - - - - - - -

SG&A ratio

22.6% 19.6% 22.2% 14.4% 23.1% 18.1% 19.4% 15.2% 21.8% - - - - - - - - - - -

Operating profit

-273 569 566 4,885 414 1,897 1,549 4,381 1,511 - - - 56.0% 2,700

YoY

-96.2% -80.9% -15.6% -10.3% -233.4% 175.7% -10.3% 265.0% - - - - - - - - - - -

OPM

-1.5% 1.8% 8.3% 8.2% 1.4% 6.6% 6.2% 8.2% 4.5% - - - - - - - - - - -

Recurring profit

-333 607 476 4,951 400 1,970 1,594 4,381 1,511 - - - 56.8% 2,700

YoY

-61.4% -82.8% -10.9% -10.3% -224.5% 237.4% -10.3% 283.3% - - - - - - - - - - -

RPM

1.6% 1.5% 8.4% 8.3% 1.3% 4.8% 4.4% 8.3% 4.6% - - - - - - - - - - -

Net income attributable to parent company shareholders

-256 383 314 3,381 248 1,321 1,071 3,042 1,035 - - - 57.5% 1,800

YoY

-96.4% -101.0% -92.7% -100.0% -244.9% 241.7% -100.0% 317.3% - - - - - - - - - - -

Net margin

-1.0% 1.0% 5.8% 5.7% 0.8% 3.2% 2.9% 5.7% 3.1% - - - - - - - - - - -

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Q1 FY03/19 results

Results overview

▷ Sales: JPY33.4bn (+12.2% YoY)
▷ Operating profit: JPY1.5bn (+265.0%)
▷ Recurring profit: JPY1.5bn (+283.3%)
▷ Net income*: JPY1.0bn (+317.3%)

*Net income refers to net income attributable to parent company shareholders.

Due to continuing efforts to cut costs, expand services, and improve productivity, the company saw GPM rise by 1.8pp YoY to 26.3% in Q1 FY03/19, the SG&A-to-sales ratio drop by 1.3pp to 21.8%, and OPM improve by 3.1pp to 4.5%.

Progress

Progress versus the company's 1H FY03/19 forecasts were 45.3% for sales (previous year Q1 progress versus 1H FY03/18 results was 42.1%); 56.0% for operating profit (17.9%); 56.8% for recurring profit (16.9%); and 57.5% for net income attributable to parent company shareholders (15.8%). Progress versus the company's full-year FY03/19 forecasts were 19.7% for sales (previous year Q1 progress versus full-year FY03/18 results was 18.5%), 13.7% for operating profit (5.0%), 13.9% for recurring profit (4.8%), and 14.0% for net income attributable to parent company shareholders (4.4%). Looking at the large differences in the progress rates when compared to FY03/18, Shared Research is seeing steady progress in increasing added value by proposing integrated service solutions, as well as the effects of the company's efforts to correct (smooth out) the typical earnings bias toward Q4.
Orders, sales, and backlog by segment

Q1 FY03/19 results by segment

<table>
<thead>
<tr>
<th>Segment</th>
<th>Orders (JPYmn)</th>
<th>YoY</th>
<th>Sales (JPYmn)</th>
<th>YoY</th>
<th>OP</th>
<th>YoY</th>
<th>OPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>11,407</td>
<td>1.5%</td>
<td>9,758</td>
<td>8.9%</td>
<td>88</td>
<td>486.7%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Telecom Carrier</td>
<td>6,139</td>
<td>-9.9%</td>
<td>6,393</td>
<td>0.1%</td>
<td>710</td>
<td>218.4%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Public</td>
<td>30,523</td>
<td>133.4%</td>
<td>10,298</td>
<td>24.4%</td>
<td>208</td>
<td>278.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Partner</td>
<td>8,611</td>
<td>32.6%</td>
<td>6,860</td>
<td>14.1%</td>
<td>686</td>
<td>211.8%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Total</td>
<td>56,786</td>
<td>49.6%</td>
<td>33,418</td>
<td>12.2%</td>
<td>1,511</td>
<td>265.0%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Source: Shared Research based on company data
*Figures may differ from company materials due to differences in rounding methods.

Orders
Orders were JPY56.8bn (+49.6% YoY): JPY11.4bn (+1.5%) in the Enterprise segment, JPY6.1bn (-9.9%) in Telecom Carrier, JPY30.5bn (+133.4%) in Public, and JPY8.6bn (+32.6%) in Partner. Orders increased YoY, driven by the Public and Partner segments. In the Public segment, as well as large orders from central government agencies, local government security and cloud infrastructure orders were solid. In the Partner segment, business with key partners and managed services via Telecom Carrier remained robust.

By product category, orders for equipment were JPY35.9bn (+54.0% YoY) and orders for services were JPY20.9bn (+42.6%). The company made progress proposing integrated service solutions, a focus area. In equipment, large orders from central government agencies drove an increase to orders, and security and cloud infrastructure projects were also solid.

Sales
Sales were JPY33.4bn (+12.2% YoY): JPY9.8bn (+8.9%) in the Enterprise segment, JPY6.4bn (+0.1%) in Telecom Carrier, JPY10.3bn (+24.4%) in Public, JPY6.9bn (+14.1%) in Partner, and JPY0.8mn in Other.

Order backlog
Backlog was JPY92.5bn (+35.5% YoY): JPY24.2bn (+4.1%) in the Enterprise segment, JPY14.2bn (+24.1%) in Telecom Carrier, JPY45.9bn (+74.2%) in Public, and JPY8.1bn (+15.2%) in Partner.

Overviews by segment

Enterprise segment
In the Enterprise segment, sales were JPY9.8bn (+8.9% YoY) and operating profit was JPY88mn (+486.7%). Business related to security and cloud infrastructure, work style reforms, and the industrial internet of things (IIoT) was brisk. OPM improved by 0.7pp YoY to 0.9% (from 0.2% in Q1 FY03/18).

Telecom Carrier segment
In the Telecom Carrier segment, sales were JPY6.4bn (+0.1% YoY) and operating profit was JPY170mn (+218.4%). The cloud service infrastructure business had strong orders and sales; although orders declined YoY, they exceeded forecasts. OPM improved 7.6pp YoY to 11.1% (from 3.5% in Q1 FY03/18).

Public segment
In the Public segment, sales were JPY10.3bn (+24.4% YoY) and operating profit was JPY208mn (+278.2%). As well as receiving large orders from central government agencies, local government security and cloud infrastructure orders were solid, driving a large increase in orders. Security and cloud infrastructure projects were also solid in terms of sales. OPM improved by 1.3pp YoY to 2.0% (from 0.7% in Q1 FY03/18).
Partner segment

In the Partner segment, sales were JPY6.9bn (+14.1% YoY) and operating profit was JPY686mn (+211.8%). Business with key partners and managed service via Telecom Carrier remained robust. OPM improved by 6.3pp YoY to 10.0% (from 3.7% in Q1 FY03/18).

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