

## BRIDGE REPORT



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	<a href="https://www.inet.co.jp/">https://www.inet.co.jp/</a>

## Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥1,471	16,242,424 shares		¥23,892 million	10.9%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥43.00	2.9%	¥102.45	14.4 times	¥903.04	1.6 times

\*The share price is the closing price on November 27.

\*The number of shares issued, DPS and EPS were taken from the latest brief financial report. ROE and BPS are the values of the pervious term.

## 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)	31,000	2,500	2,440	1,630	102.45	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 Bridge Report presents I-NET CORP.,'s overview of the financial results for the Second quarter of term ending March 2020

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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 first half of the term ending March 2020, sales were 15.3 billion yen, up 18.5% year on year, and operating income was 1.2 billion yen, up 24.8% year on year. Sales and profits increased for all services in response to strong IT investment demand among corporations. Both sales and profits reached record highs in the first half.
- It upwardly revised the full-year earnings estimates for the fiscal year ending March 2020. Sales are expected to be 31.0 billion yen, up 12.4% year on year, and operating income is expected to be 2.5 billion yen, up 6.6% year on year. IT investment among corporations is strong, and orders for information processing service and system development service are stronger than initially expected. Sales reached a record high for the 9th straight year, and profits are expected to increase for the 10th consecutive year and reach a record high following the previous year. There is no revision to the dividend forecast. The company is planning to increase the dividend by 3 yen/share from the previous year to 43 yen/share. It is scheduled to increase dividends for the 8th consecutive term. The expected payout ratio is 42.0%.
- The company aims to operate a "data science business" in which it collects a huge amount of data generated from services such as drones, AI, and space development in a data center and generates significant added value to the data by analyzing, providing, and utilizing them.
- It had not disclosed the sales of data center and cloud services, but it disclosed the sales of the past nine years at the recent financial results briefing. The data revealed that the compound annual growth rate (CAGR) of data center and cloud services for 9 years was 16.7%, significantly exceeding the overall net sales' CAGR of 3.9%. Their sales composition is still less than 20%, but if these services expand under the current strategy, profitability will increase further. We would like to keep our eyes on the future of data center service and cloud services from a medium-term perspective.

## 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 50<sup>th</sup> 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.”

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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><b>integrated</b> A company that understands the value of knowledge and leads an IT society</p> <p><b>networking</b> A company that strives to create a network connecting technology-to-technology, heart-to-heart(person-to-person), and individual-to-society.</p> <p><b>energy</b> An energetic company that takes on creativity and innovation for the realization of a sustainable society.</p> <p><b>technology</b> A company that works towards the realization of a prosperous and happy society through information technology.</p>
Management Policy	<p>Becoming an excellent company that makes sustainable growth possible</p> <p>～keep growing while changing～</p>

The mid-term management plan will be described later.

### 【1-3 Market environment】

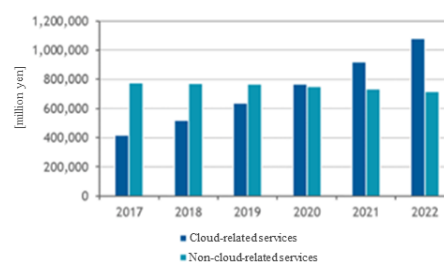
I-NET CORP. recognizes the industrial and business environments of its major domains and those the company will focus on as follows.

#### ■ 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.

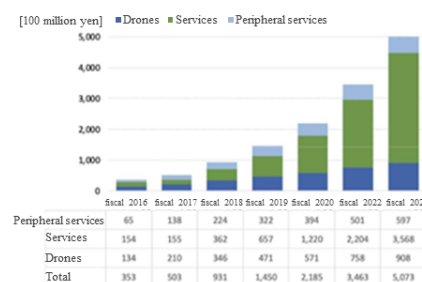
(October 9, 2018; IDC Japan)



##### ● 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)

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

(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.

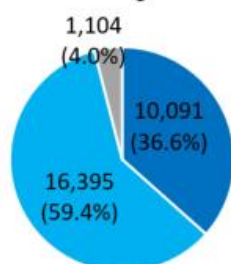
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

#### 【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.

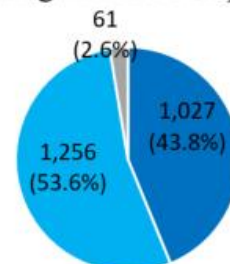
Its core businesses are “information processing,” “system development,” and “system equipment sales.”

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.

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**(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.

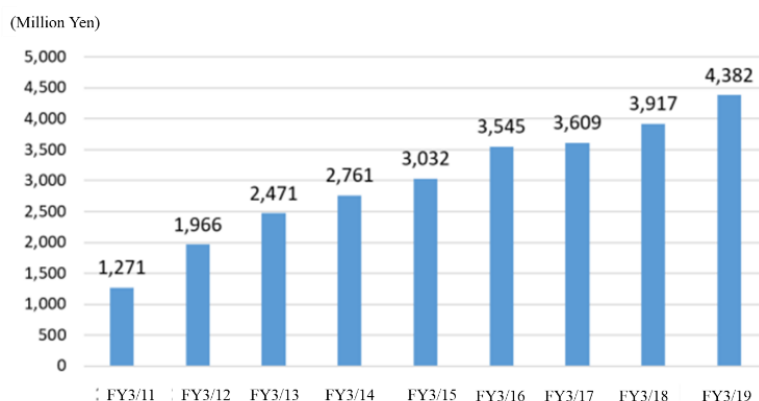
It has 7 data centers in 4 regions: Hokkaido (1 center), Yokohama (4 centers), Nagano (1 center) and Osaka (1 center), which back up one another and can cope with disasters.

**◎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.

Trend of data center and cloud service



The data center and cloud services have grown more than four times as the market grew over the past decade.

They are considered as growth drivers.

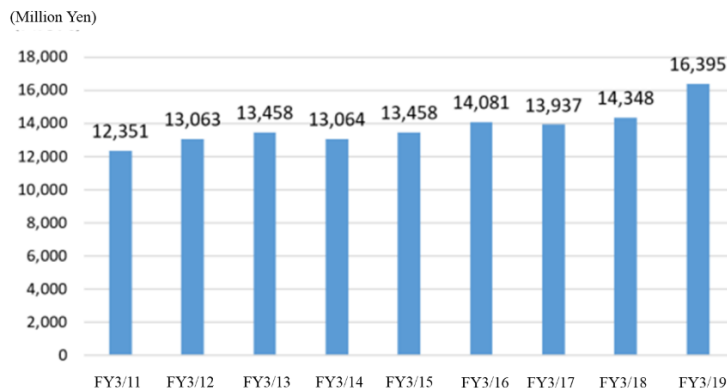
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**(2) System development service**

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.

Sales of system development service



Software investment demand is expected to be strong over the medium to long term in order to enhance the competitiveness of companies, including improving operational efficiency and dealing with labor shortages.

**(3) System equipment sales**

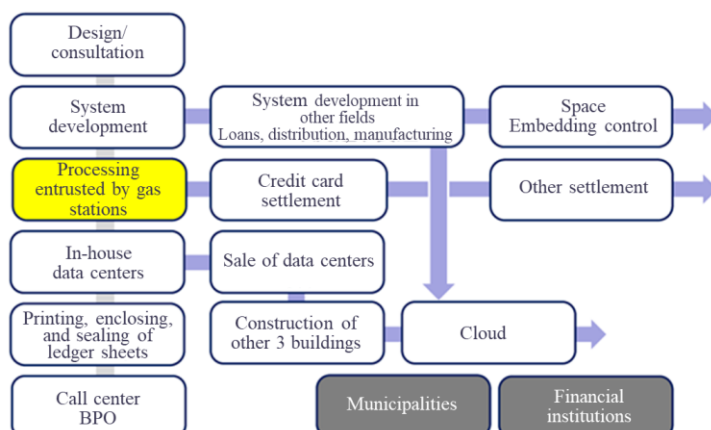
The company procures and sells PCs, POS, supplies, and packaged software that are necessary to install systems in customers' facilities, and it also gives instructions for operating devices and software.

**【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.

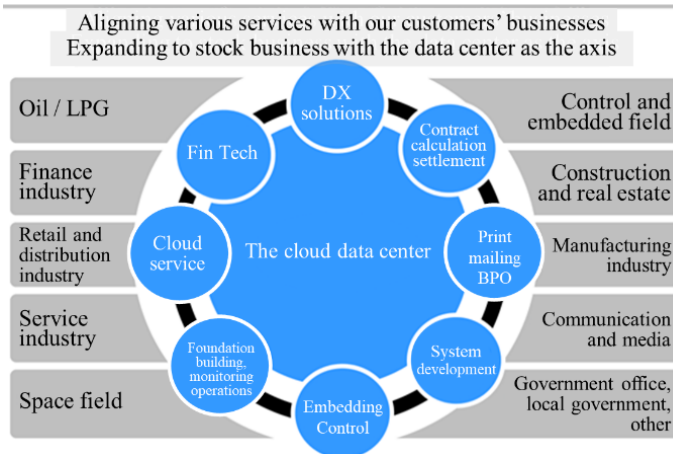


(Taken from the reference material of the company)



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

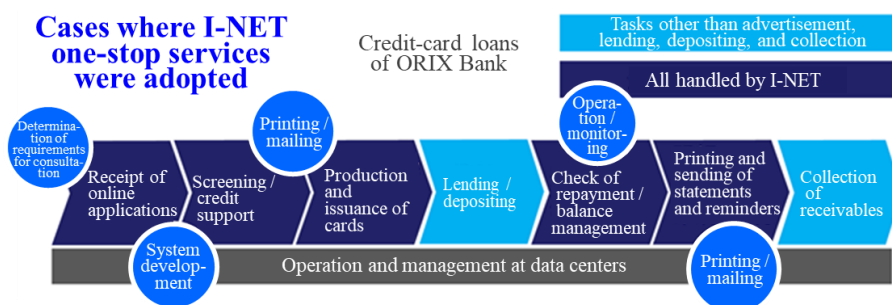
The number of client companies gained with the above-mentioned advanced capability of operating business exceeds 4,000. The customer portfolio is composed of various enterprises in a broad range of fields. Since I-NET offers a wide array of services centered around its cloud data center according to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



### (3) 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.



(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.

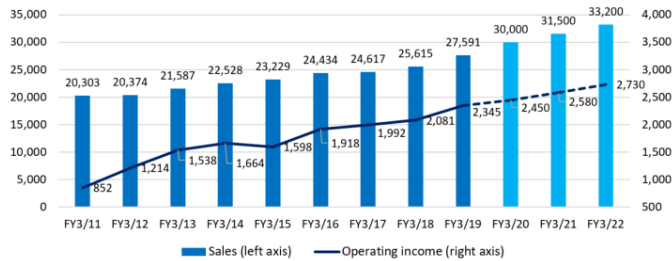


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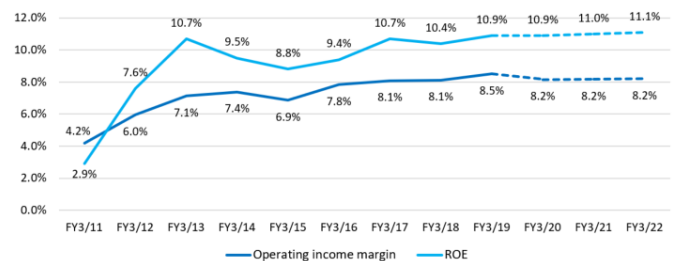


## 【1-6 Target managerial indicators】

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.



\*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.

## 【1-7 ROE analysis】

	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19
<b>ROE (%)</b>	<b>8.8</b>	<b>9.4</b>	<b>10.7</b>	<b>10.4</b>	<b>10.9</b>
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

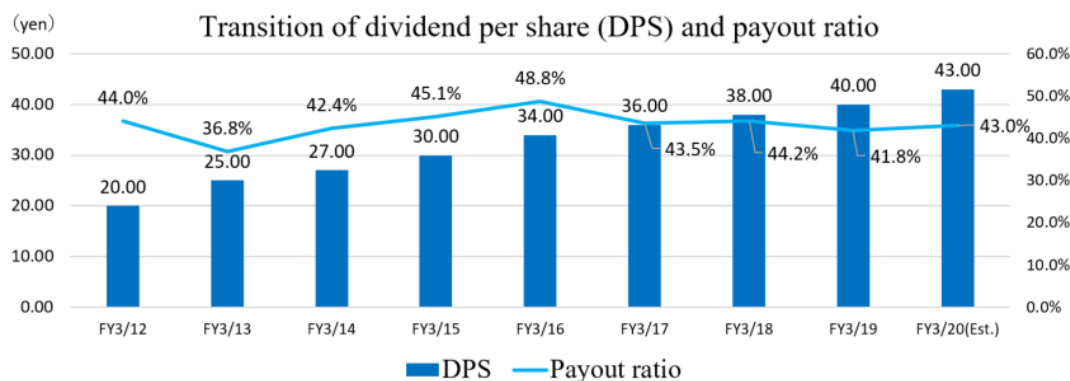
## 【1-8 Dividend policy and the system for shareholder benefits】

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. First Half of Fiscal Year ending March 2020 Earnings Results

### (1) Earnings Results

	1H of FY 3/19	Ratio to sales	1H of FY 3/20	Ratio to sales	YOY
Net sales	12,957	100.0%	15,360	100.0%	+18.5%
Gross profit	3,074	23.7%	3,542	23.1%	+15.2%
SG&A expenses	2,066	15.9%	2,285	14.9%	+10.6%
Operating income	1,007	7.8%	1,257	8.2%	+24.8%
Ordinary income	1,002	7.7%	1,250	8.1%	+24.7%
Net income	670	5.2%	827	5.4%	+23.3%

\*Unit: Million yen

### Sales and profit grew. Both sales and profits reached record highs in the first half.

Sales increased 18.5% year on year to 15.3 billion yen, and operating income increased 24.8% year on year to 1.2 billion yen.

Sales and profits increased for all services.

Both sales and profit reached record highs in the first half.

### (2) Trend by Segment

	1H of FY 3/19	Ratio to sales	1H of FY 3/20	Ratio to sales	YOY
<b>Sales</b>					
Information processing service	5,004	38.6%	5,396	35.1%	+7.8%
System development service	7,464	57.6%	9,264	60.3%	+24.1%
System products sales	488	3.8%	699	4.6%	+43.3%
Total	12,957	100.0%	15,360	100.0%	+18.5%
<b>Operating income</b>					
Information processing service	480	9.6%	549	10.2%	+14.4%
System development service	498	6.7%	677	7.3%	+35.9%
System products sales	28	5.9%	30	4.4%	+5.6%
Total	1,007	7.8%	1,257	8.2%	+24.8%

\*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)

Data center and cloud services with high profit margins were healthy, including large-scale projects acquired in the previous fiscal year and a steady increase in data center usage by existing customers.

### (System development service)

In addition to the strong performance of system development for oil business and distribution service, Software Control Corporation, which became a subsidiary in October 2018, also contributed to good performance.

### (System products sales)

The sales of POS equipment to gas stations and the sales of equipment accompanied with system development were healthy.

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## (3) Financial Conditions and Cash Flow

## ◎Major BS

	End of Mar. 2019	End of Sep. 2019		End of Mar. 2019	End of Sep. 2019
Current assets	9,997	10,001	Current liabilities	7,933	8,002
Cash and deposits	3,299	2,909	Trade payables	1,075	1,236
Trade receivables	5,836	6,044	Short-term loans payable	2,329	2,679
Noncurrent assets	18,518	19,306	Noncurrent liabilities	6,224	6,451
Property, plant and equipment	13,482	14,241	Long-term loans payable	5,471	5,856
Investments and other assets	3,816	3,907	Total liabilities	14,158	14,454
Total assets	28,515	29,307	Net assets	14,357	14,853
			Retained earnings	8,077	8,586
			Total liabilities and net assets	28,515	29,307
			Total borrowings	7,801	8,535

\*Unit: Million yen

Total assets were 29.3 billion yen, up 700 million 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 200 million yen from the end of the previous term to 14.4 billion yen, due to the rise in borrowings to acquire the shares of consolidated subsidiaries and upgrading the above-mentioned equipment.

Net assets increased 400 million yen from the end of the previous term, due to the growth of retained earnings, etc.

Equity-to-asset ratio dropped by 0.4 points from the end of the previous term to 50.7%.

## ◎Cash flow

	1H of FY 3/19	1H of FY 3/20	Increase/decrease
Operating CF	1,692	1,471	-220
Investing CF	-600	-2,123	-1,523
Free CF	1,091	-652	-1,744
Financing CF	-872	262	1,134
Cash and cash equivalents	3,522	2,909	-613

\*Unit: Million yen

The surplus of operating CF decreased due to the rise in trade receivables, etc.

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 nearly decreased.

#### (4) Main Topics

The following efforts were made with a view to achieving the medium-term management plan and future growth.

##### ① Verification test for bridges inspection utilizing drones

In May 2019, the company signed a memorandum of understanding (MoU) with Kimitsu City and D-ACADEMY Co., Ltd. (Kimitsu City, Chiba Prefecture) with the aim of building a maintenance cycle for extending the life of infrastructure using drones.

Kimitsu City aims to drastically reduce costs and improve operation efficiency by carrying out inspection of bridges utilizing drones. In order for full-scale operation of this system in FY 2020, the company will examine image shooting methods using drones, analyze videos, select bridges for which this method can be installed, examine the image data storage, and carry out a demonstration experiment to check the practicality of the system.

The bridge inspection method is currently uniform for all the bridges. The side and bottom surfaces of the bridge are inspected by a bridge inspection vehicle, as close-up visual inspection is fundamental. The traffic regulation to restrict the usage of bridges during inspection is also considered as an issue.

By implementing bridge inspections with drones in the future, it is expected that the inspection cost will be greatly reduced, and the life of the bridges will be extended by spending more money on the repair rather than inspection. The burden on the user will also be reduced by the relaxation of traffic restriction associated with inspections.

With the opening of Dream Drone Flying Field (DDFF) in Kimitsu City in 2017, I-NET has been conducting PR video shooting and ecological surveys of monkeys starting with the conclusion of a disaster cooperation agreement with Kimitsu City. Through this demonstration experiment, the company is expected to contribute to the promotion of the development of Kimitsu City using drones.

##### ② Entrusted with the “Sightseeing Promotional Material Production Project” by Yokohama City.

In October 2019, as part of a drone video solution, the company undertook the “Sightseeing Material Production Project” by Yokohama City.

In this video production project, the company, which is participating in the “Drone Business Realizing Initiative Japan (DBRIJ)” aimed at accelerating the practical application of the drone business, and Tripod Works Co., Ltd. (Sendai City, Miyagi Prefecture) shot facilities in Yokohama and a 4K high-definition video was created to transmit the sightseeing information.

##### ③ The University of Tokyo Hashida Laboratory and I-NET signed a joint research agreement.

The company signed a joint research agreement with Professor Koichi Hashida, Graduate School of Information Science and Technology, The University of Tokyo, to collaboratively conduct demonstration experiments on utilization of personal data that are shared between individuals and businesses and AI/data analysis utilizing PLR (\*) advocated by Professor Hashida.

The results of the demonstration experiments will be used for safe and inexpensive directory management and file sharing services in the general business field and analysis of factors causing breast cancer and encouragement of breast cancer screening in the health care field.

The company will be working on the “development of apps that offer benefits to individuals through personal data analysis,” “development of video apps such as breast self-check and body care analysis,” and “building of data analysis infrastructure and video distribution service infrastructure.”

The EU General Data Protection Regulation (GDPR) enforced in May 2018 stipulates data portability and deletion rights, and data portability is being examined in Japan.

The company is planning to develop a data utilization business by taking advantage of PLR’s feature of safe and inexpensive management and operation of personal data by the data subject.

(※) Personal Life Repository (PLR)

PLR is a type of Personal Data Store (PDS) in which personal data are managed and operated only by the data subject in principle and are shared and used with others. PLR is much safer and cheaper to build and operate than traditional information systems where third parties manage data sharing.

**④Active efforts in the space business**

From the first meteorological satellite “Himawari” in 1977 to the asteroid explorer “Hayabusa” that returned in 2010, the company has been engaged in space satellite development for many years and is making various efforts.

**◎ The company signed a capital and business alliance agreement with SPACE WALKER Inc., a space start-up company, for the development of a space plane business.**

In August 2019, the company signed a business alliance agreement with SPACE WALKER Inc. (Minato-ku, Tokyo), which aims for the first manned space flight in Japan, to develop a reusable winged sub-orbital space plane business. It also invested in SPACE WALKER in response to their efforts to raise funds on September 30.

(Overview of SPACE WALKER Inc.)

SPACE WALKER was established in December 2017. It provides space plane design/development and transportation services using a space plane.

Utilizing the technology that the founder has cultivated in space plane research since the 1980s, SPACE WALKER is working with technology partners to carry out studies on and development of “access to space,” which is indispensable for space utilization businesses. It aims to provide a weightlessness experiment service around 2022, a small satellite launch service around 2024, and a manned space flight service around 2027.

(Business alliance details)

- ①Technical support for space plane development
- ②Operation support for space planes
- ③Support to construct information security management systems

I-NET CORP. supports the construction of SPACE WALKER’s information security management system, taking advantage of the position as a data center operator and cloud service provider.

(Overview of Fundraising of SPACE WALKER)

Through the issuance of CE-type stock acquisition rights, SPACE WALKER procured a total of 370 million yen on October 15, 2018 and September 30, 2019.

Underwriters include I-NET CORP., ABBALab inc., Sanwa Supply Inc., Bascule Inc., Bliss Link Corporation, and Kenji Kasahara (Chairman and Executive Officer of Mixi Inc.).

I-NET CORP. will further strengthen the relationship through this investment and accelerate the development of the space plane.

**◎ I-NET CORP. concluded a business alliance agreement for a satellite related business with a space start-up company “Amanogi, Corp.,” which originated from Tokyo Institute of Technology**

In September 2019, the company entered into a business alliance agreement with Amanogi, Corp., a start-up company that originated from Tokyo Institute of Technology (Ota-ku, Tokyo) for the development of a satellite related business.

(Overview of Amanogi, Corp.)

It was established in 2017. It is “a venture that originated from Tokyo Institute of Technology” established by Yu Kudo, who is a graduate of Tokyo Institute of Technology and has development experiences at a space start-up company. Amanogi is established for the development of satellite parts and AI systems for satellites. In particular, it aims to commercialize the research results of Tokyo Institute of Technology specializing in small satellites. As its advanced efforts are recognized, it was selected as a new space industry creation business by the Ministry of Education, Culture, Sports, Science and Technology. It was also selected for the “Research and Development Project for Space Industry Technology Information Infrastructure” by NEDO and a demonstration theme of the “Innovative satellite technology demonstration Unit 2” announced in December 2018.

### Amanogi's businesses

#### ① Satellite component business

There is no doubt that the launch of small satellites will increase rapidly in the future, but there is no star tracker (\*) vendors in Japan. The star trackers made overseas are about 10 million yen. They are expensive and there is no support service for the products.

On the other hand, the star tracker "Amanogi Star Compass" manufactured by Amanogi achieves a price and development period that is less than half of the conventional ones, and is internationally competitive. It will be put on the market in 2020 and will be considered for sales not only in Japan, but also to overseas operators.

#### ② AI space data business

Space data have issues in immediacy and communication/operation costs. By applying Edge Computing (to realize AI and data analysis on a small scale and with low power consumption by applying small computers and logic synthesis) to satellites, only necessary data will be transmitted to the ground, and the space data in need can be provided quickly and at low cost.

Amanogi has a business plan to start the AI satellite development project in 2020, carry out technical demonstration of the launch of an AI satellite in 2023, and start a satellite business based on the results of demonstration of the AI satellite in 2024.

(Overview of the business alliance agreement)

① Joint development of satellite components, ② joint development of satellites, ③ joint development of star sensor services using a data center and ④ joint development of the service of AI-based analysis of satellite data

They are aiming for early commercialization by combining the knowledge and research results of three parties including I-NET, Amanogi, and Tokyo Institute of Technology

(※) Star tracker

A device for satellites to understand their orientation in space based on the position of stars.

### ◎ I-NET CORP. invested in the Japan's first space start-up fund

I-NET CORP. invested in Space @Start No.1 Investment Limited Partnership specializing in space start-up companies, formed by @Start CO., Ltd. (Minato-ku, Tokyo), an independent venture investing in start-up companies.

One of the aims of this investment is to strengthen the relationship with leading space start-up companies.

(Overview of the Space @Start No.1 Investment Business Investment Limited Partnership)

It invests in space start-up companies with a focus on Japan's first technologies. The total fund is over 5 billion yen, and the operation period is 6 years.

(Overview of @START Co.,Ltd.)

@Start Co., Ltd. was established in 2015. It is an independent venture capital established by Kazumasa Watanabe, who led several companies to initial public offering (IPO) as CFOs, including Ride on Express Holdings, which operates a delivery sushi "Gin no Sara." It has a unique position of "entrepreneurial venture capital," and is characterized by close support for investing companies, especially for IPO systems and scenarios.

### ⑤ I-NET CORP. opened a representative office in Singapore.

In November 2019, it opened a representative office in Singapore.

As part of its overseas business strategy, the office is intending to conduct market research mainly in Southeast Asia, where IT-related markets are growing rapidly. It collects information, carries out market research and examines new business development opportunities in the region.

### 3. Fiscal Year ending March 2020 Earnings Forecasts

#### (1) Earnings Estimates

	FY 3/19	Ratio to net sales	FY 3/20 (Est.)	Ratio to net sales	YOY	Correction rate	Progress rate
Net sales	27,591	100.0%	31,000	100.0%	+12.4%	+3.3%	49.6%
Gross profit	6,586	23.9%	7,380	23.8%	+12.0%	+0.7%	48.0%
SG&A expenses	4,240	15.4%	4,880	15.7%	+15.1%	0.0%	46.8%
Operating income	2,345	8.5%	2,500	8.1%	+6.6%	+2.0%	50.3%
Ordinary income	2,347	8.5%	2,440	7.9%	+3.9%	+2.1%	51.3%
Net income	1,521	5.5%	1,630	5.3%	+7.1%	+2.5%	50.7%

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

**Earnings estimates were revised upwardly. Sales and profit are projected to grow for the 9<sup>th</sup> and 10<sup>th</sup> consecutive term, respectively. Sales are forecasted to hit a record high. Profit is expected to hit a record high continuously.**

Earnings estimates were revised upwardly. It is estimated that sales will grow by 12.4% year on year to 31 billion yen and operating income will rise by 6.6% year on year to 2.5 billion yen.

Corporate IT investment demand is strong, and orders for information processing service and system development service are healthier than initially expected.

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.

There is no revision to the dividend forecast.

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 42.0%.

#### (2) Trend by Segment

	FY 3/19	Composition ratio	FY 3/20 (Est.)	Composition ratio	YOY	Correction rate	Progress rate
<b>Sales</b>							
Information processing service	10,091	36.6%	11,000	35.5%	+9.0%	+1.1%	49.1%
System development service	16,395	59.4%	18,700	60.3%	+14.1%	+3.4%	49.5%
System equipment sales	1,104	4.0%	1,300	4.2%	+17.7%	+25.0%	53.8%
Total	27,591	100.0%	31,000	100.0%	+12.4%	+3.3%	49.5%
<b>Operating income</b>							
Information processing service	1,027	10.2%	1,067	9.7%	+3.9%	+0.9%	51.5%
System development service	1,256	7.7%	1,373	7.3%	+9.3%	+3.2%	49.3%
System equipment sales	61	5.6%	60	4.6%	-2.5%	+1.7%	50.0%
Total	2,345	8.5%	2,500	8.1%	+6.6%	+2.0%	50.3%

\*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.

## 4. 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"> <li>* To raise the share in the number of processed SS (33% ⇒ over 50% in the mid/long term)</li> <li>* To expand the non-oil business by utilizing the nationwide network of sales branches</li> <li>* To promote sales of services targeting LPG distributors</li> </ul>
Cloud service	<ul style="list-style-type: none"> <li>* To expand the sale of the cloud service base (NGEC)</li> <li>* To strengthen and expand sales channels (to increase the number of resellers and promote the OEM model)</li> </ul>
Printing, mailing/BPO	<ul style="list-style-type: none"> <li>* To revise and expand the scope of services</li> <li>* To expand the BPO service business actively</li> </ul>
DX solution	<ul style="list-style-type: none"> <li>* To early monetize the BIM and CIM businesses utilizing drones</li> <li>* To enrich the AI cloud service for small and medium-sized enterprises and expand sales</li> <li>* To establish and operate an IoT business model</li> </ul>

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	<ul style="list-style-type: none"> <li>* To upgrade and revise financial packages to adapt to the changes in needs in the financial market</li> </ul>
Distribution and services	<ul style="list-style-type: none"> <li>* 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)</li> <li>* To utilize the know-how of modernization of AS400 legacy assets and expand the number of orders</li> </ul>
Space	<ul style="list-style-type: none"> <li>* To increase transactions with new space corporations and venture firms for developing original satellites, to expand the business scope</li> </ul>
New markets and services	<ul style="list-style-type: none"> <li>* To enter new business markets, including “parking area” and “rental”-related ones</li> </ul>

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

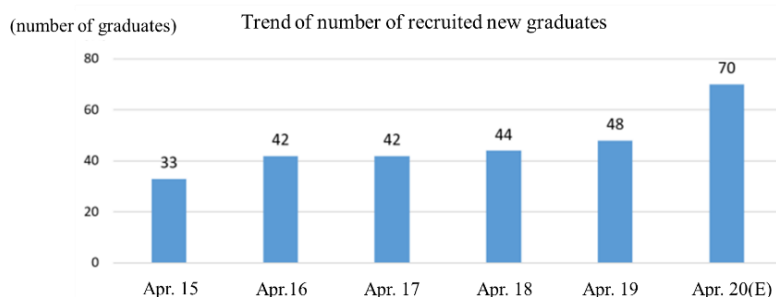
As for new service markets, it will cultivate new business fields which market reform will be demanded, such as sharing and rental businesses.

**(4) Investment strategy plan**

Field	Measures
Personnel development	<ul style="list-style-type: none"> <li>* To implement measures for recruiting the target number of new graduates and mid-career workers</li> <li>* To strengthen the systems for educating and training personnel at each level and improve their contents</li> </ul>
Data centers	<ul style="list-style-type: none"> <li>* To renew the equipment at the first and second data centers as planned</li> <li>* To discuss the plans for increasing the areas of data centers and enlarging data centers</li> </ul>
R&D	<ul style="list-style-type: none"> <li>* To develop the next-generation cloud platform with evolved NGEC</li> <li>* To operate data analysis and data science businesses</li> <li>* To utilize the data of artificial satellites for business</li> </ul>
Overseas business	<ul style="list-style-type: none"> <li>* 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</li> </ul>

The company believes that investing in human resources is the most important investment in order to expand business scale and improve corporate value, which are set as the medium- to long-term goals.

It will continue to actively recruit new graduates who will lead the growth of the company in the future. For mid-career recruitment, it will proactively hire highly skilled IT people with strong technical expertise to respond to new technologies such as AI and big data as well as people with immediate fighting strengths in the space development field, which is a focus business of the company.



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.

Specifically, in addition to new employee training, young employee training, and management training, the company launched a "Management School," a special training program for future managers.

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****<S: Social>**

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."**

## BRIDGE REPORT



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

System	Date of certification	Outline and activities
<b>The Outstanding Health and Productivity Management Organizations (White 500)</b> (The large-scale corporation section of “Certified Health and Productivity Management Organizations Recognition Program” by the Ministry of Economy, Trade and Industry)	February 2019	<ul style="list-style-type: none"> <li>* Declared wellness management</li> <li>* To encourage all employees to undergo a health checkup regularly, and give follow-up care based on diagnosis results</li> <li>* To employ industrial doctors and establish a health support division</li> <li>* To encourage employees to take the certification test for mental health management</li> </ul>
<b>Eruboshi</b> (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"> <li>* Ratio of female employees: 23.0%</li> <li>* Ratio of new female graduates recruited: over 40%</li> <li>* Establishment of a women's committee</li> <li>* Establishment of a diversity promotion division</li> <li>* Appointment of female directors (2 out of 11 directors)</li> <li>* Woman act. Supporters for Kanagawa women empowerment</li> </ul>
<b>Kurumin</b> (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"> <li>* Enrichment of a system for shortening working hours for employees who have a child (until the child becomes a fourth grader)</li> <li>* Setting of no overtime day</li> <li>* Leave for spouse's childbirth</li> <li>* Memorial leave</li> <li>* Teleworking system</li> <li>* Re-employment system</li> </ul>

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.

### <G:Governance>

A commissioned executive officer system was established.

The company reduced the number of directors to 7 (12 in September 2017) to speed up the decision-making process and strengthen supervisory functions. It also appointed 11 executive officers (including 4 concurrently serving as directors), aiming to clarify the responsibilities pertaining to the execution of duties and improve efficiency and speed of business execution.

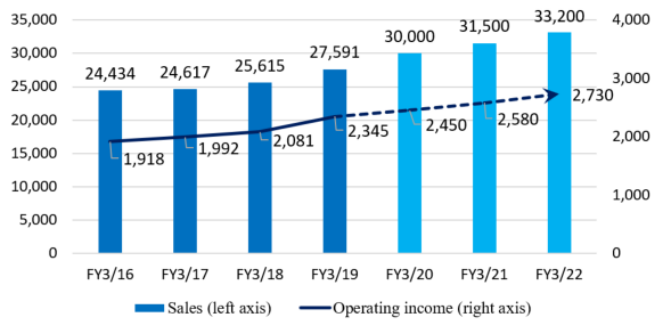
In addition, the restricted stock system was introduced.

The directors share the direction of the company with shareholders to achieve continuous improvement of corporate value and work on further sharing of values with shareholders.

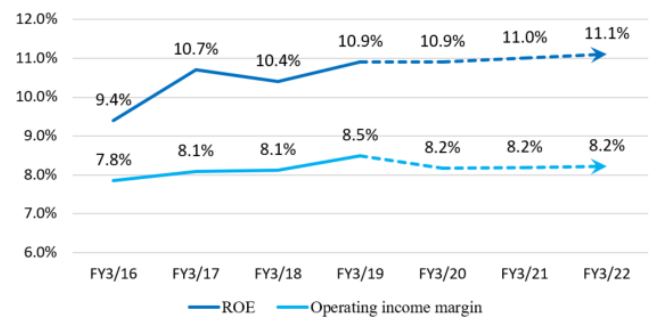
## BRIDGE REPORT



## (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.

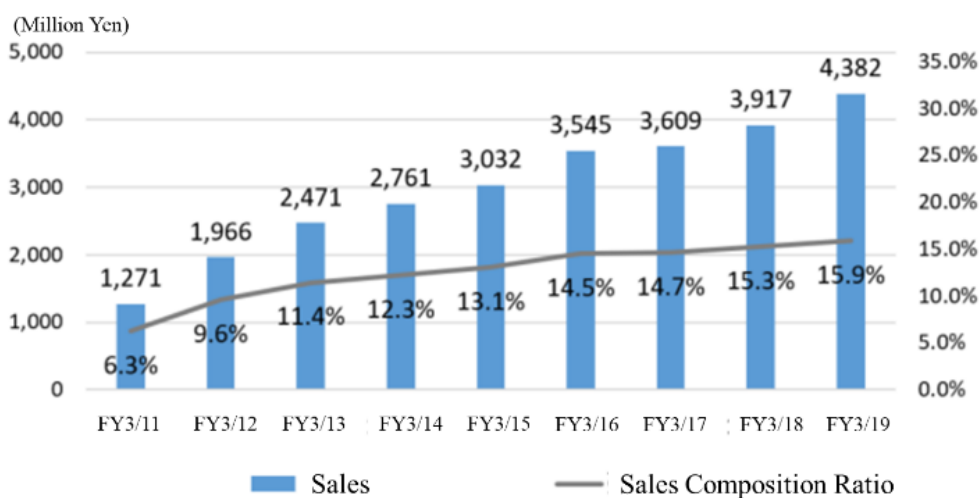
CAGR (compound annual growth rate) in 3 years is 6.4% for sales and 5.2% for operating income. Operating income ratio remains around 8%.

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.

## 5. Conclusions

The company aims to operate a “data science business” in which it collects a huge amount of data generated from services such as drones, AI, and space development in a data center and generates significant added value to the data by analyzing, providing, and utilizing them. It had not disclosed the sales of data center and cloud services, but it disclosed the sales of the past nine years at the recent financial results briefing. The data revealed that the compound annual growth rate (CAGR) of data center and cloud services for 9 years was 16.7%, significantly exceeding the overall net sales’ CAGR of 3.9%. Their sales composition is still less than 20%, but if these services expand under the current strategy, profitability will increase further. We would like to keep our eyes on the future of data center service and cloud services from a medium-term perspective.

## Sales and Sales Composition Ratio of data center and 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: July 29, 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	<p>&lt;Policy regarding strategically held shares&gt;</p> <p>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>

## BRIDGE REPORT



	<p>&lt;Criteria for exercising voting rights pertaining to strategically held shares&gt;</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>

This report is intended solely for information purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However, we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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