

Participants: 86  
Duration: 63 minutes (briefing: 23 minutes; Q&A: 40 minutes)  
Questions: 10 questions from 5 people

[Questioner A]

Q1. Please explain why Q2 (July–September) order bookings fell year on year in the enterprise market and the partner sector. Additionally, could you tell us why the order bookings forecast for the public market in 2H has been reduced significantly year on year?

A1. Q2 order bookings in the enterprise market are progressing according to our forecast. We have revised our full-year order bookings forecast upward, even after factoring in the risk of trade friction between the U.S. and China in the manufacturing sector.

In the partner sector, managed services provided by telecom carriers performed extremely well in 1H. We secured many of these order bookings early, during Q1, which caused Q2 numbers to fall year on year when viewed in isolation.

In the public market, we front-loaded a large number of project orders initially forecast for 2H, many of which were large-scale projects from the central government, to 1H. This was responsible for the reduction in Q2 order bookings compared to initial forecast. On the other hand, we do not anticipate a particularly significant year-on-year decline in Q3 order bookings in the public market, as the new healthcare market (for hospitals) is expanding. However, we also do not expect Q4 growth on par with Q4 of the previous fiscal year because we do not anticipate a similar rush of project order bookings for Q4 in the current fiscal year.

Q2. As for IIoT<sup>1</sup>, have you secured business in terms of operation and support, as well as integration? Please explain again how you intend to grow the market.

A2. When it comes to IIoT, we are handling the integration of, and support for, networks and server systems within factories. From a market point of view, we are expanding our customer range to include customers other than those of leading auto manufacturers. When adopting IoT technology, IT knowledge alone isn't enough; OT<sup>2</sup> expertise is also necessary. Net One Systems thinks that its thorough knowledge of both IT and OT allows it to effectively make proposals and that this is a major distinguishing strength. During the summer of this year, we began providing data analysis support at several companies. We are expecting large business growth starting during the next fiscal year.

[Questioner B]

Q3. Please explain the primary cause for order bookings growth in the public market during Q2 (July–September). Is it possible that 2H order bookings will exceed forecast? Would this lead to a lack of human resources in terms of revenue?

---

<sup>1</sup> IIoT: Industrial IoT (IoT systems in the manufacturing industry)

<sup>2</sup> OT: Operational technology (operational and control technology for industrial equipment)

---

A3. Public market order bookings grew steadily in Q2 and exceeded forecast, including in the healthcare field, which saw particular growth in local governments. Order bookings also may exceed forecast for 2H. As far as human resources go, we have begun to conduct discussions regarding capacity and expect to record revenue for all projects with delivery dates that fall within the current fiscal year.

Q4. Is the 2H forecast for order bookings in the enterprise market based on slowdown in the export industry?

A4. We have already accounted for risks in the 2H forecast. Based on our predictions, we have revised our full-year forecast for order bookings in the enterprise market upward.

[Questioner C]

Q5. Please provide commentary regarding why profit was so high in the telecom carrier market.

A5. As mentioned before, we currently have not secured business in the field of internet infrastructure, which has low profitability. About 80% or more of 1H telecom carrier market revenue was for cloud systems. In other words, these are value-added solution services that combine products from several vendors, including servers, storage hardware, security, and networks, and are contributing to an improved profit margin. Additionally, we allocate personnel from the telecom carrier market to the enterprise and public markets, which keeps SG&A expenses in the telecom carrier market low, also contributing to an improved profit margin.

Q6. In the context of the whole company, what will the driving force be over the next two to three years, and on what scale?

A6. Please understand that the following details are currently still in the idea stage. In IIoT field, we are primarily engaged in business with one specific auto manufacturer and are continuing to make progress with field testing that includes data analysis conducted in conjunction with other auto manufacturers. We are considering moving from field testing into actual implementation within the next three years and believe that this has the potential to become one factor contributing to expanded results.

Additionally, closed systems are currently being operated in many industries. For example, when systems for specific vendors, such as electronic medical records at hospitals or surveillance camera video image analysis processing, are adopted for use all at once, they cannot connect with other systems, leaving customers unsatisfied. Due to circumstances like this, demand for open systems that separate applications and systems continues to expand in various industries.

We predict that the movement toward open systems will also begin to spread in the IoT field within the next three years. This spread does not necessarily have to be limited to networks; if we could expand the market in a way that includes “physical security” technology, such as

image processing and image recognition, we believe that we could possibly secure a business scale of ¥10.0 billion in three years, versus our current medium-term business plan target of ¥4.0 billion.

[Questioner D]

Q7. Will it be possible to exceed the forecast of ¥12.0 billion in operating income for the current fiscal year?

A7. It is possible to think that improvements in gross profit margin, but not revenue, could cause an upturn.

Q8. What percentage of profit margin are you aiming for in next year's medium-term business plan?

A8. We are not yet committed to this but are hoping to formulate a plan that aims for an operating margin of 10%. By aiming for both top-line growth and a lower SG&A ratio through continual improvement of business processes, we believe that we can create a plan that will have a positive effect on profit.

[Questioner E]

Q9. Why did 1H results significantly exceed even the revised forecasts, which were raised upward? Additionally, could you provide some information regarding whether or not service revenue that performed strongly during 1H will continue their trend in 2H?

A9. Results exceeded forecast values because they included service revenue that we had not initially predicted. We accurately predicted revenue for maintenance services, which are recorded monthly, but we overlooked a portion of our consultation and value-added services. Net One Systems believes that service revenue will continue to perform favorably in 2H and that the ratio of service revenue will exceed its 1H level of 41.2% by a few percentage points.

Q10. Please explain the state of progress on your medium-term policy of improving productivity by directing company activities toward making proposals to external customers.

A10. We have determined that 30–40% of our internal business processes are still wasteful, in terms of productivity. For example, we encountered cases in which we repeatedly conduct the same type of processing in several different departments; reducing this repetitious processing will cut back on internal processes by 30%.

By limiting procedural waste, we can secure time for employees to think creatively, which we believe will be the first step toward further business expansion. Accordingly, although the impact on results over a short period of time may be small, we expect the elimination of procedural redundancy to contribute to expanded revenue and profit over the next two to three years.