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On **January 31, 2019**, Net One Systems Co., Ltd. (Net One) announced earnings results for Q3 FY03/19.

Quarterly earnings (JPYmn)	FY03/17				FY03/18				FY03/19				FY03/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	29,475	37,064	31,993	58,704	29,794	40,902	36,679	53,732	33,418	47,180	41,834	-	70.0%	175,000
YoY	0.9%	9.9%	8.9%	11.0%	1.1%	10.4%	14.6%	-8.5%	12.2%	15.3%	14.1%	-		8.6%
Gross profit	6,400	7,834	7,671	13,318	7,298	9,300	8,675	12,556	8,791	11,390	10,274	-	71.3%	42,700
YoY	-1.7%	10.2%	26.9%	30.8%	14.0%	18.7%	13.1%	-5.7%	20.5%	22.5%	18.4%	-		12.9%
GPM	21.7%	21.1%	24.0%	22.7%	24.5%	22.7%	23.7%	23.4%	26.3%	24.1%	24.6%	-		24.4%
SG&A expenses	6,673	7,264	7,106	8,432	6,884	7,403	7,126	8,174	7,279	7,967	7,449	-	73.9%	30,700
YoY	-3.0%	6.6%	14.3%	12.7%	3.2%	1.9%	0.3%	-3.1%	5.7%	7.6%	4.5%	-		3.8%
SG&A ratio	22.6%	19.6%	22.2%	14.4%	23.1%	18.1%	19.4%	15.2%	21.8%	16.9%	17.8%	-		17.5%
Operating profit	-273	569	566	4,885	414	1,897	1,549	4,381	1,511	3,424	2,824	-	64.7%	12,000
YoY	-	96.2%	-	80.9%	-	233.4%	173.7%	-10.3%	265.0%	80.5%	82.3%	-		45.6%
OPM	-	1.5%	1.8%	8.3%	1.4%	4.6%	4.2%	8.2%	4.5%	7.3%	6.8%	-		6.9%
Recurring profit	-333	607	476	4,951	400	1,970	1,606	4,442	1,533	3,510	2,913	-	66.3%	12,000
YoY	-	61.4%	-	82.8%	-	224.5%	237.4%	-10.3%	283.3%	78.2%	81.4%	-		42.6%
RPM	-	1.6%	1.5%	8.4%	1.3%	4.8%	4.4%	8.3%	4.6%	7.4%	7.0%	-		6.9%
Net income attributable to parent company shareholders	-256	383	314	3,381	248	1,321	1,071	3,042	1,035	2,274	1,994	-	66.3%	8,000
YoY	-	96.4%	-	101.0%	-	244.9%	241.1%	-10.0%	317.3%	72.1%	86.2%	-		40.8%
Net margin	-	1.0%	1.0%	5.8%	0.8%	3.2%	2.9%	5.7%	3.1%	4.8%	4.8%	-		4.6%
<b>Cumulative</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>		
Sales	29,475	66,539	98,532	157,236	29,794	70,696	107,375	161,107	33,418	80,598	122,432	-		
YoY	0.9%	5.8%	6.8%	8.3%	1.1%	6.2%	9.0%	2.5%	12.2%	14.0%	14.0%	-		
Gross profit	6,400	14,234	21,905	35,223	7,298	16,598	25,273	37,829	8,791	20,181	30,455	-		
YoY	-1.7%	4.5%	11.4%	18.0%	14.0%	16.6%	15.4%	7.4%	20.5%	21.6%	20.5%	-		
GPM	21.7%	21.4%	22.2%	22.4%	24.5%	23.5%	23.5%	23.5%	26.3%	25.0%	24.9%	-		
SG&A expenses	6,673	13,937	21,043	29,475	6,884	14,287	21,413	29,587	7,279	15,246	22,695	-		
YoY	-3.0%	1.8%	5.7%	7.6%	3.2%	2.5%	1.8%	0.4%	5.7%	6.7%	6.0%	-		
SG&A ratio	22.6%	20.9%	21.4%	18.7%	23.1%	20.2%	19.9%	18.4%	21.8%	18.9%	18.5%	-		
Operating profit	-273	296	862	5,747	414	2,311	3,860	8,241	1,511	4,935	7,759	-		
YoY	-	-	-	134.3%	-	680.7%	347.8%	43.4%	265.0%	113.5%	101.0%	-		
OPM	-	0.4%	0.9%	3.7%	1.4%	3.3%	3.6%	5.1%	4.5%	6.1%	6.3%	-		
Recurring profit	-333	274	750	5,701	400	2,370	3,976	8,418	1,533	5,043	7,956	-		
YoY	-	-	-	119.8%	-	765.0%	430.1%	47.7%	283.3%	112.8%	100.1%	-		
RPM	-	0.4%	0.8%	3.6%	1.3%	3.4%	3.7%	5.2%	4.6%	6.3%	6.5%	-		
Net income attributable to parent company shareholders	-256	127	441	3,822	248	1,569	2,640	5,682	1,035	3,309	5,303	-		
YoY	-	-	-	153.4%	-	1,135.4%	498.6%	48.7%	317.3%	110.9%	100.9%	-		
Net margin	-	0.2%	0.4%	2.4%	0.8%	2.2%	2.5%	3.5%	3.1%	4.1%	4.3%	-		

Source: Shared Research based on company data

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

## Q3 FY03/19 results

### Results overview

Cumulative Q3 results:

- ▷ Orders: JPY138.0bn (+15.8% YoY)
- ▷ Sales: JPY122.4bn (+14.0% YoY)
- ▷ Order backlog: JPY84.7bn (+17.8% YoY)
- ▷ Operating profit: JPY7.8bn (+101.0% YoY)
- ▷ Recurring profit: JPY8.0bn (+100.1% YoY)
- ▷ Net income\* JPY5.3bn (+100.9% YoY).

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

- ▷ Orders up 15.8% YoY: Orders in the Enterprise segment were up 3.4% YoY, in Telecom Carrier down 1.3%, in Public up 46.0%, and in Partner up 0.05%. The security and cloud infrastructure businesses performed well. Proposals for “Integrated Services” business made steady progress. Orders for services were up 21.9% YoY and were up 12.2% for equipment. Services made up 38.5% of cumulative Q3 orders, up from 36.5% in cumulative Q3 FY03/18.
- ▷ Sales up 14.0% YoY: Sales in in the Enterprise segment were up 5.5% YoY, in Telecom Carrier up 20.1%, in Public up 27.9%, and in Partner up 2.8%

- ▷ Operating profit up 101.0% YoY: In addition to higher sales, profits grew as the company successfully increased productivity, expanded services, and cut costs. Profitability increased YoY in each segment
- ▷ Progress rate: In cumulative Q3, sales reached 70.0% of FY03/19 full-year company forecasts (cumulative Q3 FY03/18 sales reached 66.6% of full-year forecasts), while operating profit reached 64.7% (46.8%), recurring profit reached 66.3% (47.2%), and net income attributable to parent company shareholders reached 66.3% (46.5%)

Due to continuing efforts to cut costs, expand services, and improve productivity, the company saw GPM rise by 1.4pp YoY to 24.9% in cumulative Q3 FY03/19, the SG&A-to-sales ratio drop by 1.4pp to 18.5%, and OPM improve by 2.7pp to 6.3%.

Regarding significantly higher progress rates for profits compared to Q3 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

### Cumulative Q3 FY03/19 results by segment

(JPYmn)	Orders	YoY	Sales	YoY	Operating profit	YoY	OPM
Enterprise	37,273	3.4%	35,766	5.5%	1,781	17.5%	5.0%
Telecom Carrier	20,307	-1.3%	24,017	20.1%	2,509	216.0%	10.4%
Public	57,136	46.0%	39,362	27.9%	2,084	127.3%	5.3%
Partner	23,102	0.5%	22,982	2.8%	1,724	66.6%	7.5%
<b>Total</b>	<b>138,036</b>	<b>15.8%</b>	<b>122,432</b>	<b>14.0%</b>	<b>7,759</b>	<b>101.0%</b>	<b>6.3%</b>

Source: Shared Research based on company data

\*Figures may differ from company materials due to differences in rounding methods.

### Orders

Orders were JPY138.0bn (+15.8% YoY): JPY37.3bn (+3.4% YoY) in the Enterprise segment, JPY20.3bn (-1.3% YoY) in Telecom Carrier, JPY57.1bn (+46.0% YoY) in Public, and JPY23.1bn (+0.5% YoY) in Partner. Orders increased YoY, driven by the Public segment.

By product category, orders for equipment were JPY84.9bn (+12.2% YoY) and orders for services were JPY53.1bn (+21.9%). 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 JPY122.4bn (+14.0% YoY): JPY35.8bn (+15.5% YoY) in the Enterprise segment, JPY24.0bn (+20.1% YoY) in Telecom Carrier, JPY39.4bn (+27.9% YoY) in Public, JPY23.0bn (+2.8% YoY) in Partner, and JPY304mn in Other.

### Order backlog

Backlog was JPY84.7bn (+17.8% YoY) at end-cumulative Q3 FY03/19: JPY24.0bn (+4.0% YoY) in the Enterprise segment, JPY10.7bn (-7.4% YoY) in Telecom Carrier, JPY43.5bn (+45.2% YoY) in Public, and JPY6.5bn (-9.9% YoY) in Partner.

## Overviews by segment

### Enterprise segment

In the Enterprise segment, sales were JPY35.8bn (+5.5% YoY) and operating profit was JPY1.8bn (+17.5% 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 0.5pp YoY to 5.0% (from 4.5% in cumulative Q3 FY03/18).

**Telecom Carrier segment**

In the Telecom Carrier segment, sales were JPY20.3bn (-1.3% YoY) and operating profit was JPY2.5bn (+216.0% YoY). The cloud service infrastructure business had strong orders and sales and is proceeding in line with company forecasts. OPM improved 6.4pp YoY to 10.4% (from 4.0% in cumulative Q3 FY03/18).

**Public segment**

In the Public segment, sales were JPY39.4bn (+27.9% YoY) and operating profit was JPY2.1bn (+127.3% 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 2.3pp YoY to 5.3% (from 3.0% in cumulative Q3 FY03/18).

**Partner segment**

In the Partner segment, sales were JPY23.0bn (+2.8% YoY) and operating profit was JPY1.7bn (+66.6% YoY). Business with key partners and managed service via Telecom Carrier remained robust. OPM improved by 2.9pp YoY to 7.5% (from 4.6% in cumulative Q3 FY03/18).

This note is the most recent addition to the [full report](#).

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