



President Mitsuru Sakai

I-NET CORP. (9600)


 inet 株式会社 アイネット

Corporate Information

Exchange	TSE 1st Section
Industry	Information and communications
Representative Director, Executive President	Mitsuru Sakai
Address	23F, Mitsubishi Juko Yokohama Bldg., 3-3-1 Minatomirai, Nishi-Ku, Yokohama
Year-end	March
URL	https://www.inet.co.jp/

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥1,171	16,242,424 shares		¥19,019 million	10.9%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥43.00	3.7%	¥100.01	11.7 times	¥903.04	1.3 times

*The share price is the closing price on June 26.

*The values of shares outstanding, ROE, DPS, EPS, and BPS were taken from the brief financial report for the term ended Mar. 2019.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
March 2016 (Actual)	24,434	1,918	1,838	1,114	69.70	34.00
March 2017 (Actual)	24,617	1,992	1,939	1,314	82.68	36.00
March 2018 (Actual)	25,615	2,081	2,051	1,368	86.06	38.00
March 2019 (Actual)	27,591	2,345	2,347	1,521	95.72	40.00
March 2020 (Estimate)	30,000	2,450	2,390	1,590	100.01	43.00

* Unit: Million yen, yen.

*The estimated values were provided by the company. Net income is profit attributable to owners of the parent. Hereinafter the same applies.

This report outlines I-NET CORP., describes its mid-term management plan and earnings trend, including the interview with President Sakai, and so on.

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Key Points

- Based on its own data center with Japan's highest level of safety and management of system operations which has been nurtured for many years, I-NET CORP. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well as printing, enclosing and sealing, and advanced cloud computing. Its strengths are the great capability of operating business through vertical integration and horizontal expansion and the stable business model supported by a robust customer portfolio.
- For the term ending March 2020, the estimated sales is 30 billion yen, up 8.7% year on year, and operating income will rise by 4.4% year on year to 2.4 billion yen. The information processing service and the system development service are expected to see growth in sales and profit. Although SG&A will augment, it will be offset by sales growth, which secures a rise in profit. Sales are projected to increase for the 9th consecutive term, hitting a record high. Profit is forecasted to rise for the 10th consecutive term, hitting a record high like in the previous term. The dividend is to be 43 yen/share, up 3 yen/share from the previous term, increasing for the 8th consecutive term. The estimated payout ratio is 43.0%.
- As the first step to become “an excellent company that enables sustainable growth,” the company produced a mid-term management plan, started this term and expected to end three years later, in the term ending March 2022, and it is proceeding with this plan. In order to improve its corporate value and expand its business scale, it is proceeding with the three plans: “the business strategy plan,” “the investment strategy plan,” and “the ESG plan.” It aims to achieve sales of 33.2 billion yen in the current mid-term management plan and sales of 50 billion yen in the next mid-term management plan that will end in the term ending March 2025, and it will still continue pursuing further growth.
- We interviewed President Sakai about his missions, the company's strengths and characteristics, his message toward shareholders and investors, etc. He said “We aim to grow further with ‘one inet’ by utilizing our unique strengths. We would appreciate your support from the mid/long-term viewpoint.”
- The company's target management indicators are “sales,” “operating income,” “operating income ratio,” and “ROE.” Among them, sales and operating income are expected to hit a record high this term, and ROE is as stable as 10%. It seems that they are performing well.
- On the other hand, although operating income ratio bottomed out at 6.9% in the term ended March 2015 and increased to 8.5% in the previous term, it is estimated to be 8.2% during the period of the mid-term management plan from this term. This means that the company will enhance the investment in equipment, human resources, and R&D for further growth. We would like to pay attention to whether the company will evolve into “a company that can earn money” with higher profitability as their investment will bear fruit, as mentioned by President Sakai during the interview.
- Although the company did not disclose the sales from their data center and cloud services, we would like to see what kinds of services it will offer with “one inet” based on the fact that it has grown to a certain level from zero over the past 10 years and that there are about 1,400 companies using its cloud service.

1. Company Overview

Based on its own data center with Japan's highest level of safety and management of system operations which has been nurtured for many years, I-NET CORP. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well as printing, enclosing and sealing, and advanced cloud computing. Its strengths are the great capability of operating business through vertical integration and horizontal expansion and the stable business model supported by a robust customer portfolio.

【1-1 Corporate history】

Although private automobiles were distributed rapidly and the number of gas stations were expected to increase, the gas station managers were suffering from the fact that it was difficult to manage accounts receivable, sale, customers, etc. surely and efficiently at that time. Considering that introducing a system which could solve those problems would bring a big business chance, Mr. Noriyoshi Ikeda from a foreign-affiliated oil company (currently, chairman of the board of I-NET CORP.) established Fuji Consult Co., Ltd., the predecessor of I-NET CORP., in 1971, with the purpose of undertaking the counting at gas stations.

As Mr. Ikeda expected, the company was designated as a regional or nationwide calculation center first by Idemitsu Kosan and then by other oil wholesalers, including Showa Shell Sekiyu, Mobil, Kygnus Sekiyu, and Mitsui Oil, resulting in rapid business growth. In 1997, it was listed in the second section of Tokyo Stock Exchange.

Later, it expanded its business domains beyond the distribution of oil such as M&A, etc., and intensified its presence in its current main fields, including data centers, finance, manufacturing, retail, and distribution. In 2006, it was listed in the first section of Tokyo Stock Exchange.

The company is still cultivating new promising fields, including drones.

【1-2 Corporate philosophy】

As I-NET CORP. will commemorate the 50th anniversary of incorporation in 2021, it set “inet Way” as the corporate group's ethos, considering that it is necessary for executives and employees to share common values as their standards when taking any action all together in order to grow further and become an enterprise that can grow sustainably.

“inet Way” consists of 4 layers: “Corporate Philosophy,” “Corporate Vision,” “Management Policy,” and “Mid-term Management Plan.” It is based on “Charter of Corporate Code” corporations should follow and “Course of Action” which serves as the driving force for attaining “inet Way.”



(Taken from the reference material of the company)

“inet Way” set a new management policy: “To become an excellent company that enables sustainable growth—keep growing while changing,” in order to expand its business scale and develop a sturdy foundation for business growth.

It indicates the mindset: “The company and employees need to keep growing by changing themselves while seeing the changes of the times and trends.”

Corporate Philosophy	To create new systems and values using information technology and contribute to the realization of a prosperous, happy society.
Corporate Vision	<p>With "Create" "Challenge" "Trust" as our foundation, we aspire for the sustainable improvement of our corporate values and will grow as a company that contributes to society and our stakeholders.</p> <p>integrated A company that understands the value of knowledge and leads an IT society</p> <p>networking A company that strives to create a network connecting technology-to-technology, heart-to-heart(person-to-person), and individual-to-society.</p> <p>energy An energetic company that takes on creativity and innovation for the realization of a sustainable society.</p> <p>technology A company that works towards the realization of a prosperous and happy society through information technology.</p>
Management Policy	Becoming an excellent company that makes sustainable growth possible

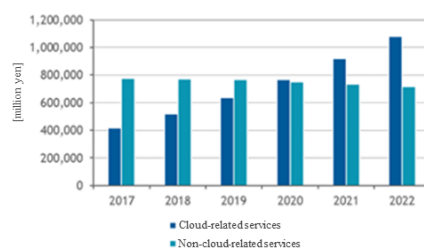
The mid-term management plan will be described later.

【1-3 Market environment】

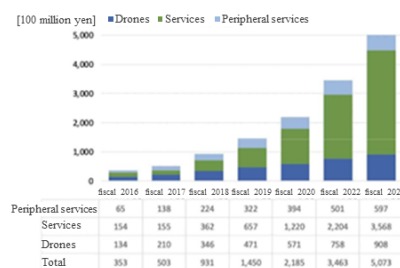
I-NET CORP. recognizes the industrial and business environments of its major domains and those the company will focus on as follows.

■ Major domestic IT markets

● Domestic data center market
The market scale is estimated to grow at an annual rate of 8.6% on average and reach 1.8 trillion yen in 2022. Cloud-related services will grow rapidly and are expected to account for over 50% of sales in the data center service market in 2020.
(October 9, 2018; IDC Japan)








● Domestic drone market
The domestic market scale in fiscal 2019 is 145 billion yen, up 56% year on year. It is projected to reach 507.3 billion yen in 2024. As for the scale of each business category, the scale of the service market grew by 134% year on year in fiscal 2018, exceeding that of the drone body market.
(April 1, 2019; Impress Corporation)



(Taken from the reference material of the company)

The market of data centers in which the company is competitive and the market of drones it focuses on are both expected to grow steadily.

Oil wholesale and retail		<ul style="list-style-type: none"> Continued efforts to expand its market share while the number of SS is declining The merger of oil wholesalers produces favorable short-term effects.
Manufacturing Control and space		<ul style="list-style-type: none"> The demand for system investment is healthy, and IoT-related and RPA activities increased. Increase in number of artificial satellites launched, growing demand due to the use in the private sector, and cooperation with start-up firms
Finance		<ul style="list-style-type: none"> The development of systems for credit cards and credit-card loans is favorable.
Retail, distribution, etc.		<ul style="list-style-type: none"> Development projects for convenience stores are healthy. The demand for re-establishment of systems is favorable. Operation of businesses in the sightseeing industry, etc., targeting foreign visitors to Japan.
Data centers Cloud services		<ul style="list-style-type: none"> The number of orders for the Next Generation EASY Cloud (NGEC) is growing steadily. The alliance for developing services by combining NGEC and apps is healthy. The IoT platform business utilizing drones is progressing steadily. Protection of personal information, and promotion of differentiation with DC + printing/mailing

(Taken from the reference material of the company)

Through the consolidation and reorganization of oil wholesalers, the number of them decreased from 15 in 1990 to 5. As a result, the number of domestic service stations has halved from the peak around 1990.

Amid this situation, the company acquired new customers and increased its market share based on its experiences and capabilities it has developed, and it cemented its No.1 position as competitors withdrew from their businesses.

There are many orders for the development of systems for interconnecting credit cards and sales data, etc., and it is unnecessary to conduct significant investment for increasing customers. This situation is favorable for the company.

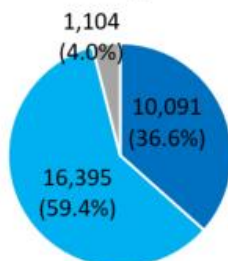
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

【1-4 Business contents】

Based on its own data center with Japan’s highest level of safety and management of system operations which has been nurtured for many years, I-NET CORP. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well as printing, enclosing and sealing, and advanced cloud computing.

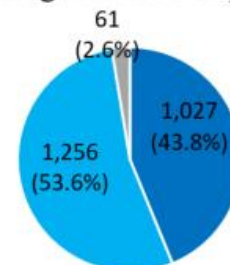
Its core businesses are “information processing,” “system development,” and “system equipment sales.”

Sales composition



■ Information processing service ■ System development service
■ System equipment sales

Operating income composition



■ Information processing service ■ System development service
■ System equipment sales

*Term ended March 2019; Unit: Million yen; Operating income was calculated with the company’s original simplified method, and the values are for reference.

(1) Information processing service

It is composed of the 5 services: “undertaking of accounting and information processing in the fields of oil sale, retail, distribution, finance, etc.,” “management of credit data and delivery to card companies,” “printing, processing, and dispatch of bills, direct mails for sales promotion, etc.,” “IT management services,” and “cloud services.”

◎Commissioned counting settlement for service stations

As for the commissioned counting settlement services for service stations (gas stations), the company’s initial business, it offers services related to credit cards and settlement of accounts receivable for payment at gas stations.

Credit-card transactions are handled by data centers of I-NET via networks.

On behalf of gas stations, the company processes data of accounts receivable and calculates quantities, unit prices, discounts, etc., and then it produces and dispatches bills at the end of each month.

The company has the largest market share, as about 33% of gas stations in Japan use the systems of I-NET.

By utilizing its know-how, experiences, and business base nurtured through the processing of credit cards and accounts receivable, I-NET handled settlement tasks in other fields, including finance and retail, and expanded its business scale.

◎Printing/Mailing

As the company has dealt with the task of dispatching bills at gas stations, it also prints, encloses, and seals credit-card statements, tax notices, election cards, direct mails, bills, etc.

It also undertakes the tasks of inputting data, receiving applications for credit cards, handling inquiries about status of card utilization, and operating call centers from credit card companies, which are major clients, through business process outsourcing (BPO).

◎Data center service

In the information processing service, the company is recently exerting their strengths and concentrating on “the data center service” and “the cloud service” the most. The company developed these services earlier than its competitors.

It has 7 data centers in 4 regions: Hokkaido (1 center), Yokohama (4 centers), Nagano (1 center) and Osaka (1 center), which back up one another and can cope with disasters.

◎Cloud service

In the cloud service, started by utilizing the business base nurtured through the data center business, the company not only offers its own services, but also cooperates with various competitive enterprises that offer useful applications to customers for mounting a platform.

By improving the customer satisfaction level, the company has established this service as a stable recurring-revenue business.

(2) System development service

Based on the trusting relationship that has been fostered for many years, the company designs and develops systems for customers in a broad range of fields, including development of business applications, packaged software and general-purpose tools, embedding control, and space development.

There are customers from a wide array of business fields such as banks and financial institutions, gas stations, convenience stores, supermarkets, space development, construction, architecture, aviation, travel, public offices, municipalities, medicine, and manufacturing.

(3) System equipment sales

The company procures and sells PCs, POS, supplies, and packaged software that are necessary to install systems in customers’ facilities, and it also gives instructions for operating devices and software.

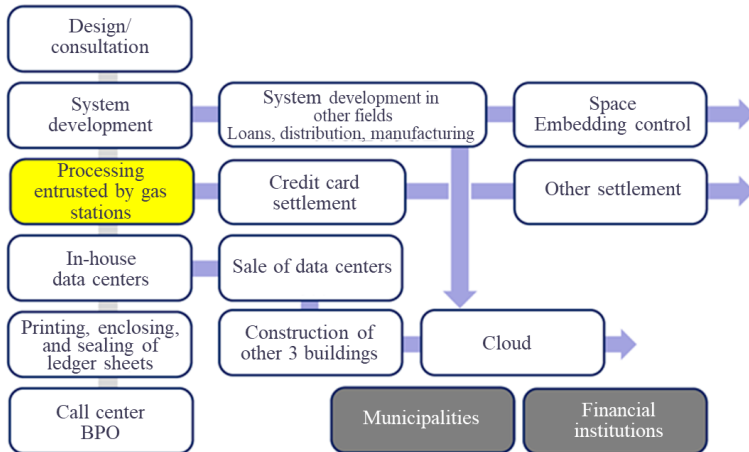
【1-5 Characteristics and strengths】

(1) Advanced capability of operating business based on vertical integration and horizontal expansion

I-NET’s business started with the processing for gas stations, and then it vertically integrated the business operations for design and consultation for installing systems, development of systems, operation of its own data centers, printing, enclosing, and sealing of bills, call center operation, and BPO. Thus, it established and strengthened the base for business targeted at gas stations, and also it expanded its business domain.

In addition, based on the know-how and technologies nurtured through the above businesses, the company undertook system development in fields other than gas stations, such as distribution, manufacturing, and financial institutions, and it sold data centers to expand business horizontally and acquired customers in various fields.

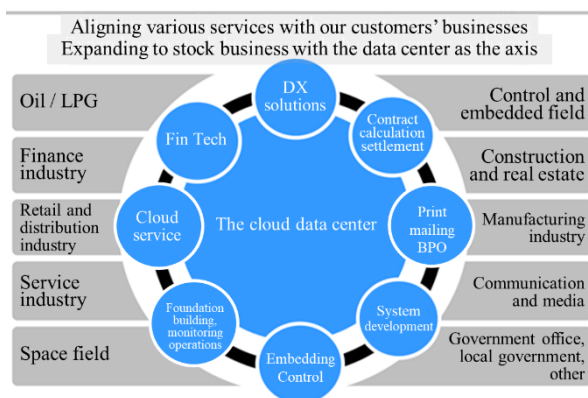
The company’s advanced capability of operating business, which realized the expansion of its business domain and customer base, cannot be ignored when evaluating the company.



(Taken from the reference material of the company)

(2) Stable business model supported by its robust customer portfolio

The number of client companies gained with the above-mentioned advanced capability of operating business exceeds 4,000. The customer portfolio is composed of various enterprises in a broad range of fields. Since I-NET offers a wide array of services centered around its cloud data center according to the business types of customers, its business model is stable and not affected by the ups and downs of customers and industries.

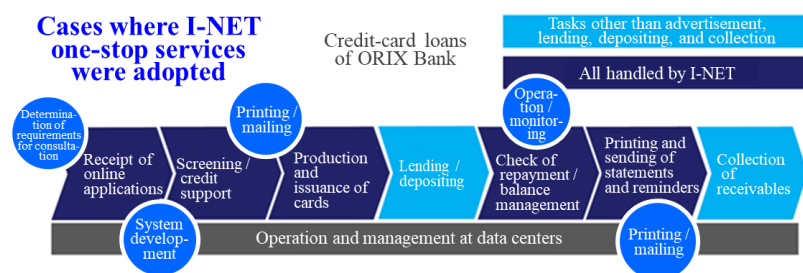


(2) Provision of one-stop services

One of its strengths is the capability to offer various IT-related services to customers in a broad range of industries and fields on a one-stop basis.

For example, ORIX Bank Corporation, one of the customers, entrusts I-NET with all processes for credit-card loans, excluding advertisement, lending, depositing, and collection. Thus, I-NET operates and manages the tasks at data centers.

BRIDGE REPORT

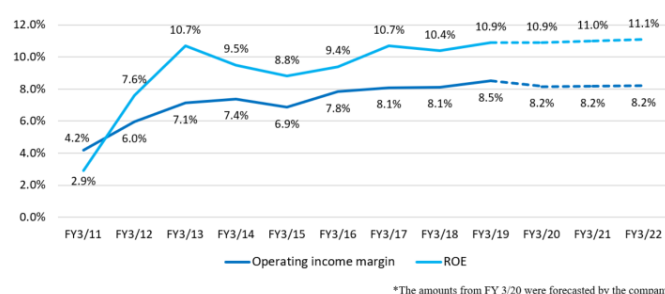
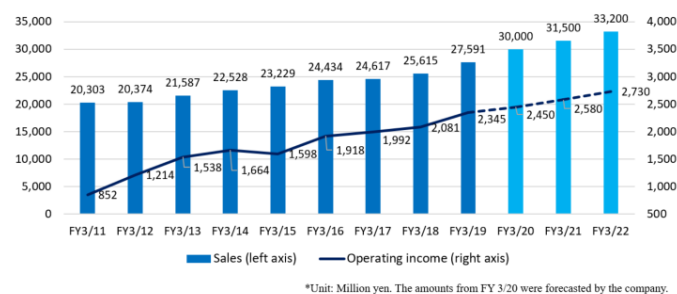


(Taken from the reference material of the company)

There are few companies that can offer services with a high security level in all IT-related processes ranging from upstream to downstream ones, including system development, operation of data centers, construction and operation of systems, provision of various cloud services, and printing, enclosing, sealing, and dispatch of bills. On the other hand, I-NET gives high convenience and satisfaction to customers, which leads to a high barrier to entry and a significant competitive advantage.

【1-6 Target managerial indicators】

The company’s important managerial indicators are “sales,” “operating income,” “operating income ratio,” and “ROE” as they imply main business results to improve its corporate value sustainably through its continuous expansion on business scale.



【1-7 ROE analysis】

	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19
ROE (%)	8.8	9.4	10.7	10.4	10.9
Net income margin [%]	4.23	4.56	5.34	5.34	5.52
Total asset turnover [times]	0.92	0.96	0.98	1.00	1.01
Leverage [times]	2.27	2.16	2.05	1.95	1.96

While leverage dropped, ROE increased continuously due to improved profitability and efficiency of assets.

Although the estimated net income margin for this term is 5.3%, lower than the previous term, it is highly likely that ROE will remain two-digit.

In the mid-term management plan, the company aims to achieve ROE of 11.1% in the term ending March 2022.

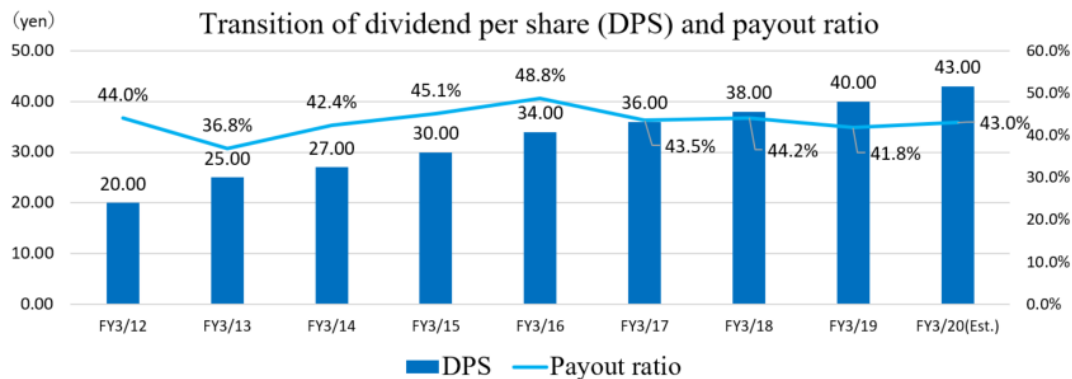
【1-8 Dividend policy and the system for shareholder benefits】

The company’s dividend policy is to continue paying stable dividends while securing some retained earnings for the future capital requirements.

The company has not set a target payout ratio. However, it has been over 40% in the past several years, and the estimated payout ratio for this term is 43.0%.

In addition, the company established a system for shareholder benefits.

The company presents Quo Cards once a year to shareholders who hold 1,000 or more shares as of September. 30 according to the number of shares they hold, and it also provides premium benefits worth 1,000 yen to shareholders who hold shares for 3 or more years. Furthermore, the company donates 10% of the amounts of shareholder benefits to organizations for disabled people, etc. so that shareholders can contribute to the society.



2. Earnings Trend

(1) Fiscal Year March 2019 Earnings Results

① Earnings Results

	FY 3/18	Ratio to net sales	FY 3/19	Ratio to net sales	YOY	Ratio to the initial estimates
Net sales	25,615	100.0%	27,591	100.0%	+7.7%	+3.3%
Gross profit	6,065	23.7%	6,586	23.9%	+8.6%	-
SG&A expenses	3,983	15.6%	4,240	15.4%	+6.4%	-
Operating income	2,081	8.1%	2,345	8.5%	+12.7%	+7.1%
Ordinary income	2,051	8.0%	2,347	8.5%	+14.5%	+9.7%
Net income	1,368	5.3%	1,521	5.5%	+11.2%	+6.4%

*Unit: Million yen

Sales grew for the 8th consecutive term and profit rose for the 9th consecutive term, exceeding the estimates. Profit hit a record high like in the previous term.

Sales were 27.5 billion yen, up 7.7% year on year, and operating income was 2.3 billion yen, up 12.7% year on year.

The information processing service and the system development service saw growth in sales and profit.

Sales grew for the 8th consecutive term and profit rose for the 9th consecutive term, exceeding the initial estimates. Profit hit a record high this term again, following the previous term.

② Trend by Segment

	FY 3/18	Composition ratio	FY 3/19	Composition ratio	YOY
Sales					
Information processing service	10,051	39.2%	10,091	36.6%	+0.4%
System development service	14,347	56.0%	16,395	59.4%	+14.3%
System products sales	1,216	4.7%	1,104	4.0%	-9.2%
Total	25,615	100.0%	27,591	100.0%	+7.7%
Operating income					
Information processing service	996	9.9%	1,027	10.2%	+3.1%
System development service	1,032	7.2%	1,256	7.7%	+21.7%
System products sales	52	4.3%	61	5.6%	+17.3%
Total	2,081	8.1%	2,345	8.5%	+12.7%

*Unit: Million yen.

*Operating income was calculated with the company's original simplified method so the values are for reference. The composition ratio of operating income means operating income ratio.

BRIDGE REPORT

**(Information processing service)**

Performance was healthy as the company made new large-scale transactions mainly for IT management and cloud services utilizing data centers. However, the number of entrusted tasks decreased as some customers revised BPO services.

(System development service)

System development for oil business and distribution services performed well.

(System products sales)

Although the sales of products, etc., accompanied with system development, were healthy, sales declined after the end of a large-scale project of selling POS equipment, etc. to gas stations in the previous fiscal year.

③ Financial Conditions and Cash Flow**◎Major BS**

	End of March 2018	End of March 2019		End of March 2018	End of March 2019
Current assets	9,535	9,997	Current liabilities	6,906	7,933
Cash and deposits	3,303	3,299	Trade payables	977	1,075
Trade receivables	5,297	5,836	Short-term loans payable	2,181	2,329
Noncurrent assets	16,471	18,518	Noncurrent liabilities	5,593	6,224
Property, plant and equipment	12,232	13,482	Long-term loans payable	4,619	5,471
Investments and other assets	3,268	3,816	Total liabilities	12,500	14,158
Total assets	26,007	28,515	Net assets	13,507	14,357
			Retained earnings	7,175	8,077
			Total liabilities and net assets	26,007	28,515
			Total borrowings	6,800	7,801

*Unit: Million yen

Total assets were 28.5 billion yen, up 2.5 billion yen from the end of the previous term, due to the growth of property, plant and equipment (buildings and structures) along with the upgrade of equipment at data centers. Total liabilities augmented 1.6 billion yen from the end of the previous term to 14.1 billion yen, due to the rise in borrowings to acquire the shares of consolidated subsidiaries and upgrading the above-mentioned equipment.

Net assets increased 800 million yen from the end of the previous term, due to the growth of retained earnings, etc.

Equity-to-asset ratio dropped by 1.6 points from the end of the previous term to 50.3%.

◎Cash flow

	FY3/18	FY3/19	Increase/decrease
Operating CF	2,937	3,052	+115
Investing CF	-1,223	-3,074	-1,850
Free CF	1,713	-21	-1,734
Financing CF	-1,330	17	+1,348
Cash and cash equivalents	3,303	3,299	-3

*Unit: Million yen

The surplus of operating CF increased due to the rise in profit before income taxes, etc.

As the expenditure for acquiring property, plant and equipment augmented, the deficit of investing CF increased and free CF turned negative.

Financing CF turned positive, due to the rise in borrowings.

The cash position was nearly unchanged.

④ Main Topics

◎Start of the micro data center business

In March 2019, the company started the micro data center business.

As the volume of handled data has been explosively increasing in recent years, there is a growing interest in edge computing, a means to reduce data processing time and the load of a network by processing data at a spot where it has emerged or in the vicinity of a client. A micro data center is attracting attention as one of methods for realizing that.

The company established a micro data center in its own drone flying field in Kimitsu-shi, Chiba Prefecture, to process footages, flight data, etc. acquired by drones there. It also can send necessary information to a cloud data center via a network as needed. The company aims to establish micro data centers in construction and civil engineering sites, factories, plants, agricultural fields, traffic systems, etc. in addition to drone flying fields.



(Taken from the reference material of the company)

◎Launch of the BIM installation support service

In March 2019, I-NET started the BIM installation support service.

This is the first service of the cutting-edge construction process and rental business operated by I-NET, AKTIO, the largest construction equipment rental company, and PaperlessStudio, the largest consulting firm for building information modeling (BIM).

The construction industry suffers from a chronic shortage of manpower and a decrease of veteran workers, services for design, construction, automation, and high demand for streamlining. As a solution, the construction industry is promoting the installation of BIM.

However, companies need to prepare expensive software, high-spec devices, an operational environment, IoT equipment, advanced personnel, and so on, in order to install BIM. Since it is difficult for small and medium-sized construction companies, the distribution of BIM has not progressed in the industry.

The company's service would solve these problems to promote the installation of BIM.

The company offers services to the clients of the BIM package on Virtual Desktop as well as distributing instruction videos for BIM from its own cloud platform. It also supports the training of drone pilots who can manage the progress of construction and maintenance by using drones.

◎Collaborative development of high-precision AIT cloud services

In August 2018, I-NET decided to develop high-precision AIT cloud services in collaboration with SPJ, a venture firm from the University of Tokyo that offers AI solutions. As part of the collaborative development, they released a high-precision AI chatbot cloud service.

For example, it can easily develop a system in which an AI character answers questions from job-hunting students through chats 24 hours a day on behalf of HR staff of companies.

Users can use the system anywhere, anytime via the cloud, and questions and answers will be stored at a data center of I-NET.

◎Establishment of the diversity promotion division

In October 2018, the company established the diversity promotion division in order to accurately meet the diversifying needs of employees, empower women, and reform working styles more swiftly.

Under the slogan: “Everyone, including you and me, can flourish,” the division will conduct activities inside and outside the company and in each region.

It will focus on broad concepts such as gender neutrality, handicaps, senior staff, foreign workers, digital natives, etc.

The company will grow sustainably by adapting to the changes in the times and preparing an environment where everyone can flourish.

(2) Fiscal Year March 2020 Earnings Estimates

① Earnings Estimates

	FY 3/19	Ratio to net sales	FY 3/20 (Est.)	Ratio to net sales	YOY
Net sales	27,591	100.0%	30,000	100.0%	+8.7%
Gross profit	6,586	23.9%	7,330	24.4%	+11.3%
SG&A expenses	4,240	15.4%	4,880	16.3%	+15.1%
Operating income	2,345	8.5%	2,450	8.2%	+4.4%
Ordinary income	2,347	8.5%	2,390	8.0%	+1.8%
Net income	1,521	5.5%	1,590	5.3%	+4.5%

*Unit: Million yen. The estimates were announced by the company.

Sales and profit are projected to grow for the 9th and 10th consecutive term, respectively. Sales forecasted to hit a record high. Profit expected to hit a record high continuously.

It is estimated that sales will grow by 8.7% year on year to 30 billion yen and operating income will rise by 4.4% year on year to 2.4 billion yen.

The information processing service and the system development service are expected to see growth in sales and profit.

SG&A will augment, but it will be offset by sales growth, securing a rise in profit. Sales are projected to increase for the 9th consecutive term, hitting a record high.

Profit is forecasted to rise for the 10th consecutive term, hitting a record high again, following the previous term.

The dividend is to be 43 yen/share, up 3 yen/share from the previous term, increasing for the 8th consecutive term. The estimated payout ratio is 43.0%.

② Trend by Segment

	FY 3/19	Composition ratio	FY 3/20 (Est.)	Composition ratio	YOY
Sales					
Information processing service	10,091	36.6%	10,880	36.3%	+7.8%
System development service	16,395	59.4%	18,080	60.3%	+10.3%
System equipment sales	1,104	4.0%	1,040	3.5%	-5.9%
Total	27,591	100.0%	30,000	100.0%	+8.7%
Operating income					
Information processing service	1,027	10.2%	1,058	9.7%	+3.0%
System development service	1,256	7.7%	1,331	7.4%	+5.9%
System equipment sales	61	5.6%	59	5.8%	-2.5%
Total	2,345	8.5%	2,450	8.2%	+4.4%

*Unit: Million yen.

*Operating income was calculated with the company's original simplified method so the values are for reference.

*The composition ratio of operating income means operating income ratio.

(Information processing service)

The data center business and cloud services are performing well. Sales and profit are estimated to grow this term as well, despite the costs for upfront investment, amortization of licenses, and R&D.

(System development service)

The demand for system development is expected to keep growing in 2019, causing increase in sales and profit.

3. Mid-term Management Plan**(1) Positioning of the current mid-term management plan**

As the first step for becoming “an excellent company that enables sustainable growth,” which is set as a management policy, the company produced a mid-term management plan, started this term and expected to end three years later, in the term ending March 2022, and it is proceeding with this plan.

In order to improve its corporate value and expand its business scale, it is proceeding with the three plans: “the business strategy plan,” “the investment strategy plan,” and “the ESG plan.” It aims to achieve sales of 33.2 billion yen in the current mid-term management plan and sales of 50 billion yen in the next mid-term management plan that will end in the term ending March 2025, and it will still continue pursuing further growth.

(2) Management strategy

The basic management strategy is to emphasize the balance between “defense” which cements the bond with customers and “offense” which cultivates new market fields and services.

The company will establish a firm customer-first philosophy, provide proposals with added value, develop promising products and services, and invest in human resources.

In particular, the company will hone its capabilities to the level of being able to give proposals with high added value exceeding the customer expectation.

Company-wide intensive measure (1): Partner strategy and sales channel strategy

Since it has become difficult to operate all businesses by itself, I-NET will deepen the cooperation with partners that excel at system development, cloud services, sale, and OEM as well as striving to raise the top line, enrich the lineup of services, increase sale, and expand its business domain.

Company-wide intensive measure (2): Building services of cloud platform (NGEC) + applications as a platform operator

I-NET will mount not only its services, but also a variety of excellent applications useful for customers on the cloud platform, which is an advantage of the company, in order to improve its strengths and value significantly as a platform operator.

Company-wide intensive measure (3): Further promotion of cross-selling in business covering from planning to BPO

As I-NET offers a wide array of services on a one-stop basis, it will conduct marketing activities, targeting a broad range of customers regardless of industries and businesses and promote cross-selling, for system planning and development, operation at data centers, cloud operation, enclosing and sealing of printed matter.

(3) Business strategy plan**① Information processing service**

Field	Measures
SS, commissioned counting settlement	<ul style="list-style-type: none"> * To raise the share in the number of processed SS (33% ⇒ over 50% in the mid/long term) * To expand the non-oil business by utilizing the nationwide network of sales branches * To promote sales of services targeting LPG distributors
Cloud service	<ul style="list-style-type: none"> * To expand the sale of the cloud service base (NGEC) * To strengthen and expand sales channels (to increase the number of resellers and promote the OEM model)
Printing, mailing/BPO	<ul style="list-style-type: none"> * To revise and expand the scope of services * To expand the BPO service business actively

DX solution	<ul style="list-style-type: none"> * To early monetize the BIM and CIM businesses utilizing drones * To enrich the AI cloud service for small and medium-sized enterprises and expand sales * To establish and operate an IoT business model
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Although the number of domestic gas stations is decreasing, the company received orders from new service stations, expanding its market share and maintaining the top position. It will continue implementing new defensive and aggressive measures to further expand its market share.

It considers that it is necessary to expand sales channels and promote the OEM model in order to spread the cloud service.

② System development service

Field	Measures
Finance	* To upgrade and revise financial packages to adapt to the changes in needs in the financial market
Distribution and services	<ul style="list-style-type: none"> * To differentiate its service from those of competitors by utilizing the know-how to manage sales in the distribution industry (operating the business of installing business templates) * To utilize the know-how of modernization of AS400 legacy assets and expand the number of orders
Space	* To increase transactions with new space corporations and venture firms for developing original satellites, to expand the business scope
New markets and services	* To enter new business markets, including “parking area” and “rental”-related ones

In the field of “space,” I-NET has started transactions with several venture firms and will develop a new business model.

As for new service markets, it will cultivate new business fields which market reform will be demanded, such as sharing and rental businesses.

(4) Investment strategy plan

Field	Measures
Personnel development	<ul style="list-style-type: none"> * To implement measures for recruiting the target number of new graduates and mid-career workers * To strengthen the systems for educating and training personnel at each level and improve their contents
Data centers	<ul style="list-style-type: none"> * To renew the equipment at the first and second data centers as planned * To discuss the plans for increasing the areas of data centers and enlarging data centers
R&D	<ul style="list-style-type: none"> * To develop the next-generation cloud platform with evolved NGEC * To operate data analysis and data science businesses * To utilize the data of artificial satellites for business
Overseas business	* To discuss how to enter overseas markets (planning to establish overseas footholds in Southeast Asia). To aim to offer services based on the company’s expertise and cutting-edge technologies

I-NET will strive to secure excellent personnel as well as developing personnel and their careers under the assumption that planned investment and meticulous PDCA would lead to the growth of both employees and the company.

It will increase investment in R&D to differentiate its business and enhance its competitiveness. They will especially invest in the development of the next-generation cloud platform by evolving the current cloud base and the data science business, including the analysis of big data, which is expected to grow rapidly.

(5) ESG plan

Focusing on society among ESG (environment, society, and governance), the company upheld the promotion of wellness management and diversity and declared the following stance.

“I-NET CORP., under a philosophy that employees are the greatest assets in management, actively promotes the wellness management, considering both physical and mental wellness of our employees as a source of continuous development of our corporate value. I-NET CORP. promotes the innovation of individual work style to make working environment where our employees can exert all their abilities in peace.”

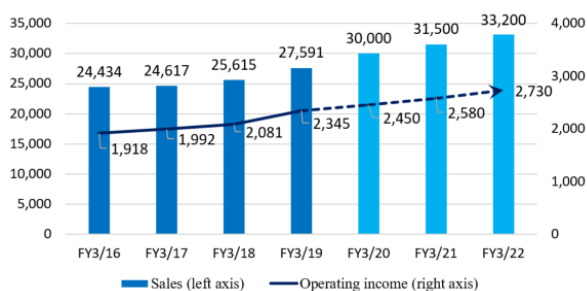
Our concrete activities were highly evaluated, and we received the following public certifications.

System	Date of certification	Outline and activities
The Outstanding Health and Productivity Management Organizations (White 500) (The large-scale corporation section of “the Certified Health and Productivity Management Organizations Recognition Program by the Ministry of Economy, Trade and Industry)	February 2019	<ul style="list-style-type: none"> * Declared wellness management * To encourage all employees to undergo a health checkup regularly, and give follow-up care based on diagnosis results * To employ industrial doctors and establish a health support division * To encourage employees to take the certification test for mental health management
Eruboshi (Certification mark given to enterprises that satisfy certain criteria specified by the certification system in accordance with the Act on Promotion of Women's Participation and Advancement in the Workplace and are excellent in empowering women)	October 2018	<ul style="list-style-type: none"> * Ratio of female employees: 23.0% * Ratio of new female graduates recruited: over 40% * Establishment of a women’s committee * Establishment of a diversity promotion division * Appointment of female directors (2 out of 11 directors) * Woman act. Supporters for Kanagawa women empowerment
Kurumin (Mark given to enterprises certified by the Minister of Health, Labour and Welfare as enterprises that support child rearing, if it is applied for after satisfying certain requirements)	May 2012	<ul style="list-style-type: none"> * Enrichment of a system for shortening working hours for employees who have a child (until the child becomes a fourth grader) * Setting of no overtime day * Leave for spouse’s childbirth * Memorial leave * Teleworking system * Re-employment system

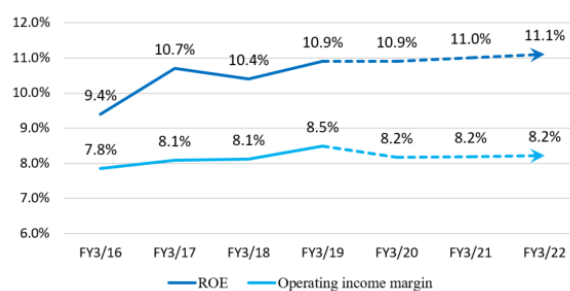
In I-NET DATA SERVICE CORP., a special subsidiary (approved by the Minister of Health, Labour and Welfare) established for the purpose of providing disabled people with job opportunities and helping them become independent and self-sufficient, disabled people conduct data inputting, scanning, chores and business card production.

In addition, we established “A cheering squad for working mothers,” a website for supporting child care and women’s empowerment, where users can find nursery facilities by utilizing the open data of the City of Yokohama, where its headquarters is located.

(6) Numerical goals



*Unit: Million yen. The amounts from FY 3/20 were forecasted by the company.



*The amounts from FY 3/20 were forecasted by the company.

The information processing service and the system development service are estimated to keep growing steadily, and sales and profit are projected to hit a record high continuously.

CAGR (compound annual growth rate) in 3 years is 6.4% for sales and 5.2% for operating income. Operating income ratio remains around 8%.

The target ROE for the term ending March 2022 is 11.1%. The company will concentrate on the enhancement of its earning capacity, with ROE being an important management indicator.

4. Interview with President Sakai

We interviewed Mr. Mitsuru Sakai, who was appointed as the fourth president of I-NET CORP. in June 2018, about his personal mission, his company's strengths and characteristics, and his message for shareholders and investors.

Personal Mission: Developing employees who possess the abilities and mindset which will lead I-NET in the new era under “one inet”

This might be obvious, but “development of people” is the most important. In fact, I strongly believe that we must develop employees who possess the abilities and mindset which will lead I-NET in the new era.

Our company, which will celebrate its 50th anniversary next year, started as a company that offered services to its customers, but in the process of including a large number of companies in our corporate group, most of our sales now come from “development.”

Manufacturing and developing products demanded by our customers is of great importance, but, as a labor-intensive business, evolving into “a company that can earn” with higher profitability is also important.

In 50 years of our history, the challenging issue for our company was the distinct separation of development and services. In the future, we need to transform the company into one that offers services along with engaging in development, that is, a hybrid company. For that fusion, every individual employee must change their way of thinking, study more and improve their skills.

Thankfully, in the past few years, we have been very busy with plenty of work in the IT industry, but I believe our company, which specializes in cloud services, has not achieved our full growth potential because we have been putting all our efforts on completing the task right in front of us.

Originally, everyone is supposed to autonomously consider the customers' point of view, but because many companies gathered together, unfortunately there has been some dispersion in engagement in our work. I believe this is one of the reasons we haven't seen significant growth.

We newly enacted the “inet Way” in the current mid-term management plan and held up “establishing a firm customer first philosophy” as our management strategy in order to unify everyone's thoughts and make all our employees know the importance of responding to our customers. I call this thought “one inet.” If we can implement this, I believe that we can achieve far greater growth than before.

This company is made of “people,” so right now, we want to focus on the development of people. We want to train personnel who can develop and present new services and take actions.

For that purpose, we need every individual employee to study and improve their skills, but as a company, we also provide various opportunities such as offering level-based educational training, education for qualification exam for project management, and company-provided classes for training the next generation of managers.

In addition, believing that employees are the greatest assets in management, I recognize that I have an important role in building a work environment which is easier to work in, by engaging in wellness management, supporting women's participation, etc.

The Company's strengths and characteristics, and future activities: Development of new services based on the capability of operating business that expands the customer base and business field

Our company was originally a company that undertook processing tasks for gas stations, and using that as a base, we have expanded the business field and customer base through vertical integration and horizontal expansion. Such capability of operating business is a great strength of our company.

Further, we have conducted a service-based business since our foundation, which made cloud services a central business of our company. Moreover, we possess our own data centers and the groundwork where our customers can use them without any worries, which is our huge competitive edge.

In the future, we will aim for further growth by developing new services as “one inet,” using such strengths as our foundation.

In the company, I usually tell people to “make astonishing proposals that our customers don’t notice.”

The “proposal with added value” that is laid out in the management strategy of the mid-term management plan is one that, in short, exceeds the expectations of our customers.

In this world of intense competition, merely doing what our customers ask will not produce any value. It is obvious that responding to the wishes of our customers is important, but responding to essential customer needs that even our customers don’t notice will allow us to gain high recognition.

For example, proposals related to data science business, which details how we should use the tremendous amount of data we gathered using data centers owned by our company, as a new service.

I believe that the fact that we already have groundwork where we can make such proposals is also a strength of our company.

Message for shareholders and investors

Since our company started as a business which reliably handles our customers’ data, we want to construct our business as a mechanism from the point of view of how to utilize that data in the future.

Generally, there is a growing trend toward a sharing economy, that is, a shift from ownership to utilization. I believe that our company can keep up with that trend and capture our customers’ needs promptly because of our enormous customer base of about 4,300 companies, which is our strength.

We aim for further growth through “one inet” using these strengths that are unique to our company, so we would appreciate your continued medium and long-term support.

5. Conclusions

The company’s target management indicators are “sales,” “operating income,” “operating income ratio,” and “ROE.” Among them, sales and operating income are expected to hit a record high this term, and ROE is as stable as 10%. It seems that they are performing well.

On the other hand, although operating income ratio bottomed out at 6.9% in the term ended March 2015 and increased to 8.5% in the previous term, it is estimated to be 8.2% during the period of the mid-term management plan from this term. This means that the company will enhance the investment in equipment, human resources, and R&D for further growth. We would like to pay attention to whether the company will evolve into “a company that can earn money” with higher profitability as their investment will bear fruit, as mentioned by President Sakai during the interview.

Although the company did not disclose the sales from their data center and cloud services, we would like to see what kinds of services it will offer with “one inet” based on the fact that it has grown to a certain level from zero over the past 10 years and that there are about 1,400 companies using its cloud service.

<Reference: Regarding Corporate Governance>

◎Organization type and the composition of directors

Organization type	Company with an audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	4 auditors, including 4 outside ones.

◎Corporate Governance Report

Last update date: June 26, 2019

<Basic Idea>

We promote construction and maintenance of business management systems as priority items which can cope with a change of the management environment quickly, while we improve business transparency for the purpose of effectiveness and efficiency of business operations, reliability of the financial statements, and the compliance with the relevant laws and ordinances.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Supplemental principle 1-2-4 (Exercise of rights at the general meeting of shareholders)	We have implemented the electronic exercise of voting rights, but we have not made an English version of the convocation notice. However, we have prepared English translations of the financial summary and annual report. In light of the growing rate of the number of foreign investors, we will consider issuing an English translation of the convocation notice.
Supplemental principle 4-10-1 (Establishment of advisory committee)	We have appointed two independent outside directors. Although these independent outside directors have not reached a majority in the board of directors, each independent outside director makes use of their highly specialized knowledge and extensive experience to express their opinions and give advice when needed to the board of directors and to each individual director. Additionally, active discussions which involve four outside auditors (including one independent outside auditor) are held at meetings of the board of directors, and a fair and transparent system has been established. However, as a result of our examination of the ideal form which the advisory committee should take based on the intent of the revision to the supplemental principles, we have decided to launch a new advisory committee. A majority of the committee's members are to be independent outside officials, in order to introduce objective external opinions.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4. The so-called strategically held shares	<Policy regarding strategically held shares> Aiming for smooth business management and the maintenance and strengthening of business relationships, we will hold shares strategically only when deemed necessary after comprehensively examining medium and long-term economic rationality and the future outlook. Regarding the shares which we may hold, we will examine the purpose of holding, the risk associated with holding, the return on investment, and so forth for each individual stock based on changes in the business environment and other factors, and we will periodically review our holding policy in consideration of reducing the number of shares.

	<p><Criteria for exercising voting rights pertaining to strategically held shares></p> <p>Regarding the exercise of voting rights for strategically held shares, we check the management policies and business strategies of the relevant companies and comprehensively discuss whether improvement of corporate value will be achieved, in addition to checking whether the respective case is in accordance with our holding policy. Then we judge the opinions in favor of and against each measure on an individual basis. In addition, we will have dialogue with respective issuing companies regarding proposal contents, etc. as necessary.</p>
Principle 5-1 Policy regarding constructive dialogue with shareholders	<p>We have established an IR policy, and disclose basic policies, disclosure criteria, disclosure methods, silence periods, and so on. To a reasonable extent, we also engage in dialogue with shareholders and investors in order to contribute to sustainable growth and medium-to-long term improvement of corporate value.</p> <p>We have put the planning and IR division in charge of IR, and have established an IR system in which the director and managing executive officers who manage the IR department are the staff in charge of IR. With regard to stakeholders including shareholders and investors, the IR staff fully cooperates with the divisions of management planning, general affairs, accounting, human resources, business divisions, and so on, and management and financial conditions, etc. are disclosed in a timely and appropriate manner.</p> <p>Dialogues with shareholders take place in the form of business briefing sessions held after financial results announcements, as well as in the form of financial results briefings for analysts and institutional investors we hold twice every year, in which explanation and dialogue are carried out by the president and representative director. In addition, when appropriate, we hold private interviews with institutional investors and company briefings for individual investors, and to a reasonable extent, active IR activities are handled by management executives and IR staff, not to mention the president and representative director.</p> <p>The relevant IR staff member makes an appropriate decision on the opinions, etc. of shareholders and investors grasped from dialogues, and seeks feedback by discussing with and reporting to the board of directors, etc. as necessary.</p> <p>Regarding the management of insider information, we carry out dialogue in accordance with internal regulations.</p>

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