Participants: 117
Duration: 55 minutes (briefing: 23 minutes; Q&A: 32 minutes)
Questions: 17 questions from 6 people

■ Public market

Q1. Please inform us concerning the profitability of the JPY6.0bn in revenue in the public market that was recorded early, instead of in Q3, as initially projected.
A1. The gross profit margin of this revenue was 7%.

Q2. JPY6.0bn in revenue was recorded early in the public market; Were order bookings moved forward as well? Please explain why bookings were JPY9.0bn higher than anticipated.
A2. We received orders for projects ahead of schedule in Q1 and Q2 and are positive that these orders are not connected with the higher-than-expected volume of bookings.

■ Telecom carrier market

Q3. You explained that hardware replacement and other factors caused the operating margin to drop by approximately 3pp year on year in the telecom carrier market. Was this according to projections?
A3. Yes it was.

Q4. Moving forward, you plan to work on 5G-related projects in the telecom carrier market. Could you please tell us about the scale of these projects, whether or not they will continue into FY20 and, if yes, when they will take place?
A4. I cannot comment on these projects as their contracts have not been finalized. However, we expect order bookings from these projects in 2H to be worth several billion yen. Whether or not these projects continue into FY20 will depend on demand for customer telecom services. We believe these projects will center on hardware with low added value, so while they will not result in losses, we do not expect to record substantial profit from these projects. Excluding the impact of these projects, we believe that FY19 performance will be in line with our forecast.

Q5. I understand that you have been dealing in routers for IP networks since the days of 4G LTE. What changes will your involvement in 5G-related projects bring?
A5. We do not think that our product lineup will change very much. Our business does not involve 5G base stations.
Q6. Is your lack of activity in terms of telecom carriers a strategy to avoid lost opportunities caused by assigning engineers to related tasks?
A6. We have deep business relationships with our customers and perform a variety of work for them, but we have continuously focused on profitability. Projects focused on providing hardware have raised our top line but also appear to have brought down profitability. We do not believe that it is advantageous for temporary projects to cause fluctuations in performance.

Enterprise market

Q7. In the enterprise market, Q2 revenue rose by JPY0.1bn and profit increased by JPY1.0bn. Will we see similar circumstances in 2H?
A7. In the enterprise market, a number of projects passed the breakeven point, creating conditions likely to generate profit. Additionally, some projects were characterized by strong profitability. These factors both contributed to favorable results. Profit is improving overall so we will work to continue producing similar number moving forward.

Partner sector

Q8. Is there a possibility that you will receive orders from the telecom carrier you mentioned earlier?
A8. We are not sure about this yet. If we do accept projects from the carrier, we acknowledge the possibility that they will raise our top line but do not expect them to be particularly profitable.

Q9. If you receive orders from the telecom carrier in the partner sector as you explained earlier, will this result in a risk of falling profitability?
A9. We are raising profitability in the partner sector by increasing our service ratio and enhancing our provision of solutions. However, these order bookings will be a primary factor bringing down profitability, so we will focus closely on trends moving forward.

Q10. Please tell us about businesses related to the telecom carrier that you anticipate in the partner sector.
A10. Business topics related to Net One Systems included an announcement that the telecom carrier will use routers and switches. We are not in a position to comment on how this will affect sales channels.
Progress of medium-term business plan

Q11. Please tell us about progress in terms of order bookings and revenue in focus markets.
A11. In 1H, progress was strong overall. Order bookings in the healthcare market were JPY3.3bn, up from JPY1.9bn in 1H FY18, while revenue was JPY2.9bn, up from JPY1.5bn in 1H FY18. In the education market, order bookings were JPY4.6bn, up from JPY3.9bn in 1H FY18, while revenue was JPY2.3bn, up from JPY1.9bn in 1H FY18. As for the smart factory market, order bookings were JPY2.5bn, up from JPY1.8bn in 1H FY18, while revenue fell to JPY1.5bn from JPY1.7bn in 1H FY18.

Q12. We have heard that order bookings at production machinery companies have been lower than initially projected; Has this impacted the smart factory market?
A12. Other than some manufacturers, performance has been strong. At this time, lower order bookings at production machinery companies have had no impact on the smart factory market.

Q13. How was the JPY800mn in refurbishment order bookings recorded?
A13. The refurbishment (use of recycled goods) business is broadly supported by three pillars: The first is third-party maintenance service. The second pillar is the rental of recycled goods. Third is the marketing of recycled goods. Revenue from the first two pillars is recorded on a monthly basis while revenue from the marketing of recycled goods is recorded on a lumpsum basis. Revenue appears to be showing strong growth, finishing at approximately JPY200mn in 1H. In FY19, we are aiming for JPY1.0bn in revenue and are working to ensure that the refurbishment business turns a profit for the year.

Q14. Do you have KPIs in your integrated services business?
A14. We define all actions that Net One Group employees perform for customers as integrated services. We provide new operational services that include optimization in addition to planning, building, and operating systems. Thanks to these integrated services, we are gradually taking on projects that provide support for customer operation cycles. We manage KPIs internally but do not disclose them.

Q15. Why are you focusing on optimization in the integrated services business?
A15. Investment cycles in ICT infrastructure, including networks, are longer than they were before, and we believe that periods of use following implementation are growing longer. However, new technologies are emerging successively. We are working to provide optimal and highly satisfying investment proposals that are tailored to individual customer circumstances.
Future outlook

Q16. Please tell us about the outlook for 2H.
A16. We expect to incur a drop in performance in Q3 due to projects that we took on ahead of schedule but predict that Q4 results will be mostly in line with plans. Although we are currently unable to make predictions regarding profit, we believe that we can meet your expectations if we are able to maintain the same pace in Q3 as we did during 1H.

Q17. Have you received instructions to refrain from telecommunications or other similar construction during the Tokyo Olympics next year? Will the games have an impact on results?
A17. Currently, we have not received any directions or requests in this regard. We could experience slowdown in terms of logistics or revenue due to forecasts of congested public transport, but do not expect this to impact full-year results.