Q1. You have been awarded large-scale projects from the central government in the public market. Please tell us about their scales, order bookings periods, and about whether or not they are likely to lead to future projects.

A1. The scale of our two projects is JPY10.0bn altogether. We forecast that revenue for the large project will be recorded during the current fiscal year and that for the small project, it will be recorded during Q3. We do not expect these projects to directly lead to any future projects.

Q2. Are the purchasing parties new customers? Also, will profits be at the same level as normal projects?

A2. The large project is from a new customer. We are conducting proper risk management and have incorporated differentiating factors from regular projects ordered by the central government, so we anticipate figures that will sufficiently contribute to profits.

Q3. Order bookings in the enterprise market have only increased slightly. Please tell us about forecasts for this market.

A3. Results are proceeding smoothly. Pipelines (prospective projects) are rapidly increasing as terms such as “work-style innovation” and “digital transformation” continue to spread.

Q4. In the public market, you received large-scale projects from the central government that were slated for Q3 ahead of schedule. What effects will this have on 2H?

A4. I think that we will proceed with forecasts for Q3 after we observe progress moving forward. However, order bookings for local governments have been favorable despite forecasts that predicted they would decline somewhat. Therefore, we believe that results for the public market are proceeding in line with the full-year forecast, overall.
Q5. Please tell us how the gross profit margin reached its high level.
A5. During a typical year, the service ratio is high in Q1 and the gross profit margin tends to be high. In addition, we believe that we have differentiated ourselves through our services and the effects of this are taking shape during current fiscal year. Currently, we haven’t changed our position on gross profit margin and are still drawing the line at 23.8%, as indicated in the full-year forecast. We will continue to focus on trends in Q2 and subsequent quarters.

[Questioner C]

Q6. What year-on-year improvement resulted in the rise in gross profit margin?
A6. We believe that this rise occurred because we increased sales of services that have higher rates of profitability than hardware during the current fiscal year. During Q1, Net One Systems has been shifting from hardware sales to service business that supports cloud system integration in the telecom carrier market. This shift has improved profitability substantially. We will work to expand these service businesses moving forward.

Q7. Please tell us about your initiatives aimed at securing human resources and improving employee productivity.
A7. We do not currently believe that human resources are an urgent need. Since the previous fiscal year, Net One Systems has been streamlining its provision of services and marketing activities to improve productivity. Furthermore, we will proceed with preparations for providing integrated services within the current fiscal year, as we had targeted previously.

[Questioner D]

Q8. Can you explain why revenue in the telecom carrier market has not expanded despite a rising order backlog?
A8. Although we are somewhat off-schedule, we expect to record revenue in Q2 onward.

Q9. Did profitability in the telecom carrier market increase because you are handling highly difficult projects?
A9. Our projects are highly difficult but we are becoming able to horizontally expand our solutions. Telecom carriers have recorded favorable results for the services that they all offer to corporate customers and demand for cloud system integration is increasing.
Q10. Please explain why results for the partner sector have been positive.

A10. First, hardware sales have expanded for managed services through telecom carriers. Second, in addition to the hardware resale business that is geared toward our partner companies—a general business model—we provide our group’s technical support to them. We believe that this receives positive evaluations.

Q11. Please tell us about work-style innovation initiatives in the enterprise market.

A11. We have proposed business styles that involve showing our customers mechanisms that we employ and then explaining their uses and applications. These mechanisms include the virtual desktop infrastructure (VDI) that we are actually using internally, external mobile approval and a mobile video teleconference system. These proposed business styles are receiving high evaluations.

Q12. Please tell us about the results and the full-year forecast for the Industrial Internet of Things (IIoT) business.

A12. Last fiscal year’s revenue was about JPY3.5bn. We had been aiming for revenue of JPY4.0bn for the current fiscal year, the last in our medium-term business plan, but are now anticipating revenue of between JPY4.5–5.0bn as full-scale IIoT implementations have begun.

[Questioner E]

Q13. How positive were operating income results for Q1 in comparison to forecasts? Additionally, please tell us about forecasts for the 1H and for the full year.

A13. We had anticipated operating income of just under JPY1.0bn, so results were good. In terms of our forecasts, we will announce them after carefully examining circumstances during Q2 and considering the outlook leading up to Q4.

Q14. Please tell us about the full-year outlook for the public market.

A14. Currently, making predictions about results up to Q4 is difficult but, based on the current situation, we think that results will be somewhat better than forecasted. However, we require more time to examine details before we can make reliable predictions about final results.
Q15. In addition to risks involving the business environment, please tell us about risks you anticipate regarding full-year forecasts for order bookings.

A15. The public market is almost completely composed of bidding and we acknowledge that as a risk. In other segments, we are not facing any large risks. With regard to the business environment, we believe that we have differentiated ourselves in the public market with our solution proposals. We also believe that the enterprise market will recover, albeit slowly. Results for the telecom carrier market are expected to proceed in accordance with forecasts. In the partner sector, sales of hardware used for managed services for telecom carriers have been strong, and we expect the sales to continue to proceed in accordance with demand, moving forward.

Q16. Telecom carriers seem to have been planning to conduct 2H capital investment while keeping a close watch on fifth-generation mobile communication systems (5G). Could you be impacted negatively as a result?

A16. We do not hold any large expectations for 5G.

[Questioner F]

Q17. Please tell us about revenue progress, including information about its levelling.

A17. We had an abundant order backlog and provided instructions to proceed with all possible initiatives in Q1, which we believe contributed to results that were better than the previous year’s. When viewing the pipelines, market environments also appear to be proceeding in a positive direction, so we feel that performance is in line with forecasts.

Q18. Please tell us about the improvement in gross profit margin in the telecom carrier market.

A18. The projects are shifting from hardware sales to the offering of systems. Therefore, projects in which competition is based merely on hardware prices are decreasing in number. Other companies also deal in the hardware that we offer, but we believe that we have been able to make cloud system solutions proposals that differ in form from those of our competitors. These proposals ensure security, optimization, and increased efficiency of cloud systems.