On October 25, 2018, Net One Systems Co., Ltd. (Net one) announced earnings results for 1H FY03/19.

Quarterly earnings (JPYmn)

<table>
<thead>
<tr>
<th></th>
<th>FY03/17</th>
<th>FY03/18</th>
<th>FY03/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>29,794</td>
<td>29,794</td>
<td>33,418</td>
</tr>
<tr>
<td>Q2</td>
<td>40,902</td>
<td>53,732</td>
<td>47,180</td>
</tr>
<tr>
<td>Q3</td>
<td>36,679</td>
<td>51,573</td>
<td>44,067</td>
</tr>
<tr>
<td>Q4</td>
<td>80,000</td>
<td>53,732</td>
<td>47,180</td>
</tr>
</tbody>
</table>

- **Sales**: JPY29,794 million, up 10.0% YoY, 11.0% from FY03/17
- **Gross profit**: JPY7,298 million, up 10.4% YoY, 11.0% from FY03/17
- **Operating profit**: JPY4.9 billion, up 113.5% YoY, 110.9% from FY03/17
- **Recurring profit**: JPY5.0 billion, up 112.8% YoY, 110.9% from FY03/17
- **Net income**: JPY3.3 billion, up 110.9% YoY, 110.3% from FY03/17

- **Operating profit margin (OPM)**: 6.1% up 2.8pp YoY, 2.7pp from FY03/17
- **Recurring profit margin (RPM)**: 7.7% up 2.4pp YoY, 2.1pp from FY03/17

**Source**: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

1H FY03/19 results

Results overview

- **Sales**: JPY80.6bn (+14.0% YoY)
- **Operating profit**: JPY4.9bn (+113.5% YoY)
- **Recurring profit**: JPY5.0bn (+112.8% YoY)
- **Net income**: JPY3.3bn (+110.9% YoY)

*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 1.5pp YoY to 25.0% in 1H FY03/19, the SG&A-to-sales ratio drop by 1.3pp to 18.9%, and OPM improve by 2.8pp to 6.1%.

Progress

Progress versus the company’s 1H FY03/19 forecasts (upward revision announced September 28, 2018*) were 100.7% for sales; 107.3% for operating profit; 107.3% for recurring profit; and 110.3% for net income attributable to parent company shareholders. Both sales and profits exceeded forecasts. Progress versus the company’s full-year FY03/19 forecasts (upward revision announced September 28, 2018*) were 46.1% for sales (1H FY03/19 progress versus full-year FY03/18 results was 43.9%), 41.1% for operating profit (28.0%), 42.0% for recurring profit (28.2%), and 41.4% for net income attributable to parent company shareholders (27.6%). Regarding significantly higher progress rates for profits compared to 1H FY03/18, Shared Research thinks steady progress in increasing added value by proposing solutions for integrated service business, as well as the effects of the company’s efforts to correct (smooth out) the typical earnings tendency to concentrate on Q4. There are no changes to the full-year company earnings forecasts (upward revisions announced September 28, 2018*).
**Orders, sales, and backlog by segment**

**1H FY03/19 results by segment**

<table>
<thead>
<tr>
<th>(JPYmn)</th>
<th>Orders</th>
<th>YoY</th>
<th>Sales</th>
<th>YoY</th>
<th>OP</th>
<th>YoY</th>
<th>OPM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise</td>
<td>24,026</td>
<td>-1.2%</td>
<td>23,367</td>
<td>8.1%</td>
<td>972</td>
<td>67.3%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Telecom Carrier</td>
<td>13,225</td>
<td>2.6%</td>
<td>16,245</td>
<td>18.7%</td>
<td>1,865</td>
<td>160.8%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Public</td>
<td>46,928</td>
<td>76.3%</td>
<td>24,883</td>
<td>20.0%</td>
<td>982</td>
<td>91.8%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Partner</td>
<td>16,140</td>
<td>3.4%</td>
<td>15,898</td>
<td>10.1%</td>
<td>1,293</td>
<td>86.0%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Total</td>
<td>100,496</td>
<td>25.9%</td>
<td>80,598</td>
<td>14.0%</td>
<td>5,114</td>
<td>104.3%</td>
<td>6.3%</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 JPY100.5bn (+25.9% YoY): JPY24.0bn (-1.2% YoY) in the Enterprise segment, JPY170.0bn (+2.6% YoY) in Telecom Carrier, and JPY8.0bn (+76.3% YoY) in Public. Orders increased YoY, driven by the Public segment.

By product category, orders for equipment were JPY62.2bn (+21.1% YoY) and orders for services were JPY38.3bn (+34.5%). 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 JPY80.6bn (+14.0% YoY): JPY23.4bn (+8.1% YoY) in the Enterprise segment, JPY170.0bn (+18.7% YoY) in Telecom Carrier, JPY46.9bn (+76.3% YoY) in Public, and JPY16.1bn (+3.4% YoY) in Partner. Orders increased YoY, driven by the Public segment.

**Order backlog**

Backlog was JPY89.0bn (+28.7% YoY) at end-1H FY03/19: JPY23.2bn (-2.0% YoY) in the Enterprise segment, JPY11.4bn (+12.0% YoY) in Telecom Carrier, JPY47.7bn (+73.9% YoY) in Public, and JPY6.6bn (-14.7% YoY) in Partner.
Overviews by segment

Enterprise segment
In the Enterprise segment, sales were JPY23.4bn (+8.1% YoY) and operating profit was JPY972mn (+67.3% YoY). Business related to security and cloud infrastructure, work style reforms, and the industrial internet of things (IIoT) was brisk. Orders slightly declined YoY while exceeding forecasts. OPM improved by 1.5pp YoY to 4.2% (from 2.7% in 1H FY03/18).

Telecom Carrier segment
In the Telecom Carrier segment, sales were JPY16.2bn (+18.7% YoY) and operating profit was JPY1.9bn (+160.8% YoY). The cloud service infrastructure business had strong orders and sales; although orders declined YoY, they exceeded forecasts. OPM improved 6.3pp YoY to 11.5% (from 5.2% in 1H FY03/18).

Public segment
In the Public segment, sales were JPY24.9bn (+20.0% YoY) and operating profit was JPY982mn (+91.8% YoY). 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 in Q1. Security and cloud infrastructure projects were also solid in terms of sales. OPM improved by 1.4pp YoY to 3.9% (from 2.5% in 1H FY03/18).

Partner segment
In the Partner segment, sales were JPY15.9bn (+10.1% YoY) and operating profit was JPY1.3bn (+86.0% YoY). Business with key partners and managed service via Telecom Carrier remained robust. OPM improved by 3.3pp YoY to 8.1% (from 4.8% in 1H FY03/18).

This note is the most recent addition to the full report.
We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

Disclaimer
This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report.

The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report’s objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer
The report has been prepared by Shared Research under a contract with the company described in this report (“the company”). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details
Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp