



President Mitsuru Sakai

I-NET CORP. (9600)


 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
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Year-end	March
URL	https://www.inet.co.jp/english/company/

Stock Information

Share Price	Shares Outstanding	Total Market Cap	ROE (Actual)	Trading Unit	
¥1,528	16,242,424 shares	¥24,818 million	11.3%	100 shares	
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
Undecided	-	Undecided	-	¥956.89	1.6 times

*The share price is the closing price on June 8. Each figure was taken from the brief report on results for the term ended Mar. 2020. The forecast for this term is still to be determined because it is impossible to sufficiently predict the impact of the novel coronavirus.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 (Actual)	31,097	2,501	2,531	1,672	105.13	43.00
March 2021 (Estimate)	-	-	-	-	-	-

* Unit: Million yen, yen. The forecast for this term is still to be determined because it is impossible to sufficiently predict the impact of the novel coronavirus. 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 term ended 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 term ended March 2020, sales were 31 billion yen, up 12.7% year on year, and operating income was 2.5 billion yen, up 6.6% year on year. All services saw increases in sales and profit, as there was strong demand from enterprises for IT investment. Sales grew for the 9th consecutive term, and profit rose for the 10th consecutive term, both hitting a record high. The first year of the mid-term management plan made a good start, exceeding the estimates.
- For the term ending March 2021, the earnings forecast is to be determined, because it is still impossible to sufficiently predict the degree of impact of the spread of the COVID-19. The forecast will be announced as soon as reasonable estimation becomes possible. Dividends, too, are still to be determined, but the company plans to increase them, including a commemorative dividend to express thanks to shareholders, as it will commemorate the 50th anniversary of establishment.
- As the performance of data centers and cloud services, which are recognized as growth drivers, improved, sales and profit exceeded the initial estimates. Namely, the first year of the mid-term management plan made a good start. Unfortunately, it is still difficult to reasonably estimate the impact of the novel coronavirus, so the earnings forecast for this term is yet to be determined. Accordingly, investors have no choice but to wait for the disclosure of quarterly results, but we would like to expect the release of qualitative information, including the situations of data centers and cloud services, on which the company concentrates.
- While the needs for digital transformation (DX) and corporate transformation (CX) based on DX are growing, the corporate performance is estimated to worsen inevitably. We would like to pay attention to how the company will meet the needs earlier than competitors by utilizing its competitive advantage.

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,” 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 ~keep growing while changing~

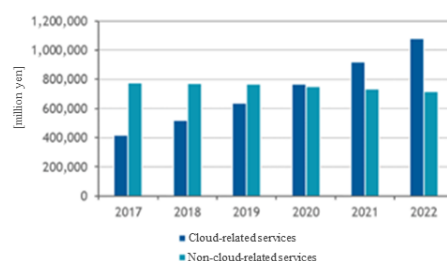
The mid-term management plan will be described later.

【1-3 Market environment】

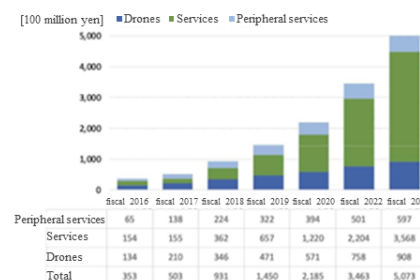
I-NET CORP. recognizes the industrial and business environments of its major domains and those the company will focus on as follows.

■ 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.

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.

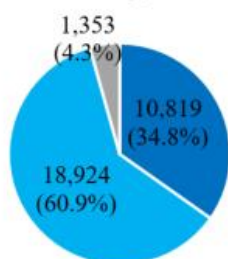
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

【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.

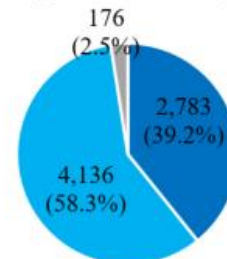
Its core businesses are “Information processing services,” “System development services,” and “System product sales.”

Sales composition



■ Information processing services ■ System development services
■ System product sales

Operating income composition



■ Information processing services ■ System development services
■ System product sales

*Term ended March 2020; Unit: Million yen; Operating income was calculated with the company's original simplified method, and the values are for reference.

(1) Information processing services

It is composed of the 5 services: “IT management services,” “cloud 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.”

The company defines this Information processing services as a recurring-revenue business and considers it as a base for stable growth. (For details, see Section 【1-5: Characteristics and Strengths】.)

◎Data center service

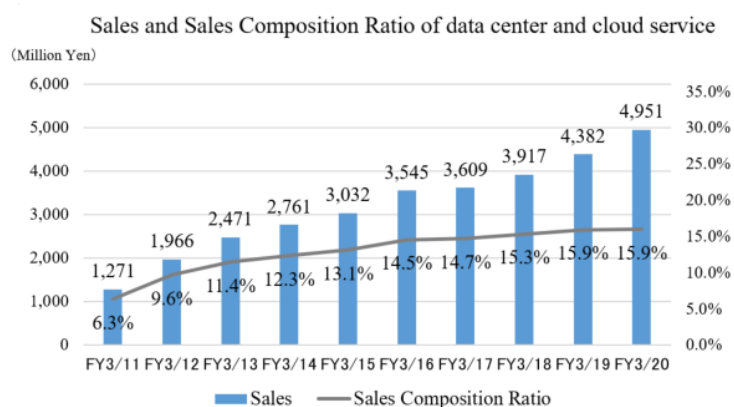
In the information processing service, the company is recently exerting their strengths and concentrating on “the data center service” and “the cloud service” the most. The company developed these services earlier than its competitors.

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.



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.

◎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

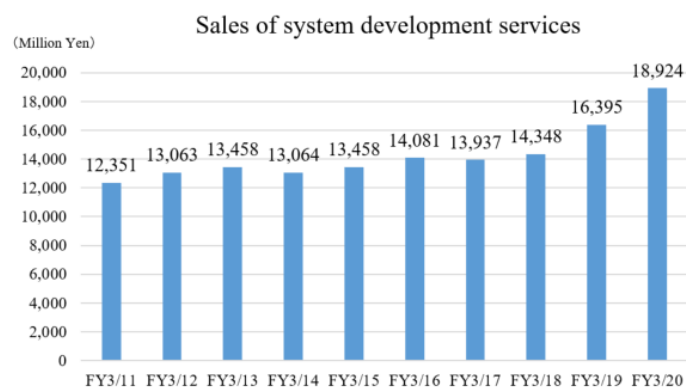
As the company has dealt with the task of dispatching bills at gas stations, it also prints, encloses, and seals credit-card statements, tax notices, election cards, direct mails, bills, etc.

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).

(2) System development services

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, medical and manufacturing.



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

(3) System product 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.

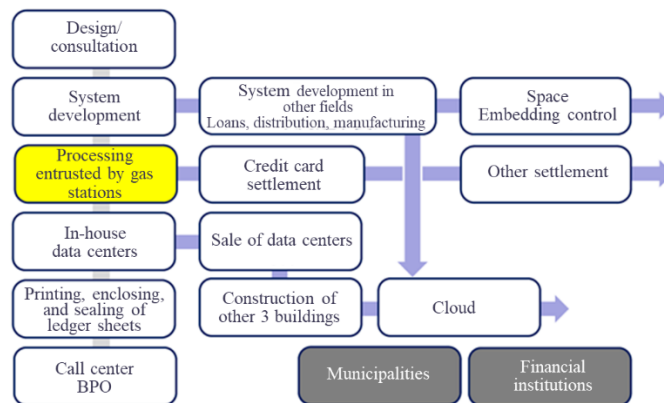
【1-5 Characteristics and strengths】

(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 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.

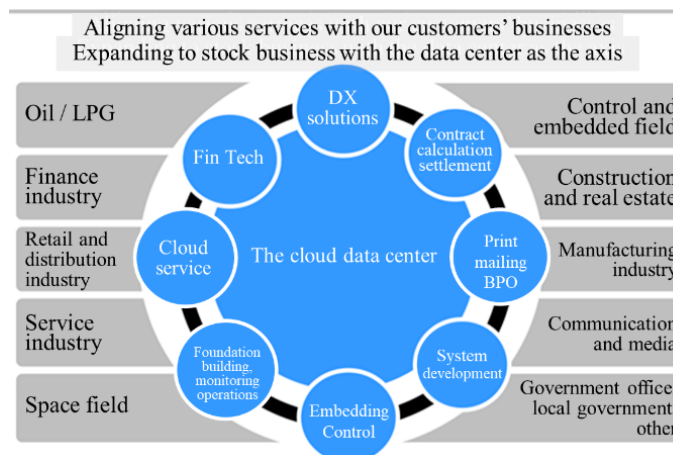
The company’s advanced capability of operating business, which realized the expansion of its business domain and customer base, cannot be ignored when evaluating the company.



(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.

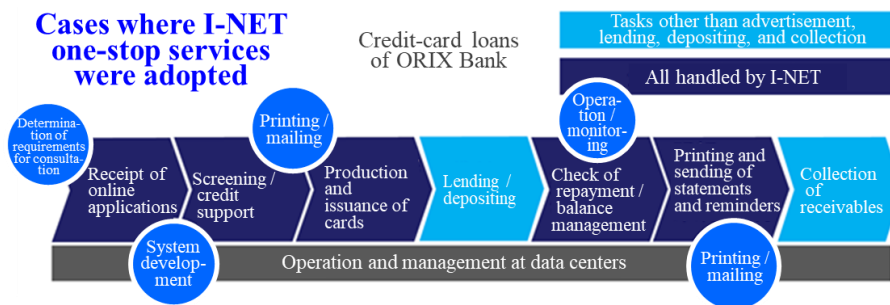


(Taken from the reference material of the company)

(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.

(4) Stable growth through the expansion of recurring-revenue business

The sales of the information processing services account for over 30%, while the sales of the system development services account for 60%, but the company defined the information processing services as a “recurring-revenue business” and considers it as the base for stable growth.

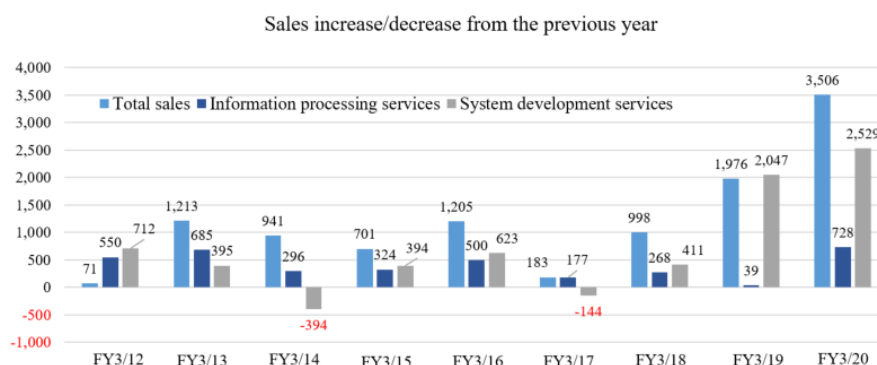
The recurring-revenue business means a business that can “earn fixed sales every month” and “maintain contracts for the following fiscal years.” Cloud and data center services fall under it, and SS (gas station) commissioned counting settlement, printing, enclosing and sealing are included.

As mentioned above, the sales of data center and cloud services has grown over 4 times with CAGR of 16.3% over the past 10 years, in parallel with the market growth.

The CAGR of the information processing services in that period was 4.5%, falling below those of total sales and the system development sales: 4.9%, but the fact that total sales never dropped while the sales of the system development services decreased in two terms is attributable to the stable growth of the “recurring-revenue business.”

The company plans to grow stably by expanding the recurring-revenue business, mainly data center and cloud services, from this term onward.

*CAGR is the average annual growth rate in a period from the term ended March 2011 to the term ended March 2020.

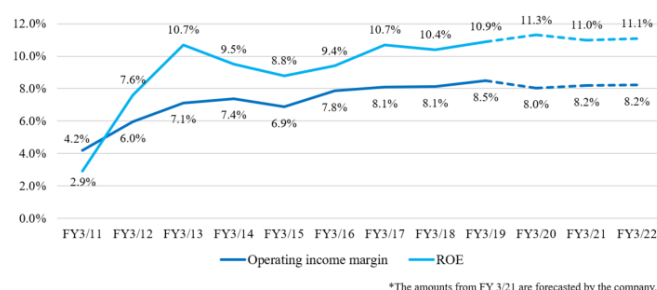
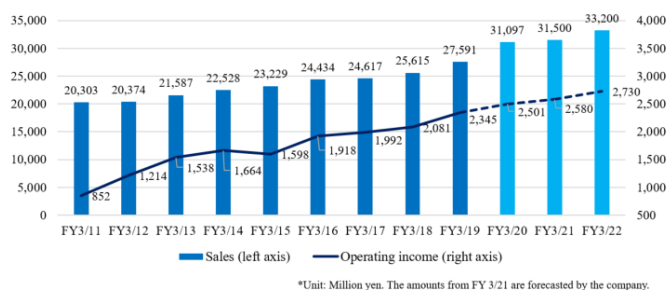


BRIDGE REPORT



【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	FY 3/20
ROE (%)	8.8	9.4	10.7	10.4	10.9	11.3
Net income margin [%]	4.23	4.56	5.34	5.34	5.52	5.38
Total asset turnover [times]	0.92	0.96	0.98	1.00	1.01	1.07
Leverage [times]	2.27	2.16	2.05	1.95	1.96	1.96

While leverage dropped, ROE increased continuously due to improved profitability and efficiency of assets. In the mid-term management plan, the company aims to achieve ROE of 11.1% in the term ending March 2022

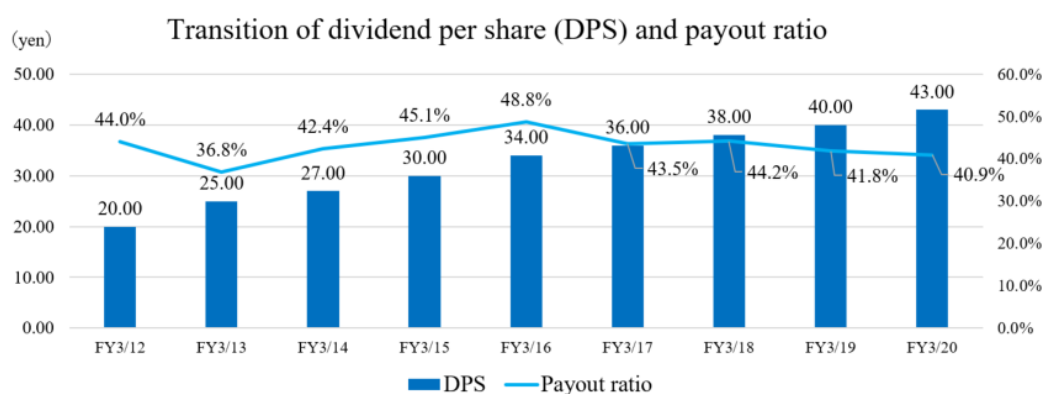
【1-8 Dividend policy and the system for shareholder benefits】

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.

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. Fiscal Year ended March 2020 Earnings Results

(1) Earnings Results

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YOY	Initial forecast ratio	Revised forecast ratio
Net sales	27,591	100.0%	31,097	100.0%	+12.7%	+3.7%	+0.3%
Gross profit	6,586	23.9%	7,096	22.8%	+7.7%	-3.2%	-3.8%
SG&A expenses	4,240	15.4%	4,594	14.8%	+8.4%	-5.9%	-5.9%
Operating income	2,345	8.5%	2,501	8.0%	+6.6%	+2.1%	+0.0%
Ordinary income	2,347	8.5%	2,531	8.1%	+7.8%	+5.9%	+3.7%
Net income	1,521	5.5%	1,672	5.4%	+9.9%	+5.2%	+2.6%

*Unit: Million yen

Sales and profit grew. Both sales and profits reached record highs.

Sales increased 12.7% year on year to 31 billion yen, and operating income increased 6.6% year on year to 2.5 billion yen.

Sales and profits increased for all services.

Sales increased for the ninth consecutive year, while profits increased for the tenth consecutive year, both reaching record highs. The first year of the medium-term management plan got off to a good start, exceeding the plan.

(2) Trend by Segment

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YOY	Initial forecast ratio	Revised forecast ratio
Sales							
Information processing services	10,091	36.6%	10,819	34.9%	+7.2%	-0.6%	-1.6%
System development services	16,395	59.4%	18,924	61.0%	+15.4%	+4.7%	+1.2%
System product sales	1,104	4.0%	1,353	4.4%	+22.6%	+30.1%	+4.1%
Total	27,591	100.0%	31,097	100.3%	+12.7%	+3.7%	+0.3%
Gross profit						-	-
Information processing services	2,778	27.5%	2,783	25.7%	+0.2%	-	-
System development services	3,639	22.2%	4,136	21.9%	+13.7%	-	-
System product sales	167	15.2%	176	13.1%	+5.4%	-	-
Total	6,586	23.9%	7,096	22.8%	+7.7%	-	-

*Unit: Million yen. The composition ratio of gross profit means profit ratio.

(Information processing services)

As the company made large-scale transactions in the previous term and the use of data centers by existing customers increased steadily, the data center and cloud services, which have a high profit rate, performed healthily, and sales hit a record high.

The cloud service includes remote desktop, business chat, and file sharing software effective for supporting telework, and the company has recently received business inquiries.

(System development services)

The development of systems for logistics services, finance, petroleum businesses, etc. progressed favorably, and the reorganization of Software Control Corporation into a subsidiary in October 2018 contributed.

In the space development field, the company is increasing contact points with not only public institutions, but also private startup firms.

(System products sales)

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

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

	End of Mar. 2019	End of Mar. 2020		End of Mar. 2019	End of Mar. 2020
Current assets	9,997	9,628	Current liabilities	7,933	8,407
Cash and deposits	3,299	3,083	Trade payables	1,075	1,102
Trade receivables	5,836	5,739	Short-term loans payable	2,329	2,872
Noncurrent assets	18,518	19,960	Noncurrent liabilities	6,224	5,957
Property, plant, and equipment	13,482	14,875	Long-term loans payable	5,471	5,589
Investments and other assets	3,816	3,904	Total liabilities	14,158	14,365
Total assets	28,515	29,589	Net assets	14,357	15,224
			Retained earnings	8,077	9,089
			Total liabilities and net assets	28,515	29,589
			Total borrowings	7,801	8,461

*Unit: Million yen

Total assets were 29.5 billion yen, up 1 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 200 million yen from the end of the previous term to 14.3 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 increased by 1.2 points from the end of the previous term to 51.5%.

◎Cash flow

	FY 3/19	FY 3/20	Increase/decrease
Operating CF	3,052	3,965	+912
Investing CF	-3,074	-3,872	-798
Free CF	-21	92	+113
Financing CF	17	-308	-326
Cash and cash equivalents	3,299	3,083	-216

*Unit: Million yen

The surplus of operating CF expanded, due to the decline in trade receivables, etc.

Due to the augmentation of purchase of property, plant and equipment, the deficit of investing CF increased, but free CF turned positive.

Financing CF turned negative, due to the decline in proceeds from long-term loans payable, the rise in expenditure for repayment, etc.

The cash position declined.

(4) Main Topics

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

① Active 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.

◎ Investing in the space start-up company, “Astroscale”

In May 2020, the company directly invested in Astroscale Holdings through third-party allocation of shares.

Astroscale Holdings is a space start-up company that contributes to solving the space debris problem with state-of-the-art technology. I-NET CORP. had established a close relationship with the company by cooperating in the development of debris removal satellites and operating ground stations. It made investments to further strengthen its relationship with Astroscale.

It will keep supporting it by designing, assembling, and operating debris removal satellites as well as supporting resale to space startup firms which are potential antenna users. In addition, it will support accumulating and analyzing satellite data, etc.

The company thinks that solving the problem of space debris, which is waste floating around the globe, is an extremely important issue for the global space business and it will contribute to the ESG goals.

② Full-scale bridge inspection using drones

The company signed a memorandum of understanding (MoU) with Kimitsu City and D-ACADEMY Co., Ltd. (Kimitsu City, Chiba Prefecture) in May 2019 with the aim of building a maintenance cycle for extending the life of infrastructure using drones and has conducted the demonstration tests for the practical application. In March 2020, the company held a “debriefing session of the results of demonstration tests of drones for the inspection of bridge construction” and reported that it established the “Kimitsu model” as a new inspection method that utilizes drones and offers cost reduction benefits.

Looking at the drone services market in each industry, particularly, the use of drones in the field of inspection of infrastructure and equipment is expected to spread.

The benefits of utilizing drones for the inspection of constructions such as bridges, steel towers, base stations, power generation facilities, plants, factories, buildings, and ships, are becoming clearer and the market is expected to grow.

Especially, conventional bridge inspection requires a special vehicle to get close to the bridge sides and bottom to make a visual inspection. However, by implementing bridge inspection with drones, it is expected that the inspection cost will be greatly reduced, and traffic restriction associated with inspection is expected to be relaxed.

The company aims to introduce the “Kimitsu model” to all municipalities nation-wide, together with its partner.

③ A comprehensive collaboration agreement with Yokohama National University

In December 2019, the company formed a comprehensive collaboration agreement with Yokohama National University.

By mutually utilizing the initiative of Yokohama National University, “aiming to achieve global excellence by offering human resources development for the leaders of the new global generation of the 21st century through education, research, and contributing to society, beyond the frameworks of faculties and graduate schools in the campus rooted in the Yokohama-Kanagawa region, which integrates the humanities and science,” and the company’s strength of “the technologies, infrastructure, and personnel for the business as an ICT company, and connections with many clients in Yokohama City, Kanagawa Prefecture and the neighboring region,” the company aims to “discover problems with the society and industry, and contribute to the society by sharing the expertise of research and development of solutions to such problems as well as implementing the solutions.”

I-NET CORP. will use its business including “cloud data centers,” “micro data centers,” “system development,” and “commissioned calculation” in addition to Yokohama National University’s research bases such as the “sustainable mobility system,” “social value creation through integrated humanities and science,” “artificial intelligence research,” “super 3D printing technology platform,” and “information and physical security research.”

The company plans to contribute to solving social and regional problems by taking advantage of the synergy effect from their expertise, research, and technology while keeping in mind the measures for SDGs and Society 5.0.

3. Fiscal Year ending March 2021 Earnings Forecasts

◎Earnings Forecasts

For the term ending March 2021, the earnings forecast is to be determined, because it is still impossible to sufficiently predict the degree of impact of the spread of the COVID-19. The forecast will be announced as soon as reasonable estimation becomes possible.

Dividends, too, are still to be determined, but the company plans to increase them, including a commemorative dividend to express thanks to shareholders, as it will commemorate the 50th anniversary of establishment.

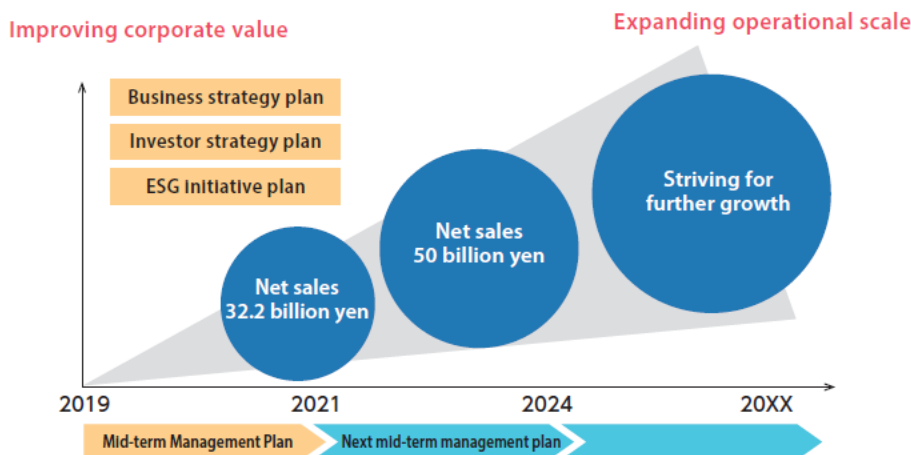
4. Progress of the Mid-term Management Plan

(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.

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.

- Becoming an excellent company that makes sustainable growth possible
~keep growing while changing~



(Taken from the reference material of the company)

(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.

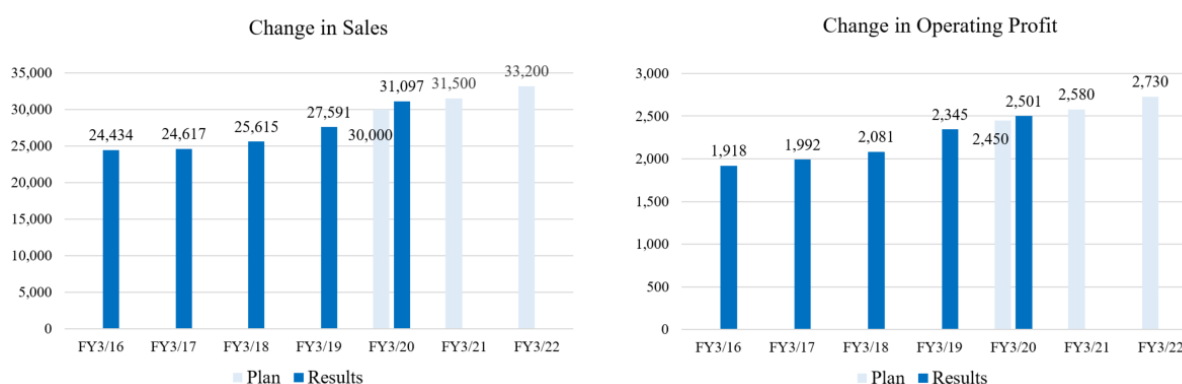
Company-wide intensive measure (3): Further promotion of cross-selling in business covering from planning to BPO

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) Progress

In the first year, sales and operating income reached the estimates, making a good start.

This is mainly because data center and cloud services performed well and the system development business was healthy, as the demand for IT equipment investment grew.



The company will continue active measures to meet the needs for DX from client companies, the improvement of the competitiveness of products and services for big data, AI, FinTech, etc., the promotion of cloud services, measures to meet the needs for reform of workstyles, including telework, the cooperation with private venture firms in the space development field, etc.

(4) Business strategy plan

① Information processing services

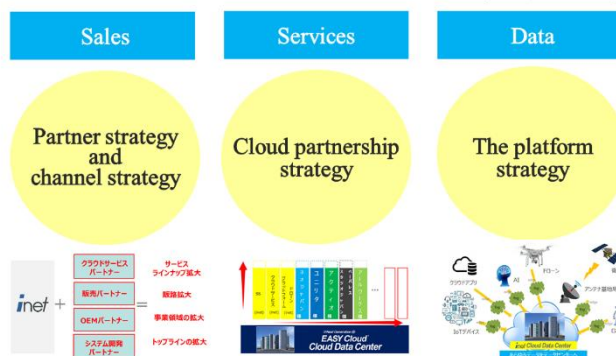
Field	Measures
SS, commissioned counting settlement	<ul style="list-style-type: none"> * To raise the share in the number of processed SS (33% ⇒ over 50% in the mid/long term) * To expand the non-oil business by utilizing the nationwide network of sales branches * To promote sales of services targeting 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

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.

【Measures for cloud and data center services】

For the expansion of cloud and data center services, on which the company is concentrating, the company employs 3 strategies: the partner strategy and channel strategy for sales, the cloud partnership strategy to handle services, and the platform strategy, which handles data.

Cloud and Data Center Services concentrates on a “three-pronged strategy”



(Taken from the reference material of the company)

*Partner strategy and channel strategy for sales

This strategy is not limited to the cloud and data center services but extends to cover the entire company.

As industries and environments widely change every day, it is difficult to run all the businesses by the company alone, thus it strengthens its relationship with trustworthy partners which have their own strengths for system development, and it will enhance this cooperation. Moreover, regarding sales, like the business alliance with NEOJAPAN Inc (TSE 1st section: 3921), which operates its own cloud services, the company will expand the collaboration with NEOJAPAN as a cloud service partner that handles I-NET CORP's operations and sells NEOJAPAN's products so that NEOJAPAN's business chat, etc. run on I-NET CORP's cloud foundation; further, it will increase sales and OEM partnerships.

In addition, the company will focus on collaborative marketing with companies that have multiple customer bases and a strong sales force. By utilizing these strategies, the company aspires to expand its lineup of services, expand sales channels, widen the business region, and achieve top-line growth.

* Cloud partnership strategy to handle services

Taking advantage of the company's strength as a platformer, the company will load applications of other companies that are strong in each specialty field and offer it as a cloud service.

For example, the company can convert the systems of Aktio, PaperLess Studio Japan Co., Ltd., BIM (Building Information Modeling), etc. which are strong in the fields aimed at architectural design, as well as the automatic driving package system of UNIRITA Inc., and offer them to customers as a service.

In the future, the company will collaborate with companies with varying specialties to diversify its services and will proactively market each service.

* The platform strategy for handling data

Devices and instruments such as drones, AI, satellites, and robots utilize data and each service produces a huge amount of data.

The company collects all these data in its data centers, with which it creates big data and becomes able to make use of it through accumulation and analysis. In the future, the company will actively engage in more growing fields such as IoT, AI, and FinTech. It will create data centers and cloud services to steadily improve the company's profitability.

【Measures for digital transformation】

The company is also making efforts in developing solutions related to “DX (Digital Transformation),” for which customers' needs are rapidly increasing.

* Measures for major fields

Reform of ways of working	As needs have increased for avoiding commuter congestion during the Tokyo Olympics and Paralympics, the reform of ways of working by adopting remote work due to the spread of COVID-19, etc., the company established a contact point for promoting remote work and offered tools such as remote desktop and real-time information sharing with multiple members.
Data and AI	The company is expanding the domains of data science and AI business. Further, it is working on strengthening sales of AI cloud services targeting small and medium enterprises.
FinTech	The company will pay attention to market trends and will strengthen its financial package, which is one of its strengths. Additionally, it will reassess the financial products and will consider and plan for renewing the package.
Solutions for specific industries and solutions	Differentiating the company from competing companies by taking advantage of the know-how of sales management activities aimed at the distribution industry and working towards accurately responding to the needs from customers with BIM and CIM businesses targeting the construction industry.
5G	The company is considering measures for the regional BWA, which is a wireless system for the telecommunications business utilizing the 2.5GHz band, which uses the frequencies (2,575-2,595MHz) and was introduced to solve the digital divide problem as well as to contribute to the promotion of public welfare.

* Implementing structural reform

The company made structural reforms in April 2020 to strongly promote DX.

- Responding to the needs for DX

In order to accurately meet the customers' needs for DX, the company reorganized the solution headquarters into the “DX headquarter,” and formed the new departments, “FinTech Solutions Division,” “Distribution • Services Solutions Division,” “Enterprise Solutions Division,” “IoT Solutions Division,” and “Space • Satellite Solutions Division.”

Regarding the needs required by a variety of customers, the company offers advanced business know-how, promotes nimble business execution, and supports customers so that they reach the much desired DX.

- Strengthening the data center business

The company switched from the conventional structure of “1 headquarter and 2 business divisions” to “2 headquarters and 5 business divisions.”

The company reorganized the “Data Center department” to the 3 business divisions, “Data Center Division,” “Cloud Services Division,” “Business Solutions Division.” Establishing the “DC headquarters,” it works towards expanding the data center business while cultivating new businesses.

Moreover, the IT managed service division was upgraded to “IT Managed Services Department,” consisting of the 2 divisions, “Data Center Managed Services Division” and “IT Solutions Division,” through which it enhanced the data center operation structure in both offense and defense. In doing so, the company does not only enrich the operational management function but will also integrate the cloud service technical support with the product marketing function.

- Improving R&D functionality

Based on the basic policy of aspiring to be an excellent governor, which will make sustainable growth possible, the company seeks innovation and thus has established an “R&D promotion office” within the “Management Planning Department.”

It is a new research and development space to create new values by utilizing advanced cloud services and the latest data science, AI, and IoT technologies; the company promotes research and development as well as acquiring DX technology, which will lead to the future.

* Establishing an exclusive contact point to support remote working to promote “reform of workstyles”

The interest in remote work has rapidly increased due to the spread of the novel coronavirus, in addition to the recent trend promoting “reforming ways of working” in Japanese enterprises.

The company offers a variety of services including remote desktop, business chat, online conference systems, and file sharing services, all offered as SaaS. The company swiftly and accurately offered advice according to each enterprise’s situation, and in order to capture such demand surely, in March 2020, it established an exclusive contact point to support remote work tools within the cloud services division of the data center headquarters.

② System development services

Field	Measures
Finance	* To upgrade and revise financial packages to adapt to the changes in needs in the financial market
Distribution and services	* 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.

(5) Investment strategy plan

Field	Measures
Data centers/cloud platforms	* Developing the next generation cloud platform from the cloud base (NGEC) * Systematic implementation of upgrading data center facilities, increasing space, and expansion. * Launching the data analysis and data science business
Human resources development	* Implementing policies to achieve the target number of newly graduated recruits while strengthening mid-career recruitment of personnel who can work immediately * To strengthen the systems for educating and training personnel at each level and improve their contents
R&D	* 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	* Building business foundations in Southeast Asia (plan to establish business bases) * To aim to offer services based on the company’s expertise and cutting-edge technologies

◎ Capital investment

To handle the increase of customers of the data center services and to meet a wide variety of needs for cloud services, the company is strengthening the data centers’ facilities. The company does not fully equip data centers once they are established, but it improves facilities in accordance with the timing of receiving projects. As a result, the sales of data center services and cloud services are favorably increasing along with the increase in facilities.

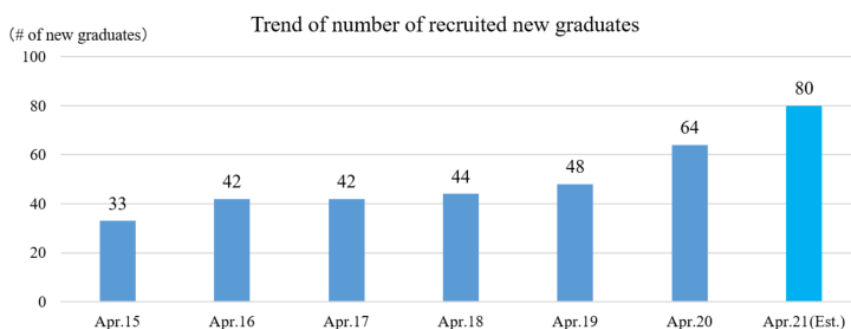
The company continues to respond to needs flexibly while keeping the balance between improving facilities and its expenses in check. It strives to expand the business domain by growing the mainstay business, data center services and cloud services.

◎ Investing in human resources

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

New graduates who will lead the growth of the company in the future, I-NET CORP has independently recruited 64 people (70 planned), in April 2020. For April 2021, it will actively continue the recruitment activities so that it can recruit 80 people.

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. As for the human resources training, the company conducts various types of training according to the needs of each employee including training aimed at young employees, “the new employee training,” which it had polished long ago. Also, the “Management school,” a training aimed at the level of section and division managers, through which employees learn about administration and management, and it builds up talents for the management level which will create policies to grow the company in the future. Moreover, the training with different themes including diversity, to respond to the needs of the employees whose ways of working vary. Additionally, the company plans to further improve the training.



◎R&D

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.

◎ Overseas business

Aiming to conduct market research in Southeast Asia, where the IT-related market is growing significantly, the company opened a representative office in Singapore in November 2019.

There, it collects information, conducts market research, and considers launching new businesses. Based on the intensive business, the data center and cloud services, and fields of strength such as the development of commissioned calculation system aimed at gas stations, which it has been cultivating for many years, the company aspires to develop services using cutting-edge technology such as IoT, AI, and data analysis and will consider overseas strategies for the future.

(6) 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.”

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)	Feb. 2020 (certified for 2 consecutive years from 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.

In addition, in 2019, Mr. Noriyoshi Ikeda, who is the founder, director, and chairperson, established “Inet Ikeda Foundation,” for the purpose of supporting and financing the sustainable activities of social contribution groups in Kanagawa Prefecture. In January 2020, the company obtained public interest certification, establishing a system for contributing to society further, and restarted activities. The company will continue long-term, stable activities, to contribute to the development of a better local society.

<G:Governance>

After adopting the entrusted executive officer system and the system for stock options with transfer limitations, the company will strive to tighten corporate governance, establish nomination and remuneration advisory committees, and have an audit committee.

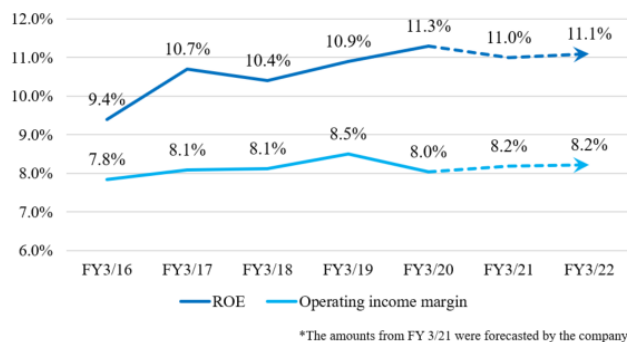
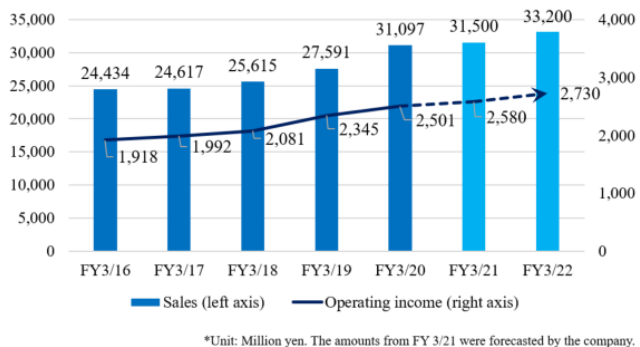
The company established nomination and remuneration advisory committees as arbitrary advisory organs of the board of directors, in order to enhance the functional independence, objectivity, and accountability of the board of directors regarding the selection and dismissal of executives, the nomination of candidate directors, the remunerations for executives and directors, etc. and enrich the corporate governance system.

For becoming a company with an audit committee, the board of directors includes the audit committee members, who audit the execution of duties of directors, etc. to strengthen the overseeing function of the board of directors, and the company aims to tighten corporate governance by strengthening the overseeing system.

BRIDGE REPORT



(7) Numerical goals



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

As the performance of data centers and cloud services, which are recognized as growth drivers, improved, sales and profit exceeded the initial estimates. Namely, the first year of the mid-term management plan made a good start.

Unfortunately, it is still difficult to reasonably estimate the impact of the novel coronavirus, so the earnings forecast for this term is yet to be determined. Accordingly, investors have no choice but to wait for the disclosure of quarterly results, but we would like to expect the release of qualitative information, including the situations of data centers and cloud services, on which the company concentrates. While the needs for digital transformation (DX) and corporate transformation (CX) based on DX are growing, the corporate performance is estimated to worsen inevitably. We would like to pay attention to how the company will meet the needs earlier than competitors by utilizing its competitive advantage.

<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.

*Assuming the approval at the 49th general meeting of shareholders to be held on June 24, 2020, the company plans to shift to a company with an audit committee, having 12 directors, including 6 outside directors, and 4 audit committee members, after the resolution at the general meeting of shareholders.

◎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. Considering 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, because 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. Most of the committee's members are to be independent outside officials, 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><Policy regarding strategically held shares></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 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> <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	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 to contribute to sustainable growth and medium-to-long term improvement of corporate value.

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.

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.

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.

Regarding the management of insider information, we carry out dialogue in accordance with internal regulations.

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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