



President Mitsuru Sakai

I-NET CORP. (9600)


 inet 株式会社 アイネット

Corporate Information

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

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥1,403	16,242,424 shares		¥22,788 million	9.5%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥47.00	3.3%	¥100.15	14.0x	¥1,014.82	1.4x

*The share price is the closing price on November 16. Shares Outstanding, DPS and EPS are taken from the financial results of the second quarter of fiscal year ending Mar. 2022. ROE and BPS are taken from the financial results of term ended Mar. 2021.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 (Actual)	30,016	2,155	2,279	1,494	93.62	46.00
March 2022 (Estimate)	32,500	2,330	2,330	1,600	100.15	47.00

*Unit: Million yen, yen. 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 fiscal year ending March 2022 and earnings forecasts for the fiscal year ending March 2022.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Second quarter of Fiscal Year ending March 2022 Earnings Results](#)

[3. Fiscal Year ending March 2022 Earnings Forecasts](#)

[4. Progress of Mid-term Management Plan](#)

[5. Conclusions](#)

[<Reference1: Regarding Mid-term Management Plan>](#)

[<Reference2: Regarding Corporate Governance>](#)

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.
- In the second quarter of the term ending March 2022, sales increased 0.3% year on year to 14,935 million yen. The sales of Information processing services increased, but the sales of System development services and System product sales decreased. Gross profit increased for all services. Gross profit margin also improved 1.4 points year on year. SG&A expenses increased 3.0% year on year, but this was offset, and operating income increased 18.9% year on year to 986 million yen. Ordinary income increased 28.2% year on year to 1,095 million yen. In addition to an increase in subsidy income, the company recorded a gain on the management of investment partnerships. Net income increased 92.1% year on year to 715 million yen. While the company posted a gain on negative goodwill as an extraordinary gain, the company did not incur any special service cost this term, which was posted as an extraordinary loss in the same period of the previous term.
- There is no change in the earnings forecasts. Net sales are expected to increase 8.3% year on year to 32.5 billion yen and operating income is projected to rise 8.1% year on year to 2.3 billion yen. The Data Center/Cloud Service business is expected to remain healthy. The performance of System development is recovering steadily in the financial, distribution, and communication service industries. The launch of new development projects has been delayed, but the number of business negotiations is increasing and the company is working to make up for the delay. The company aims to achieve its full-year forecasts by leveraging the strength of its well-balanced business portfolio. The company plans to pay a dividend of 47.00 yen per share, up 1.00 yen per share from the previous term's dividend of 46.00 yen per share, which included a commemorative dividend of 2.00 yen per share on top of the ordinary dividend of 44.00 yen per share. Namely, the dividend will increase for the 10th consecutive year. The expected payout ratio is 46.9%.
- The progress rate in the first half was 46.0% for net sales and 42.3% for operating income. The company's earnings tend to be heavily weighted toward the second half of the year, but both sales and operating income are slightly lower than those in the past few years.
- Regarding performance in each service, both the sales from Information processing and System development services will be smaller than usual. In the System development services, the start of new development projects has been delayed, and a large project that contributed in the first quarter of the previous term was later cancelled. Accordingly, the key point will be how much the company can recover while business negotiations are increasing.
- With the effects of the pandemic fading away, we will pay attention to whether the company can achieve the final-year targets of the medium-term management plan, that is, net sales of 32.5 billion yen and an operating income of 2.3 billion yen in the third and fourth quarters, and how much more it can increase sales and profit.

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, Founder Supreme Advisor 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 pillars: “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” to expand its business scale and develop a sturdy foundation for business growth.

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

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

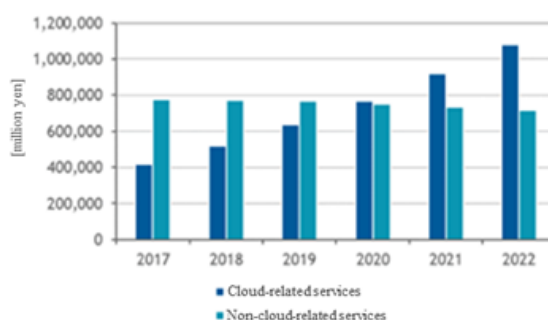
The mid-term management plan will be described later.

【1-3 Market environment】

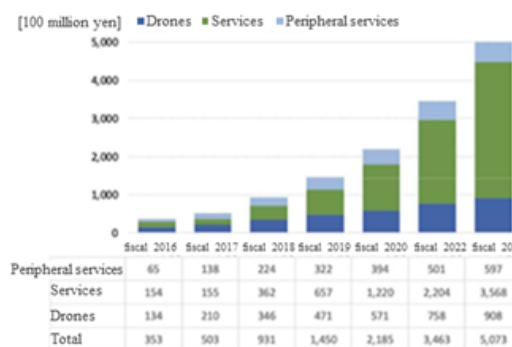
I-NET CORP. recognizes the industrial and business environments of its major domains and those the company will focus on as follows

■ Major domestic IT markets

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



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



(Taken from the reference material of the company)

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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.

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.

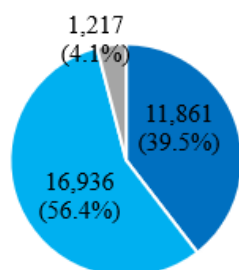
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

【1-4 Business contents】

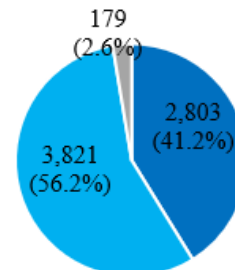
Based on its own data center with Japan's highest level of safety and management of system operations which has been nurtured for many years, I-NET CORP. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well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



Operating income composition



- Information processing services
- System development services
- System product sales

- Information processing services
- System development services
- System product sales

*Term ended March 2021; 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 services

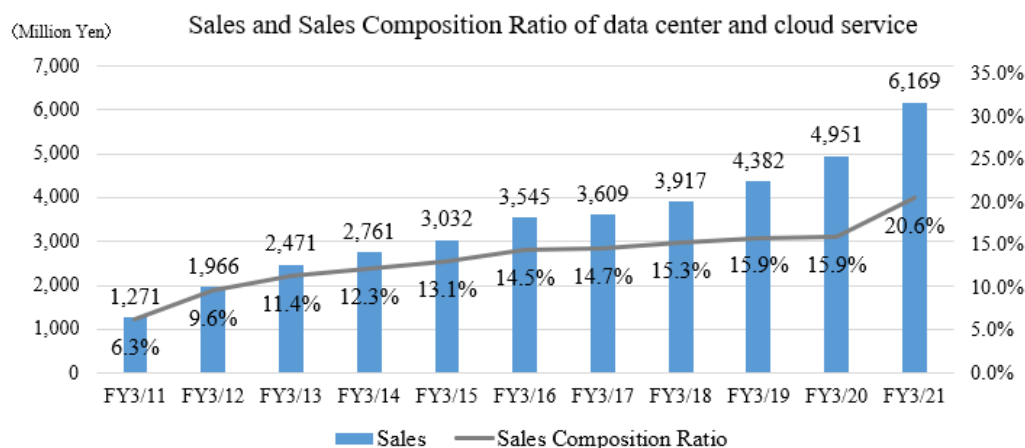
In the Information processing services, the company is recently exerting their strengths and concentrating on “the data center service” and “the cloud service” the most. The company developed these services earlier than its competitors.

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 services

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 nearly five 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.

Recently, the company has been distributing the "Government Demand Card System" for oil unions across the country to support emergency activities by making the fueling of emergency vehicles and other vehicles seamless.

Under a blanket contract, the system allows public organizations in each prefecture (prefectural police headquarters, hospitals, prefectural offices, etc.) to refuel preferentially in the events of an emergency or disasters with the same card at gas stations of any provider within each prefecture. It has been deployed to oil associations around the country and has so far been introduced in four prefectures and are planning to expand in the future.

The company also started providing services for the propane gas business, which operates LPG sales management systems on its own cloud.

The company provides the one-stop development, operation, BPO, and call centers. The company strengthens the sales structure and further expands sales.

◎ Printing/Mailing

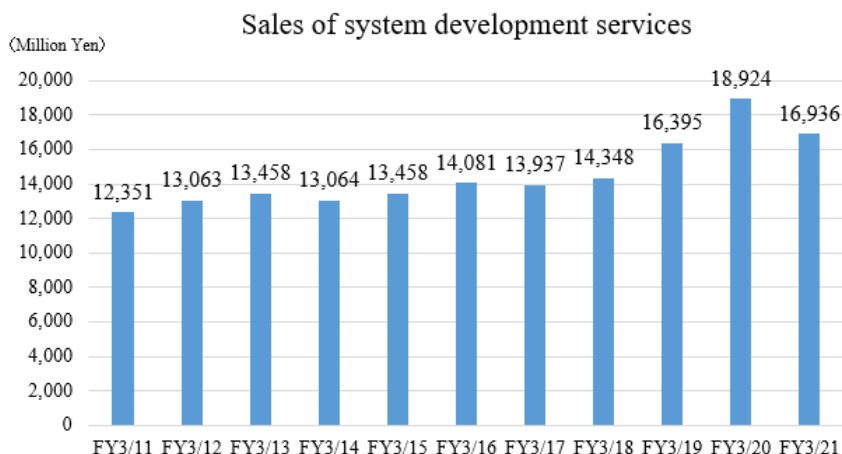
As the company has dealt with the task of dispatching bills at gas stations, it also prints, encloses, and seals credit-card statements, tax notices, election cards, direct mails, bills, etc.

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.



In the term ended March 2021, the investment of client companies was sluggish due to COVID-19 and sales from this service declined, but the demand for software investment is expected to be strong in the medium to long term as they would seek to strengthen their competitiveness, starting with the improved operational efficiency and the response to 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.

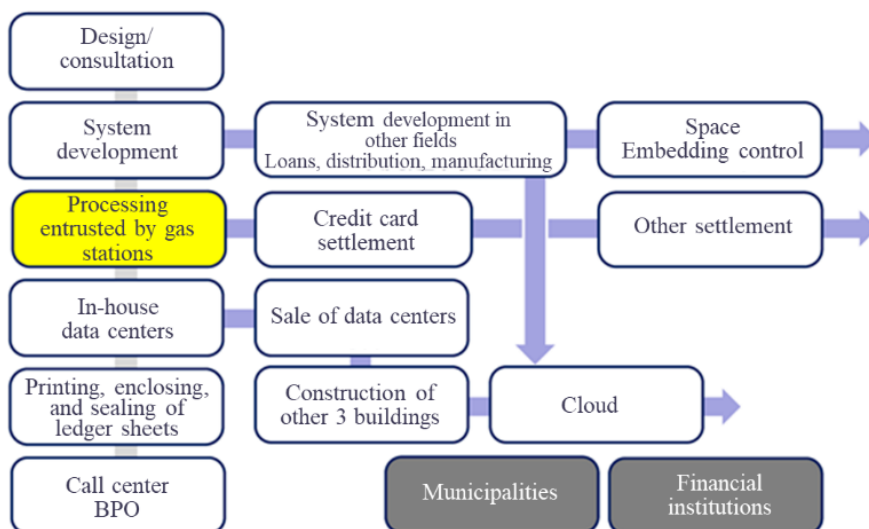
【1-5 Characteristics and strengths】

(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.

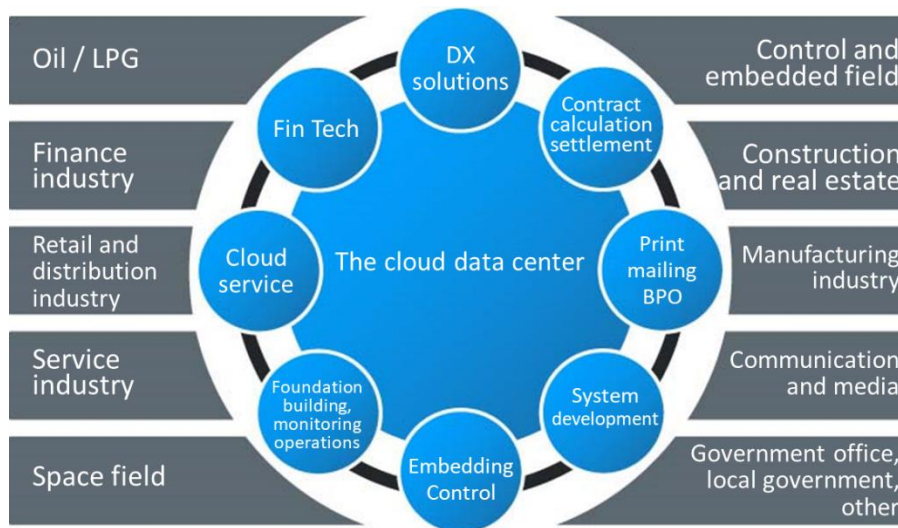
The company’s advanced capability of operating business, which realized the expansion of its business domain and customer base, cannot be ignored when evaluating the company.



(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.

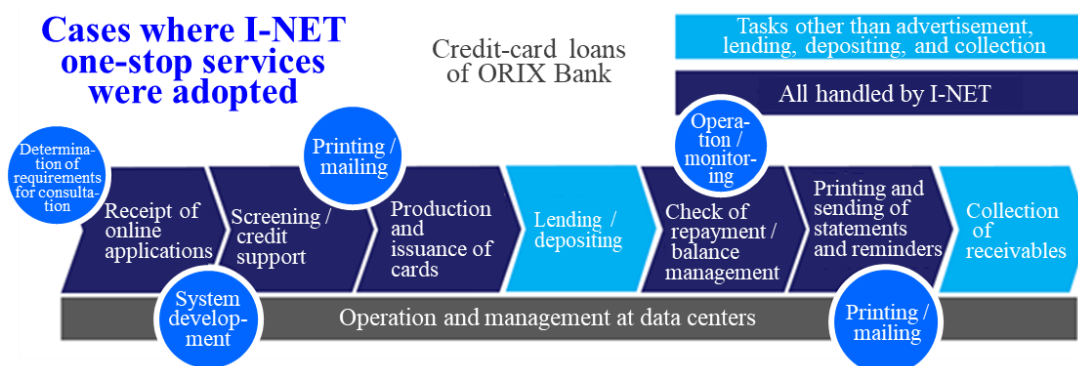


(Taken from the reference material of the company)

(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 data center and cloud services have rapidly grown nearly fivefold, and 17.1% is recorded as the CAGR of sales, as the market grew over the past decade.

Led by the data center and cloud services, the Information processing services had a CAGR of 5.4% during the same terms, exceeding 4.0% for total sales and 3.2% for System development services.

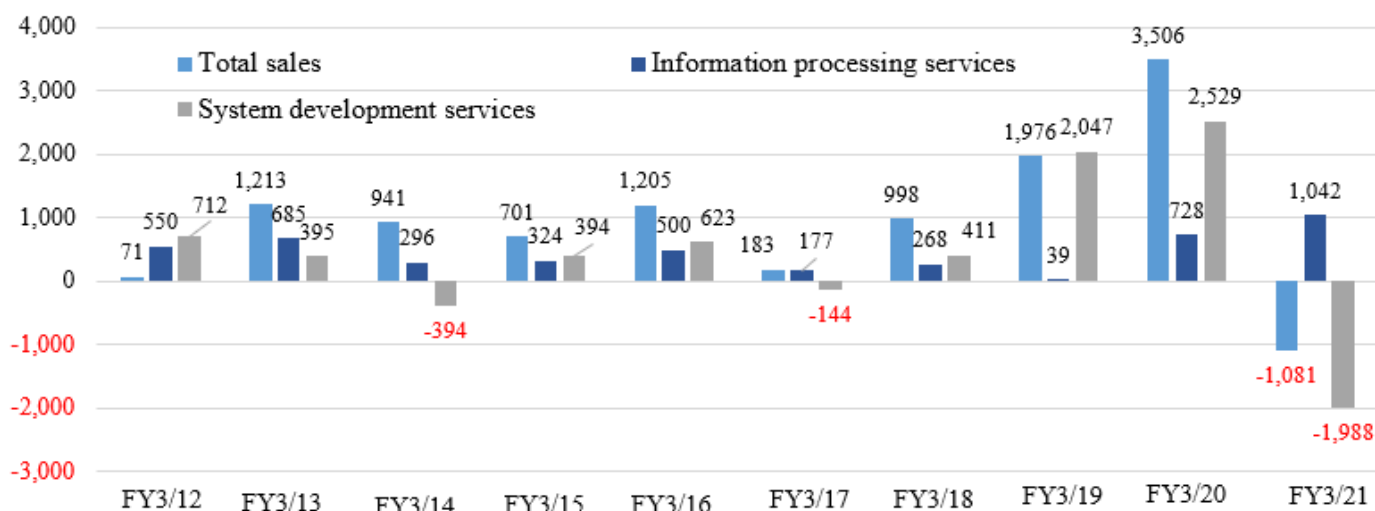
Excluding the previous term, which was heavily affected by COVID-19, there were two periods of decline in sales in System development services, but there was no decrease in sales for total sales: this is certainly due to the stable growth of the recurring-revenue business.

The company’s most recent gross profit margin was 23%, which is also characterized by its high profitability.

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 2021.

Sales increase/decrease from the previous year



【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	FY 3/21
ROE (%)	8.8	9.4	10.7	10.4	10.9	11.3	9.5
Net income margin [%]	4.23	4.56	5.34	5.34	5.52	5.38	4.98
Total asset turnover [times]	0.92	0.96	0.98	1.00	1.01	1.07	0.97
Leverage [times]	2.27	2.16	2.05	1.95	1.96	1.96	1.96

The ROE for the term ended March 2021 was in the single digit for the first time in five years due to a decline in profitability and asset efficiency. The medium-term management plan sets a target ROE of 10.0% for the term ending March 2022, but also forecasts a net income margin of 4.92%. To achieve the target, it is necessary to further accumulate sales and profits.

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

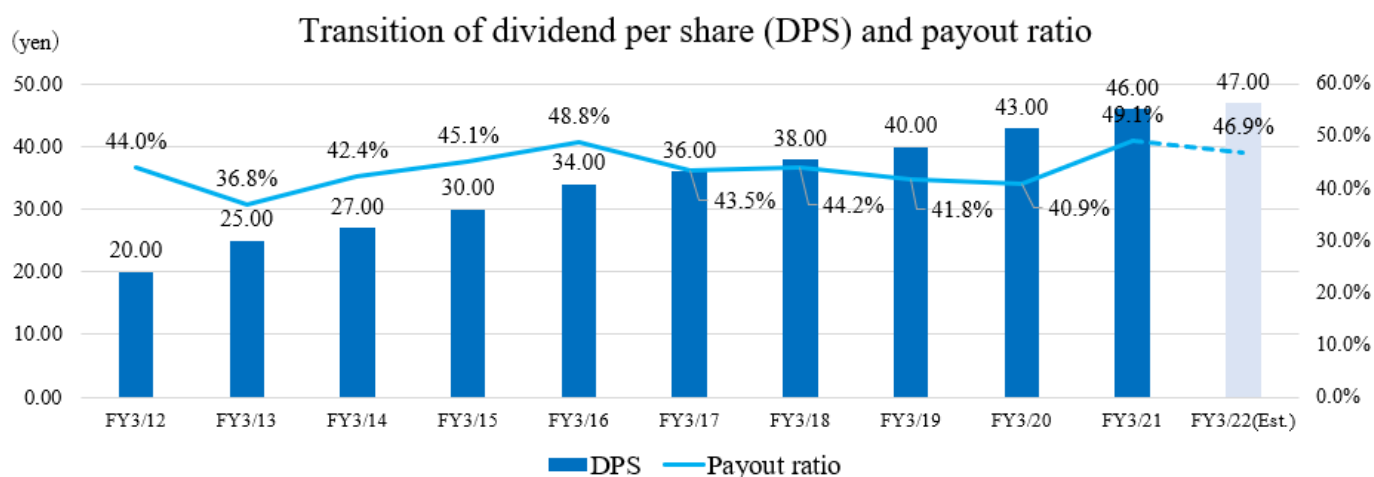
The company's dividend policy is to continue paying stable dividends while securing some retained earnings for the future capital requirements.

The company has not set a target payout ratio. However, it has been over 40% in the past several years.

The expected payout ratio for the term ending March 2022 is 46.9%.

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. Second quarter of Fiscal Year ending March 2022 Earnings Results

(1) Earnings Results

	2Q of FY 3/21	Ratio to sales	2Q of FY 3/22	Ratio to sales	YoY
Net sales	14,884	100.0%	14,935	100.0%	+0.3%
Gross profit	3,150	21.2%	3,376	22.6%	+7.2%
SG&A expenses	2,320	15.6%	2,389	16.0%	+3.0%
Operating income	829	5.6%	986	6.6%	+18.9%
Ordinary income	854	5.7%	1,095	7.3%	+28.2%
Quarterly Net income	372	2.5%	715	4.8%	+92.1%

*Unit: Million yen.

Sales remain flat, and profit increased.

In the second quarter of the term ending March 2022, sales increased 0.3% year on year to 14,935 million yen. The sales of Information processing services increased, but the sales of System development services and System product sales decreased. Gross profit increased for all services. Gross profit margin also improved 1.4 points year on year. SG&A expenses increased 3.0% year on year, but this was offset, and operating income increased 18.9% year on year to 986 million yen. Ordinary income increased 28.2% year on year to 1,095 million yen. In addition to an increase in subsidy income, the company recorded a gain on the management of investment partnerships. Net income increased 92.1% year on year to 715 million yen. While the company posted a gain on negative goodwill as an extraordinary gain, the company did not incur any special service cost this term, which was posted as an extraordinary loss in the same period of the previous term.

(2) Trend by Segment

	2Q of FY 3/21	Ratio to sales	2Q of FY 3/22	Ratio to sales	YoY
Sales					
Information processing services	5,882	39.5%	6,077	40.7%	+3.3%
System development services	8,367	56.2%	8,339	55.8%	-0.3%
System product sales	634	4.3%	518	3.5%	-18.3%
Total	14,884	100.0%	14,935	100.0%	+0.3%
Gross profit					
Information processing services	1,326	22.6%	1,434	23.6%	+8.1%
System development services	1,740	20.8%	1,837	22.0%	+5.6%
System product sales	82	13.0%	104	20.2%	+26.8%
Total	3,150	21.2%	3,376	22.6%	+7.2%

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

(Information processing services)

Sales and profit increased.

The use of data centers and commissioned computations for gas stations were healthy.

The company thinks that the promotion of DX among companies is leading to an increase in the use of data centers and cloud computing. Although the number of gas stations has been decreasing, sales of commissioned computation services for gas stations have been on an upward trend due to the promotion of sales through nationwide bases, an increase in new computation processing for major distributors, and an increase in processing to meet new needs such as cashless transactions and the use of loyalty points at petroleum distributors. Mailing service sales declined.

(System development services)

Sales decreased and profit increased.

Although there was a steady recovery in the financial, distribution, and communication service industries due to the recognition of the company's knowledge and technological capabilities, sales decreased due to the delay in the start of new development projects and the cancellation of a large project that contributed in the first quarter of the previous term.

Gross profit increased thanks to improved operational efficiency of personnel.

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**(System products sales)**

Sales decreased, but profit increased.

Sales decreased due to a reactionary decline in equipment sales associated with system development, etc. in the previous term.

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

	End of Mar. 2021	End of Sep. 2021	Increase/decrease		End of Mar. 2021	End of Sep. 2021	Increase/decrease
Current assets	10,561	9,436	-1,124	Current liabilities	8,625	8,910	+285
Cash and deposits	4,027	2,875	-1,152	Trade payables	1,409	1,379	-29
Trade receivables	5,930	5,797	-132	Short-term loans payable	3,039	3,101	+62
Noncurrent assets	21,494	22,348	+853	Noncurrent liabilities	7,218	5,975	-1,243
Property, plant, and equipment	15,547	15,140	-407	Long-term loans payable	6,868	5,540	-1,328
Investments and other assets	4,652	5,710	+1,057	Total liabilities	15,843	14,886	-957
Total assets	32,056	31,785	-271	Net assets	16,212	16,898	+685
				Retained earnings	9,890	9,972	+82
				Total liabilities and net assets	32,056	31,785	-271
				Total borrowings	9,908	8,642	-1,266

*Unit: Million yen.

Total assets decreased 200 million yen from the end of the previous term to 31.7 billion yen due to an increase in investment securities, despite a drop in cash and deposits caused by a decrease in borrowings. Total liabilities decreased 900 million yen from the end of the previous term to 14.8 billion yen.

Net assets increased 600 million yen from the end of the previous term to 16.8 billion yen due to an increase in valuation difference on available-for-sale securities.

Equity Ratio increased 2.6 points from the end of the previous term to 53.2%

◎ Cash flow

	2Q of FY 3/21	2Q of FY 3/22	Increase/Decrease
Operating CF	1,154	1,423	+269
Investing CF	-1,167	-861	+305
Free CF	-13	561	+574
Financing CF	-633	-1,714	-1,081
Cash and cash equivalents	2,436	2,875	+438

*Unit: Million yen.

Free CF turned positive as operating CF increased thanks to an increase in income before income taxes and other adjustments.

The cash outflow from financial activities increased, due to decrease in proceeds from long-term debt.

The cash position improved.

(4) Main Topics

◎Selecting Prime Market in the new market segmentation

In July 2021, the company received the "Results of the First Screening Regarding the Compliance with the Listing Maintenance Standards in the New Market Category" from the Tokyo Stock Exchange, and confirmed that it complied with all the criteria for listing in the Prime Market in the new market category.

In response, the company has decided to select the Prime Market as the new market segment and apply for it to the TSE.

The company will proceed with the prescribed procedures in accordance with the application schedule set by the TSE.

3. Fiscal Year ending March 2022 Earnings Forecasts

(1) Earnings Forecasts

	FY 3/21	Ratio to sales	FY 3/22(Est.)	Ratio to sales	YoY	Progress rate
Net sales	30,016	100.0%	32,500	100.0%	+8.3%	46.0%
Gross profit	6,804	22.7%	7,380	22.7%	+8.5%	45.8%
SG&A expenses	4,648	15.5%	5,050	15.5%	+8.6%	47.3%
Operating income	2,155	7.2%	2,330	7.2%	+8.1%	42.3%
Ordinary income	2,279	7.6%	2,330	7.2%	+2.2%	47.0%
Quarterly Net income	1,494	5.0%	1,600	4.9%	+7.0%	44.7%

*Unit: Million yen.

Sales and profit are estimated to increase

The company expects net sales to increase 8.3% year on year to 32.5 billion yen, and operating income to grow 8.1% year on year to 2.3 billion yen. The company aims to return to its existing growth path by expanding data center service and cloud service that continue to be strong, and steadily responding to the system development projects that were suspended and postponed in the previous term. The company expects a two-digit increase in sales and profits (gross profit) with the System development services.

The dividend is scheduled to be 47.00 yen/share, up 1 yen/share from the previous term's dividend of 46.00 yen/share, consisting of an ordinary dividend of 44.00 yen/share and a commemorative dividend of 2.00 yen/share. Dividend is to be increased for the 10th consecutive year. The estimated payout rate is 46.9%.

(2) Trend by Segment

	FY 3/21	Ratio to sales	FY 3/22(Est.)	Ratio to sales	YoY	Progress rate
Sales						
Information processing services	11,861	39.5%	12,500	38.5%	+5.4%	48.6%
System development services	16,936	56.4%	18,660	57.4%	+10.2%	44.7%
System product sales	1,217	4.1%	1,340	4.1%	+10.1%	38.7%
Total	30,016	100.0%	32,500	100.0%	+8.3%	46.0%
Gross profit						
Information processing services	2,803	23.6%	2,890	23.1%	+3.1%	49.6%
System development services	3,821	22.6%	4,250	22.8%	+11.2%	43.2%
System product sales	179	14.7%	240	17.9%	+34.1%	43.3%
Total	6,804	22.7%	7,380	22.7%	+8.5%	45.8%

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

4. Progress of Mid-term Management Plan

In the first year, both sales and profits achieved the estimates, but in the second year, due to COVID-19, estimated sales and profits were unachieved.

There has been no change in the measures to be taken, but as a result of scrutinizing the business environment, the initial estimates for the term ending March 2022, which is the plan's final year, have been revised downward.

In the term ending March 2022, which is the plan's final year, I-NET will increase contact points with customers and establish a backup system for new transactions.

The company aims to achieve its targets by focusing on strengthening IT services in the 'new normal' era, including contactless and non-face-to-face products and services, improving products and services related to IoT, AI, big data, cashless and remote work, and strengthening promotion of cloud services.

(1) Business strategy plan

① Cloud partnership strategy

Taking advantage of its strengths as a platform provider, I-NET will load applications of other companies that are strong in each specialty field onto its cloud platform and offer them as a cloud service.

I-NET currently has approximately twenty cloud service and OEM partners, including NEOJAPAN Inc., UNIRITA Inc., DENSAN Inc., and WorkVision Corporation. In the future, I-NET will collaborate with companies with varying specialties to diversify its services and to proactively sell each service.

Furthermore, I-NET has roughly ten distribution partners such as the Ricoh Group and Fujitsu Group.

② DX promotion

I-NET is also making efforts in developing solutions related to DX (Digital Transformation), for which customers' needs are rapidly increasing.

Initiatives taken in the major fields are as follows.

Reforming ways of working	<ul style="list-style-type: none"> - Establishing a contact point for promoting remote work and offering tools such as remote desktops. - Strengthening security services (network security, endpoint security, etc.). - Contactless and crowd-less measures (Three Cs data analysis services, cashless services, etc.).
Data and AI	<ul style="list-style-type: none"> - Expanding the domains of data science and AI business. - Strengthening initiatives in image analysis, satellite data utilization, etc.
FinTech	<ul style="list-style-type: none"> - Strengthening the development of cashless services and loyalty points programs in response to new needs. - Developing a renewed package based on openness and cloud computing.
5G	<ul style="list-style-type: none"> - Local 5G and high-speed data communications that will contribute to the improvement of regional public services.

* Established a joint venture with ENEOS Corporation

To improve operational efficiency and develop the digital skills of personnel, I-NET formed a joint venture with ENEOS Corporation called the ENEOS Dignet Corporation on October 1, 2021.

Through sales-related tasks entrusted by ENEOS, the company seeks to proactively use digital technology (e.g., RPA) to improve operational efficiency, gather information on new technologies, review and verify the possible applications of these technologies to each business, and develop the digital skills of personnel.

The ratio of capital contribution is 80% from ENEOS and 20% from I-NET.

* Initiated cooperation with WorkVision as an OEM partner

WorkVision, which was previously known as Toshiba Solutions Sales Corporation, has begun to offer WorkVision® Cloud, a fully managed cloud service that utilizes I-NET's Next Generation EASY Cloud® platform. As a cloud platform provider, it seeks to support the DX of small and medium-sized companies.

With a broad service lineup including IaaS, DaaS, SaaS and colocation services, and leveraging the strengths of various sectors (wholesalers and public services) and operations, it will be able to propose services that meet the clients' needs.

In addition, it will enhance its support services, for example, by providing proposal documents and other sales tools, sharing knowledge between the two companies on how to make proposals based on many years of experience selling cloud services, holding study sessions for salespeople, and accompanying salespeople to clients when delivering proposals.

Building upon I-NET's foundation, WorkVision will be able to increase its own service lineup.

In this regard, and also from the perspective of promoting DX, I-NET regards fully managed cloud services as a driver for growth and will be committed to expanding them in the future.

*** Began providing the safe messaging service ChatLuck SC™ in schools**

As a joint project with NEOJAPAN Inc., one of its cloud service and OEM partners, I-NET began offering the cloud service ChatLuck SC™ as a tool to enable safe, secure, affordable, and simple communication between schools and parents.

With ChatLuck SC™, it is possible to send messages to the entire school community or to all teaching staff. In addition to contributing to increased work efficiency among teaching staff (labor reduction from spending less time making telephone calls, reforming the manner of working, promoting DX, etc.), the initial and running costs are affordable.

(2) Investment strategy

① Capital investment

I-NET will focus on its capital investments on the data centers that will serve as the base of its services. In addition to using clients' data centers, it will continually strengthen data center facilities.

It is expected that the total investment amount will have peaked two terms ago in the term ended March 2020, and depreciation costs will remain flat for a while.

② Investing in human resources

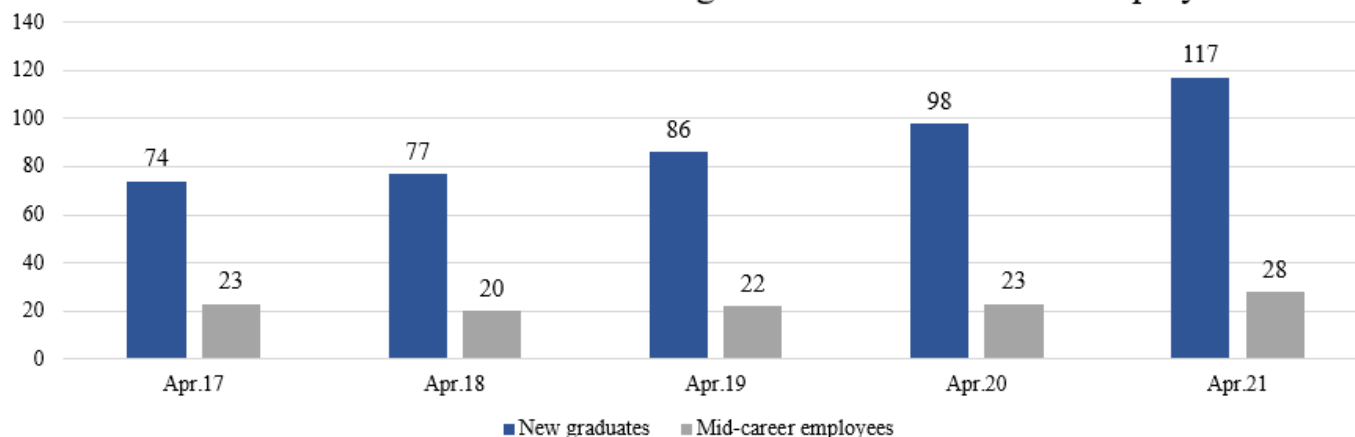
I-NET believes that investing in human resources is the most important investment to expand business scale and improve corporate value, which are set as the medium- to long-term goals.

Regarding the new graduates who will lead the growth of the company in the future, a total of 117 individuals joined the company in April 2021.

Regarding mid-career recruitment, the company will actively recruit high-level IT personnel, including data scientists, who possess the skills to respond to new technologies such as AI and big data, and personnel who are ready to work in the space development field, which is the company's business focus.

As for personnel development, the company conducts various types of training including new employee training and training aimed at young employees (held annually), which have been polishing since before. In addition, it holds management training for newly appointed managers, including the so-called "Management School," which is a special course aimed at developing the future management layer. Moreover, in responding to the needs of staff with a variety of work style, the company is holding a vast number of courses on different themes including diversity. In doing so, it is providing training that matches each and every employee.

Transition of the numbers of new graduates and mid-career employees



(3) ESG plan

① Special subsidiary for the employment of disabled people

In I-NET DATA SERVICE CORP., a special subsidiary approved by the Minister of Health, Labor and Welfare and established in April 2009 for the purpose of providing disabled people with a way to participate actively in society and helping them become independent and self-sufficient, disabled people conduct data entry, scanning, light-duty work, and business card production.

In addition, as the importance of data security increases, it has launched a new service to reliably wipe or destroy the data stored on PC and server hard disks before they are sent to be processed as industrial waste.

With its workshop located within an I-NET data center, I-NET DATA SERVICE CORP. can carry out this work from start to finish without the PCs and servers in question ever needing to leave the data center.

② Co-development of an app to support motor learning

IST Software, which is one of I-NET's group companies, collaborated with Hisashi Mizutori (head of the Japan Gymnastics Association's Men's Training Department) and Shingo Miki (associate professor at Osaka Ohtani University) to develop the motor learning app Spo-Tec.

Spo-Tec has recorded all the techniques illustrated within the Ministry of Education, Culture, Sports, Science and Technology's course guidelines on apparatus gymnastics. Students' skills are recorded as data, and students can use their smartphones not only to view example video clips and explanations at any time, but also to receive evaluations and advice from their trainers.

In addition, points are given for app activity to increase motivation.

By combining sports with ICT, IST Software is supporting activities to promote exercise and aims to contribute to the healthy development and improved motor skills of children.

③ I-NET Regional Promotion Foundation

In 2019, the founder and supreme advisor Noriyoshi Ikeda established the I-NET Regional Promotion Foundation for the purpose of supporting and financing the sustainable activities of social contribution groups in Kanagawa Prefecture. In January 2020, the foundation obtained public interest certification, enabling it to raise its societal contributions to the next level. In fiscal year 2021, it supported twenty-two organizations. The foundation will continue long-term and stable activities to contribute to the improvement of local communities.

④ A cheering squad for working mothers

I-NET is running the website *Hataraku Mama wo O-en Shitai* (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 I-NET's headquarters are located.

The website contains a wealth of information, and in addition to being able to easily look up Yokohama City nursery schools by ward, train line and school name, users can also find information on the types of nursery schools, guide to use nursery schools, schemes to support children and childcare, and local childcare support centers.

⑤ Health management promotion and certification acquisition

The company has declared the following initiatives to promote health management and diversity.

“Based on the idea that employees are the greatest asset in management, I-NET believes that the health of employees both mentally and physically is the source of sustainable enhancement of corporate value, and promotes health management. In addition, we will promote work style reforms to create a work environment where all employees can demonstrate their abilities with peace of mind.”

In February 2021, the company was certified as an excellent health and productivity management corporation “White 500” (common name for the large-scale corporate division of the Excellent Health and Productivity Management Corporation Certification System awarded by the Ministry of Economy, Trade and Industry) for the third consecutive year.

In addition to declaring health management, the Human Resources Department, Health Support Office, and Health Insurance Society are working together under the Chief Health Officer (CHO).

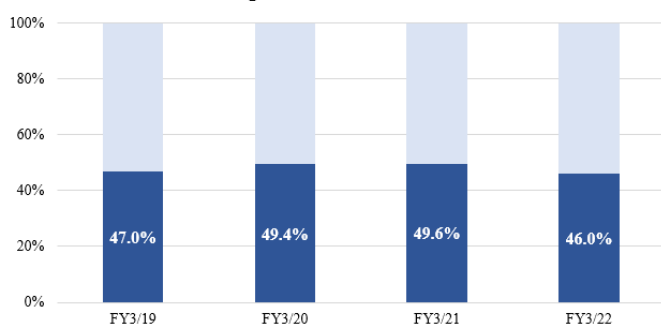
The company also received the upper superior certification of Y-SDGs, which is the SDGs certification system of Yokohama City. Out of the evaluation categories of regional community, society, environment, and governance, I-NET has received especially high marks for its work in regional communities.

5. Conclusions

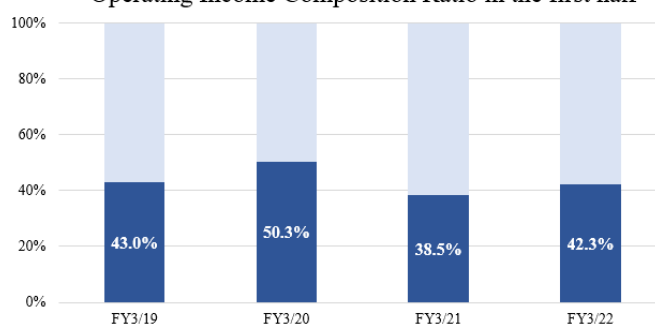
The progress rate in the first half was 46.0% for net sales and 42.3% for operating income. The company's earnings tend to be heavily weighted toward the second half of the year, but both sales and operating income are slightly lower than those in the past few years. Regarding performance in each service, both the sales from Information processing and System development services will be smaller than usual. In the System development services, the start of new development projects has been delayed, and a large project that contributed in the first quarter of the previous term was later cancelled. Accordingly, the key point will be how much the company can recover while business negotiations are increasing.

With the effects of the pandemic fading away, we will pay attention to whether the company can achieve the final-year targets of the medium-term management plan, that is, net sales of 32.5 billion yen and an operating income of 2.3 billion yen in the third and fourth quarters, or how much more it can increase sales and profit.

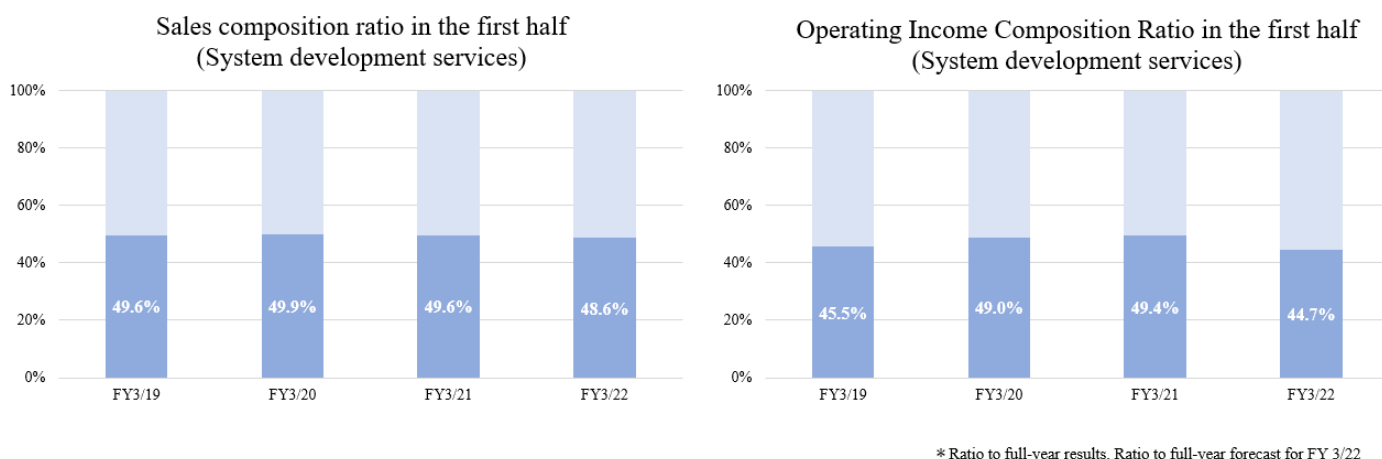
Sales composition ratio in the first half



Operating Income Composition Ratio in the first half



* * Ratio to full-year results. Ratio to full-year forecast for FY 3/22



<Reference 1: Regarding Mid-term Management Plan>

(1) Positioning of the 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, the company is proceeding with the three plans: “the business strategy plan,” “the investment strategy plan,” and “the ESG plan.”

(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.

<Reference2: Regarding Corporate Governance>

◎Organization type and the composition of directors

Organization type	Company with audit and supervisory committee
Directors	12 directors, including 7 outside ones
Audit and Supervisory Committee Member	4 auditors, including 4 outside ones.

◎Corporate Governance Report

Last update date: August 18, 2021

<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.

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

Principles	Disclosure contents
Principle 1-4. 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.</p> <p>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 to contribute to sustainable growth and medium-to-long term improvement of corporate value.</p> <p>We have put the management strategy and IR division in charge of IR, and have established an IR system in which the director who manages the IR department is 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</p>

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.

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