



President Mitsuru Sakai

I-NET Corp. (9600)


 inet 株式会社 アイネット

## Corporate Information

Exchange	TSE Prime Section
Industry	Information and communications
Representative Director, Executive President	Mitsuru Sakai
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Year-end	March
URL	<a href="https://www.inet.co.jp/english/">https://www.inet.co.jp/english/</a>

## Stock Information

Share Price	Shares Outstanding (Less treasury stock)	Total Market Cap	ROE (Actual)	Trading Unit	
¥1,302	15,985,553 shares	¥20,813on	10.1%	100 shares	
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥48.00	3.7%	¥114.55	11.4x	¥1,083.14	1.2x

\*The share price is the closing price on November 10. Shares outstanding, DPS, EPS are taken from the financial results for the second quarter of the term ending Mar. 2023. ROE, BPS are taken from the financial results of previous term.

## Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating Profit	Ordinary Profit	Profit	EPS	DPS
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 (Actual)	31,169	2,367	2,542	1,694	106.08	47.00
March 2023 (Estimate)	33,500	2,640	2,770	1,830	114.55	48.00

\*Unit: Million-yen, yen. Profit 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 second quarter of the fiscal year ending March 2023, and other information.

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## Key Points

- In the second quarter of the term ending March 2023, sales increased 12.5% year on year to 16,808 million yen. System development services performed well due to an increase of development projects, and information processing services, which provide cloud services and computation services, also performed well. Operating income increased 7.4% year on year to 1,059 million yen. Despite a 1.6-point decline in gross profit margin, the company was able to secure an increase in profit by offsetting the higher cost of sales due to soaring electricity rates and other factors by increased sales.
- At the end of the first half of the fiscal year, there were no revisions to the company's initial forecasts for the term ending March 2023, which call for a 7.5% YoY increase in net sales to 33,500 million yen and an 11.5% YoY increase in operating income to 2,640 million yen. Sales are on track to meet initial expectations and are projected to show continued steady growth. Despite higher-than-expected costs, particularly for electricity, the company aims to achieve its full-year projections by switching to energy-efficient equipment, revising prices, and making other efforts to control costs, while increasing sales and reducing SG&A expenses. The company also maintained its plan of paying a dividend of 48.00 yen/share, up 1.00 yen/share from the previous year. Dividends are expected to increase for the 11th consecutive fiscal year, with an expected payout ratio of 41.9%.
- The impact of high costs associated with soaring electricity and other costs, particularly in the data center cloud, is becoming more significant. As a response to this environment, the company plans to replace its equipment with energy-efficient equipment, revise prices, work to control costs, and aggressively reduce SG&A expenses. It remains to be seen to what extent these measures will improve profitability in the second half of the fiscal year.

## 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 (hereinafter called "Service Stations") were expected to increase, the service 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 service 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. Listed on the OTC market in 1995, and 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. In April 2022, the company got listed on the Prime Market of TSE through market reorganization.



### 1-2 Corporate philosophy

As I-NET Corp. 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.”

BRIDGE REPORT



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

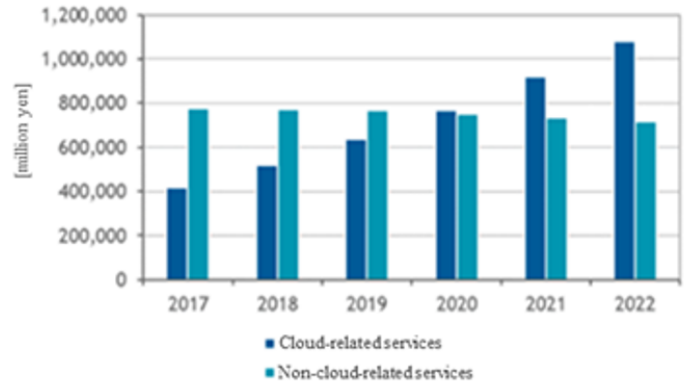
**1-3 Market environment**

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)



(Taken from the reference material of the company)

The market of data centers in which the company is competitive is 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.

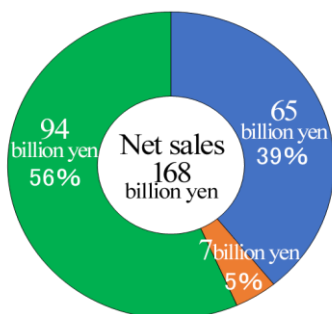
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

**1-4 Business contents**

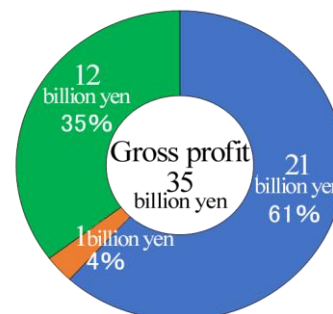
Based on its own data center with Japan’s highest level of safety and management of system operations which has been nurtured for many years, I-NET Corp. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well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

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

Net sales by service  
FY3/23 2Q



Gross profit by service  
FY3/23 2Q



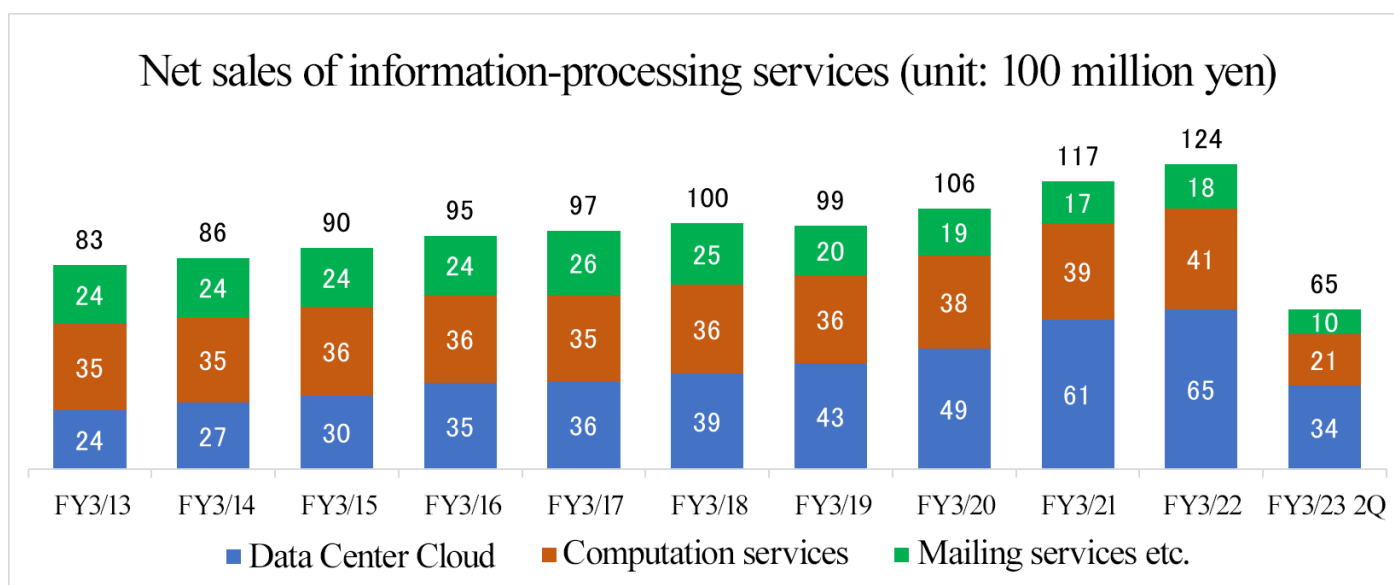
■ Information-processing service ■ System equipment service  
 ■ System development service

■ Information-processing service ■ System equipment service  
 ■ System development service

**【Information processing services(accounting for 39% of net sales in the second quarter of the term ending March 2023)】**

The company is involved in the operation of data centers, cloud services, computation services, and mailing services etc. It is positioned as a growth driver. The company defines this information processing service as a recurring-revenue business and considers it the foundation for stable growth.

Over the past 10 years, sales in the segment of Information Processing Services have increased in line with the growth of "Data Center and Cloud Services."


**◎ 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. The data centers are located in Yokohama (4 buildings). Backup bases are in Hokkaido (1 center), 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.

**◎ Computation Services**

While "Computation Services" have maintained stable sales, sales have been gradually increasing over the past few years. This is because retailers are shifting from owning their own business systems to using business platforms, and are increasingly using this company's proven services.

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 service stations. Credit-card transactions are handled by data centers of I-NET via networks. On behalf of service 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 30% of service 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 service 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 began offering a service for propane gas retail businesses, which operate its LPG sales management system on its own cloud. In addition to providing one-stop services for development, operation, BPO, and call centers, the company plans to strengthen its sales structure and further expand sales.

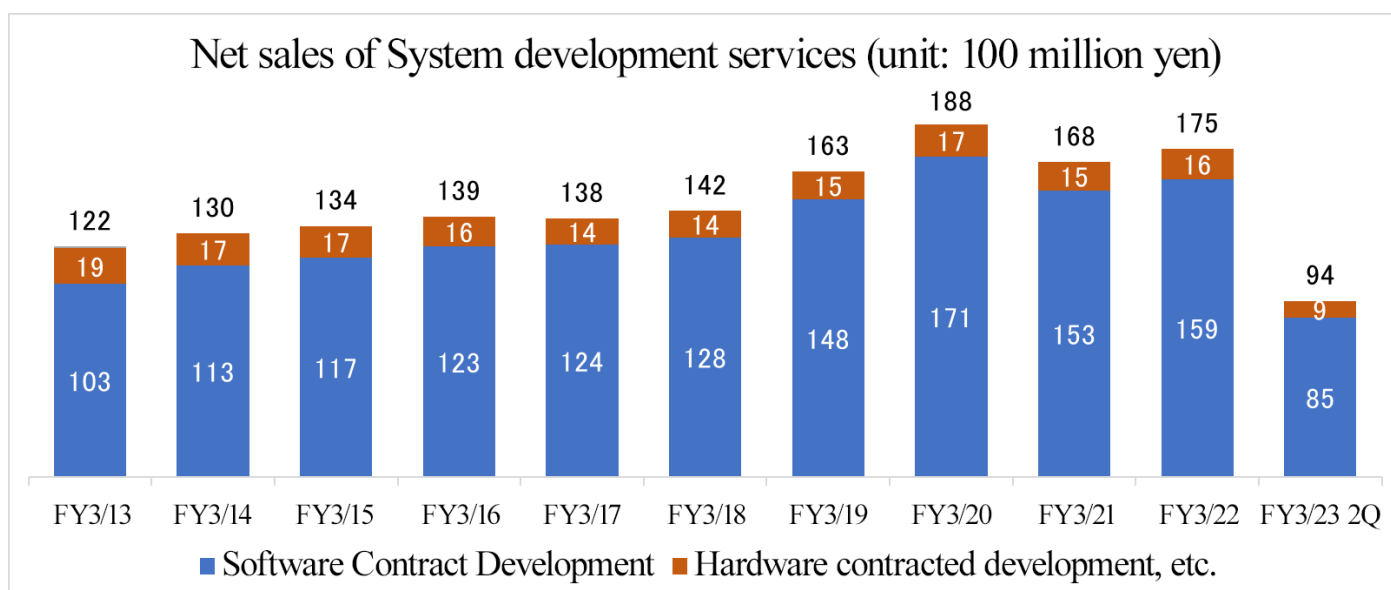
◎ **Mailing services, etc.**

"Mailing services" showed an upturn in revenues from the previous fiscal year. This is because the number of competitors is decreasing and the company's services, which can handle everything from printing to mailing of data stored at its centers, are highly valued.

As the company has dealt with the task of dispatching bills at service stations, it also prints, encloses, and seals credit-card statements, tax notices, government mail, 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).

**【System development services(accounting for 56% of net sales in the second quarter of the term ending March 2023)】**

Over the past 10 years, sales in the system development division have increased every fiscal year until the term ended March 2020, partly due to successful M&A. Although sales declined for the first time in the term ended March 2021 due to COVID-19, they began to increase again from the following term ended March 2022. One software development subsidiary became a group company in the term ended March 2019. Two other subsidiaries are also performing well, contributing to the overall performance of the development services division. 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, service stations, convenience stores, supermarkets, space development, construction, architecture, aviation, travel, public offices, municipalities, medical and manufacturing. 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.



**【System product/equipment sales(accounting for 7% of net sales in the second quarter of the term ending March 2023)】**

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**

**Advanced capability of operating business based on vertical integration and horizontal expansion**

I-NET’s business started with the processing for service 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 service 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 service stations, such as distribution, manufacturing, and financial institutions, and it sold data centers to expand business horizontally and acquired customers in various fields.

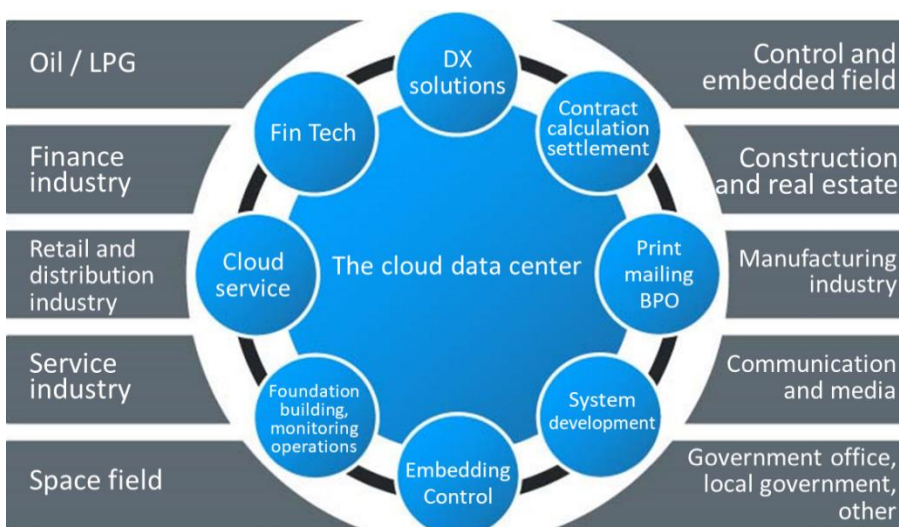
The company’s advanced capability of operating business, which realized the expansion of its business domain and customer base, cannot be ignored when evaluating the company.



(Taken from the reference material of the company)

**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 4,300. 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.

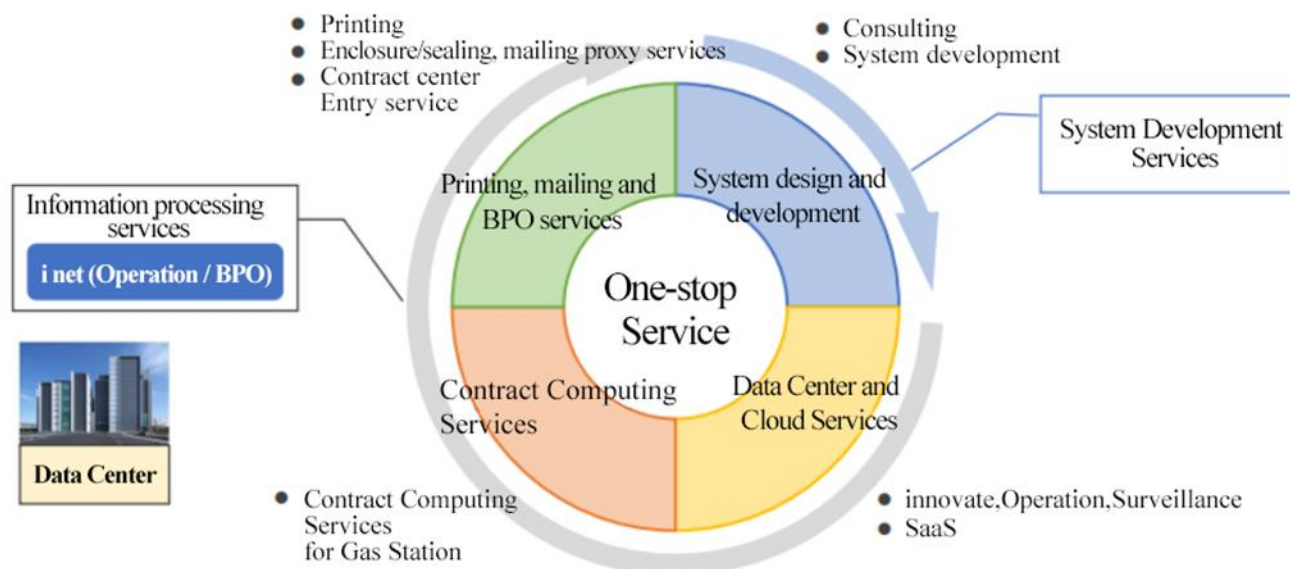


(Taken from the reference material of the company)



### 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.



(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.

### 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 (service station) commissioned counting settlement, printing, enclosing and sealing are included.

As mentioned above, the data center and cloud services have rapidly grown nearly over five times, and 16.0% is recorded as the CAGR of sales, as the market grew over the past decade. Driven by its data center and cloud services, the CAGR in the same period for information processing services was 5.1%, higher than the value of total sales (4.0%) and the value for system development services (3.2%). Excluding the previous fiscal year, in which the company was significantly affected by the COVID-19 crisis, there were only two periods of revenue decline in system development services and only one in total sales during this period, which is precisely due to the stable growth of the “recurring-revenue business.”

Gross profit margin of FY3/22 was 23.7%, 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.

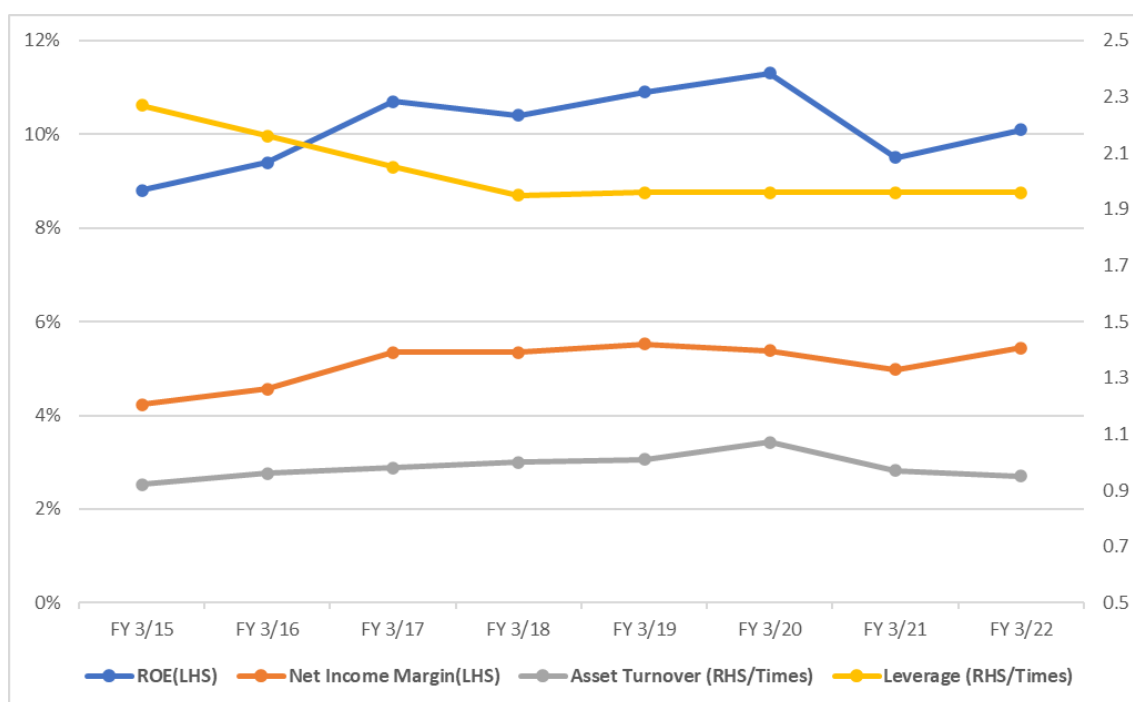
\*CAGR is the average annual growth rate in a period from the term ended March 2011 to the term ended March 2022.

### 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	FY 3/22
<b>ROE (%)</b>	<b>8.8</b>	<b>9.4</b>	<b>10.7</b>	<b>10.4</b>	<b>10.9</b>	<b>11.3</b>	<b>9.5</b>	<b>10.1</b>
Net income margin [%]	4.23	4.56	5.34	5.34	5.52	5.38	4.98	5.44
Total asset turnover [times]	0.92	0.96	0.98	1.00	1.01	1.07	0.97	0.95
Leverage [times]	2.27	2.16	2.05	1.95	1.96	1.96	1.96	1.96



\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

ROE for the term ended March 2022 was once again double-digit due to improved profitability.

**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.

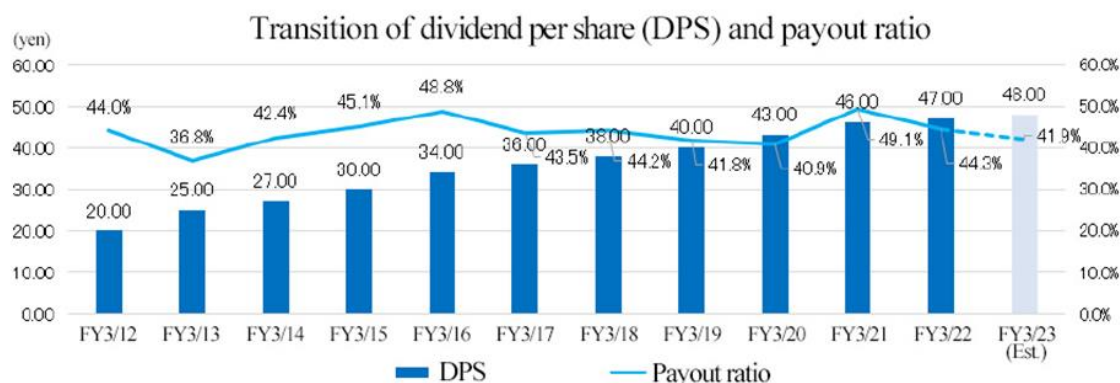
The expected payout ratio for the term ending March 2023 is 41.9%.

The company expects to increase its dividend for 11 consecutive terms in the term ended March 2022.

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, 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.



### 1-9 Social contribution activities

The following are the main social contribution activities.

#### ◎The Inet Foundation

In 2019, Noriyoshi Ikeda, who is the founder and chief advisor to the company, established a new foundation named The Inet Foundation, which aims to support and subsidize sustainable activities of organizations engaged in social contribution activities in Kanagawa Prefecture. In January 2020, the Foundation obtained public interest accreditation and began its activities once again, with a structure that will enable it to make even greater contributions to society. Primarily, the foundation promotes the wholesome upbringing of children and youth, and the sound development of mind and body through education, sports, and other activities, and supports and subsidizes the improvement of public health, environmental conservation and maintenance, and the healthy development of local communities. Assistance was provided to 14 organizations in fiscal 2020, 22 organizations in fiscal 2021, and 27 organizations in fiscal 2022. It will contribute to the development of better local communities by contributing stable, long-term support activities.

#### ◎ Employment of people with disabilities

I-NET DATA SERVICE CORP., a special subsidiary (certified by the Minister of Health, Labour and Welfare) established to provide opportunities for people with disabilities to play active roles and to support their independence and autonomy, employs people with disabilities in data entry, scanning, light work, and business card making.

#### ◎ Caregiver support

The company operates “Team for Supporting Working Mothers”, a website that supports childcare and women’s activities by providing search engine for searching childcare facilities using open data from Yokohama City, where the company’s headquarters is located. It was upgraded in June 2022, and a parenting blog was launched.














## 2. Medium-Term Management Plan (April 2022-March 2025)

The new three-year medium-term management plan was announced.

### (1) Key points

Based on the company’s service development model of providing a one-stop shop for system development, data center/cloud service, commissioned counting settlement, and BPO, the company has identified the following key points.

## Key Points of Focus

Key Points of Focus	Major Initiatives	Related SDGs
Toward DX and New Normal Era Promotion of customer service and R&D	<ul style="list-style-type: none"> <li>Expanding Cloud Service Penetration</li> <li>Non-contact, non-aggregated measures</li> <li>Big data, AI, IoT promotion</li> </ul>	  
Co-creation, innovation promotion and value creation	<ul style="list-style-type: none"> <li>Establishment of a department specializing in SDGs promotion</li> <li>Promote industry-government-academia-industry collaboration projects</li> <li>Promotion of business activities by foundations and special subsidiaries</li> <li>Promotion of business activities</li> </ul>	  
Diversification, advancement, and productivity improvement of human resources	<ul style="list-style-type: none"> <li>Employee Development</li> <li>Diversity Promotion</li> <li>Career development support</li> <li>Promotion of work style reform</li> </ul>	    
Proper management of the business portfolio in the service development model Appropriate management of business portfolio and enhancement of corporate value	<ul style="list-style-type: none"> <li>In-house data center Promote one-stop model</li> <li>Strengthen stock business</li> </ul>	 

(Taken from the reference material of the company)

### (2) Business strategy in each service

#### ◎ Information processing services

<Data center and cloud service>

- \* Promote providing a wide range of services, including infrastructure operation, system operation, and business operation.
- \* Provide extensive support for migration to the cloud in accordance with customers' needs.
- \* Expand new services such as security and storage.
- \* Provide energy-saving services using high-efficiency, low-power consumption servers and storage devices.

<Provide commissioned counting settlement>

- \* Strengthen DX promotion for petroleum wholesalers and trading companies, while giving proposals to improve operational efficiency.
- \* Expand services for major distributors such as complying with regulations, expanding ASP use, etc.
- \* Expand services for service stations and develop services for the LPG industry to increase the number of customers.

<Printing/mailling, and BPO services>

- \* Promote consulting services to improve operational efficiency by developing hybrid systems using electronic and paper documents.
- \* Promote collaboration with business partners in BPO, delivery services, etc., to diversify services.
- \* Promote enhancement of facilities and efficient operations to strengthen the quality and quantity of operations.

Position the information processing services, which yields stable recurring revenues, as a foundation for growth through continuous sales, and aim to increase per capita sales and profit.

#### ◎ System development services

- \* Strengthen services for financial institutions
- \* Strengthen service development of sales management systems and IoT platforms
- \* Strengthen collaboration and in-house services in the space and satellite business

### (3) Capital investment

Strengthen capital investment centered on data centers, which are the source of growth and the service pillar, as a social infrastructure. From FY2019 to FY2021, the company enhanced its facilities along with the use of customers' data centers. From FY2022 onward, the enhancement will continue in line with the expansion of cloud service.

New data center construction will also be considered.

### (4) Strengthening human capital

Recognizing the importance of strengthening human capital, the company has established the following policies and will promote the following initiatives.

#### <Policies>

Based on the philosophy that employees are the greatest asset in management, the company has established a fair personnel system that leads to a sense of job satisfaction for employees and enables both the company and employees to grow.

#### ◎ Expanding the growth scale of business performance through investment in human resources

Aim for sustainable growth while focusing on improving productivity and increasing the number of employees.

Actively promote the hiring of new graduates and strengthen mid-career hiring. Work to prevent the resignation of employees.

Focus on DX human resource development, placing the right people in the right jobs, and improving employee satisfaction to increase productivity.

#### ◎ Ideal IT human resources

Cultivate technical and human skills that customers can trust.

Create an environment where young people, seniors, and all generations can play an active role.

#### <Initiatives>

The main initiatives to strengthen human capital are as follows.

Human resources development	<ul style="list-style-type: none"> <li>-Foster advanced DX human resources (AI, data science, etc.)</li> <li>-Early training of young employees (one year of training support for new employees)</li> <li>-Provide learning opportunities (joint industry-academia research, university for working adults, and e-learning)</li> <li>-Increase third-party evaluation of engineers by encouraging them to acquire qualifications</li> </ul>
Workstyle reform	<ul style="list-style-type: none"> <li>-Promote telework</li> <li>-Promote reviewing office layout (free-address, etc.)</li> <li>-DX of internal systems, promote paperless, and improving productivity</li> <li>-Consider permitting side jobs</li> </ul>
Diversity and inclusion	<ul style="list-style-type: none"> <li>-Activities by the Diversity Promotion Office</li> <li>-Continuous active recruitment of female employees (40% of new recruits are women)</li> <li>-Hiring of diverse human resources, including foreigners and people with disabilities</li> <li>-Maintain the "Eru-boshi" and "Kurumin" certification</li> <li>-Actively promote women to management positions</li> </ul>
Health management	<ul style="list-style-type: none"> <li>-Continue to maintain 100% of employees receiving periodic health checkups</li> <li>-Increase the consultation rate for specific health guidance in cooperation with the health insurance association</li> <li>-Continue to hold sports tournaments and support club activities</li> <li>-Maintain certification as a White 500 company</li> </ul>

**(5) Target Value**

	FY 3/22 (Act.)	FY 3/25 (Plan)	Decrease/Increase
Net sales	31,169	37,700	+6.6%
Operating profit	2,367	3,200	+10.6%
ROE	10.1%	Over 10%	-
Operating profit ratio	7.6%	8.5%	+0.9pt

\*Unit: Million yen. Changes in sales and operating profit are CAGR (Compound Annual Growth Rate). Calculated by Investment Bridge based on company data.

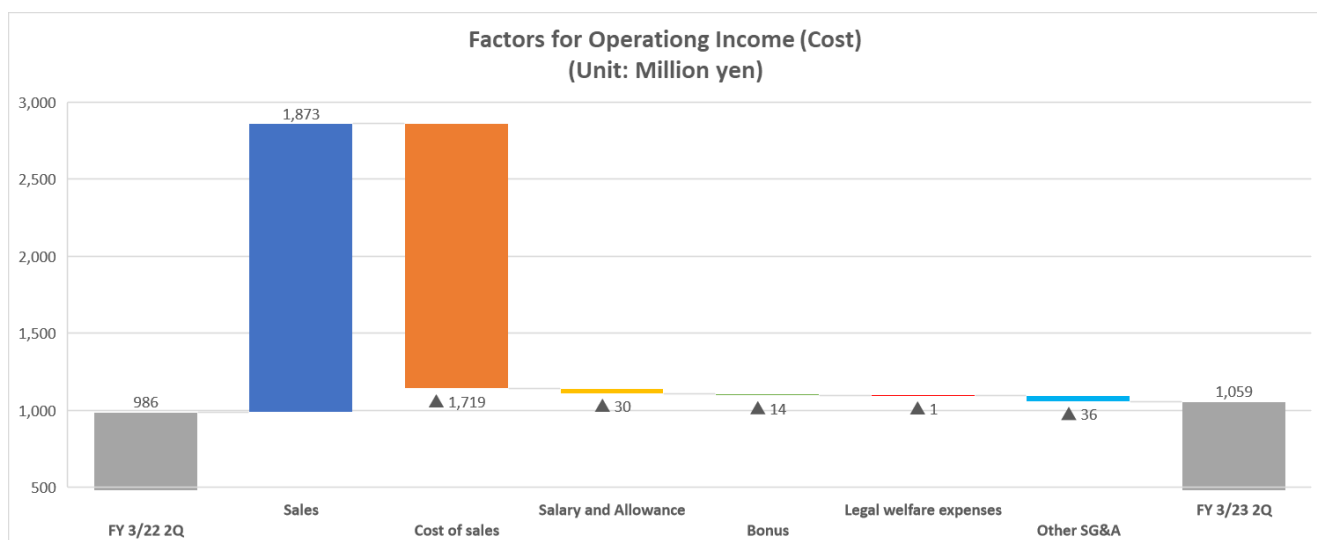
Aim to increase net sales and operating income while improving operating income margin and ROE.

**3. Second Quarter of Fiscal Year ending March 2023 Earnings Results****(1) Earnings Results**

	FY 3/22 2Q	Ratio to sales	FY 3/23 2Q	Ratio to sales	YoY
Net sales	14,935	100.0%	16,808	100.0%	+12.5%
Gross profit	3,376	22.6%	3,530	21.0%	+4.5%
SG&A expenses	2,389	16.0%	2,470	14.7%	+3.4%
Operating profit	986	6.6%	1,059	6.3%	+7.4%
Ordinary profit	1,095	7.3%	1,074	6.4%	-1.9%
Profit	715	4.8%	648	3.9%	-9.4%

\*Unit: Million yen.

\*The figures include those calculated by Investment Bridge Co., Ltd. as reference values, and may differ from the actual figures (the same applies below).



\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

\*The ▲ in the expense item indicates an increase in expenses.

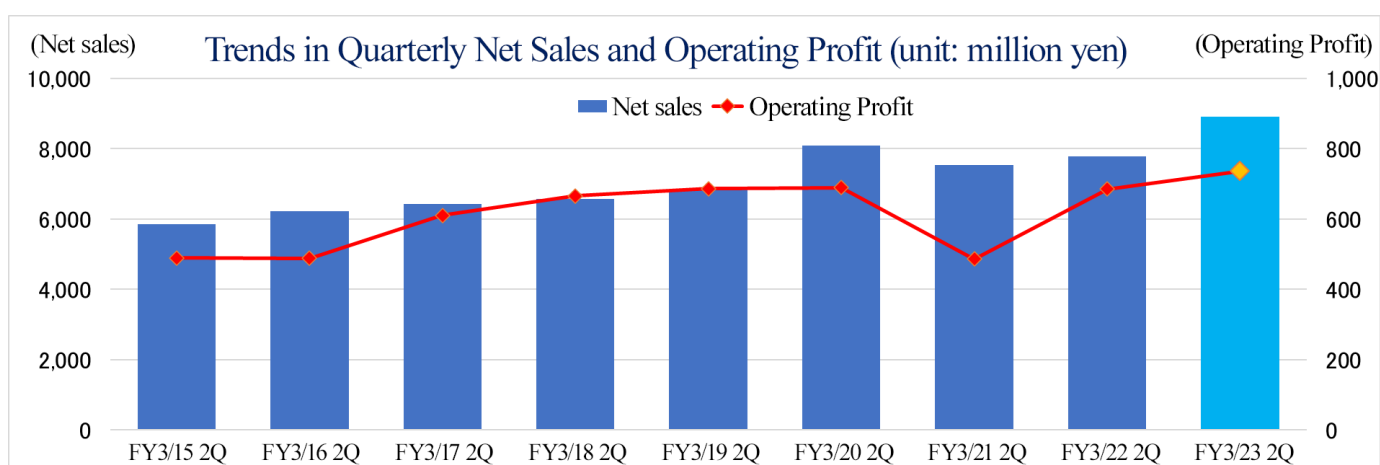


### 12.5% YoY increase in sales and 7.4% YoY increase in operating income.

Sales increased 12.5% year on year to 16,808 million yen, and operating income rose 7.4% year on year to 1,059 million yen. In terms of sales, system development services performed well due to an increase in development projects, and information processing services, which provide cloud services and computation services, also performed well.

In terms of profit, gross profit margin declined 1.6 points year on year to 21.0% due to the higher cost caused by soaring electricity rates, while operating income grew year on year due to a 1.3-point decline in SG&A-to-sales ratio and other factors. The ratio of operating income to sales declined 0.3 points year on year to 6.3%. In addition, ordinary income declined 1.9% year on year to 1,074 million yen. The absence of 74 million yen in subsidy income recorded in the same period of the previous year as well as other factors had an impact on the company's performance this fiscal year. Moreover, net income decreased 9.4% year on year to 648 million yen. In addition to the decline in ordinary income, the company posted a loss of 49 million yen on valuation of investment securities and a loss of 20 million yen on sale of fixed assets.

### Variation in quarterly performance (July-September)



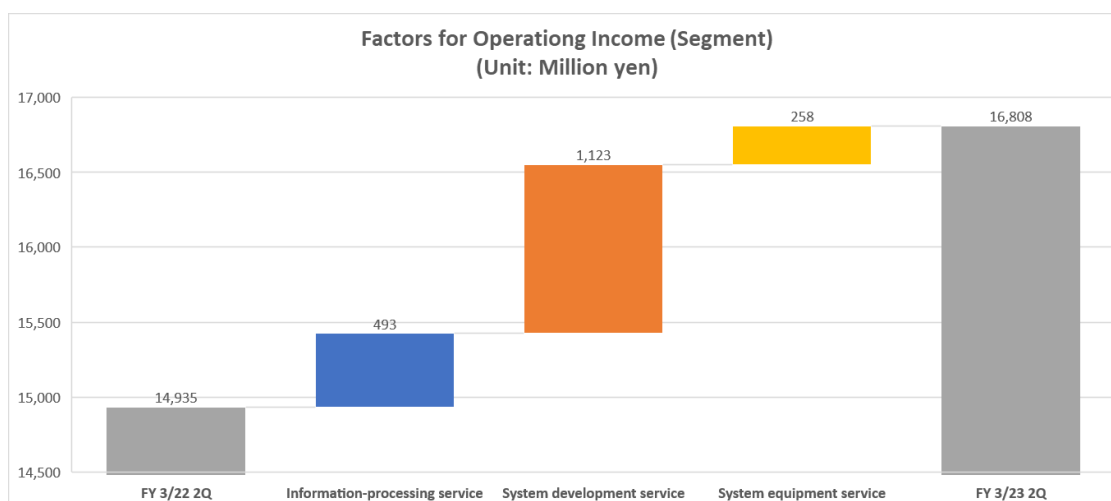
In the second quarter (July-September), sales and profit grew year on year, hitting a record high.

### (2) Trend by Segment

	FY 3/22 2Q	Ratio to sales	FY 3/23 2Q	Ratio to sales	YoY
Information processing services	6,077	40.7%	6,570	39.1%	+8.1%
System development services	8,339	55.8%	9,462	56.3%	+13.5%
System equipment sales	518	3.5%	776	4.6%	+49.7%
<b>Net Sales</b>	14,935	100.0%	16,808	100.0%	12.5%
Information processing services	1,434	23.6%	1,225	18.6%	-14.5%
System development services	1,837	22.0%	2,142	22.6%	+16.6%
System equipment sales	104	20.1%	161	20.7%	+54.6%
<b>Gross profit</b>	3,376	22.6%	3,530	21.0%	+4.5%

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

## BRIDGE REPORT



\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

### ◎Information Processing Services

Sales grew 8.1% year on year at 6,570 million yen, and gross profit decreased 14.5% year on year to 1,225 million yen. (1) The increased use of data centers and cloud services in line with the advancement of systemization in society as a whole, (2) steady growth of the business of computation services entrusted by service stations (gas stations), which is the company group's founding business and area of strength, due to the easing of movement restrictions imposed as a response to COVID-19, and (3) a start of recovery of the performance of BPO services, particularly in mailing, where sales had been declining for the past several years, contributed to the sales growth.

On the other hand, the decrease in gross profit was due to a rise in cost of sales resulting from higher electricity charges among other costs. The company is working to reduce costs and expenses by replacing the systems at its data centers with energy-efficient equipment, and is continuing efforts to minimize the impact on profit and loss by gaining the understanding of its customers.

#### 【Factors in Increase/Decrease in Information Processing Services】

FY3/22 2Q Net sales	6,077
Data Center Cloud	+213
Computation services	+134
Mailing services etc.	+146
FY3/23 2Q Net sales	6,570

FY3/22 2Q Operating profit	1,434	
Data Center Cloud	-282	Sales growth effect: +35, Fluctuation in profitability: -317
Computation services	+59	Sales growth effect: +48, Fluctuation in profitability: +11
Mailing services etc.	+14	Sales growth effect: +28, Fluctuation in profitability: -14
FY3/23 2Q Operating profit	1,226	

\*Unit: Million yen.

### ◎System Development Services

Sales increased 13.5% year on year to 9,462 million yen, and gross profit rose 16.6% year on year to 2,142 million yen. (1) The increase of system development projects for the financial, distribution, telecommunications, and space-related industries, where the company has maintained a strong presence, (2) the operation and maintenance business, which is commissioned by major customers, is expanding as a stable source of revenue, (3) and the strong performance by two system development subsidiaries contributed to the increase in sales and profit.

The company took the opportunity of restrictions on movement caused by spread of COVID-19 to reorganize its internal system development structure into a clients' industry-based organization to enable more efficient use of development personnel, and also improved the environment at development sites, which stabilized earnings.

## BRIDGE REPORT

**【Factors in Increase/Decrease for System Development Services】**

FY3/22 2Q Net sales	8,339
Software Contract Development	+977
Hardware contracted development, etc.	+145
FY3/23 2Q Net sales	9,462

FY3/22 2Q Operating profit	1,837	
Software Contract Development	+241	Sales growth effect: +212, Fluctuation in profitability: +29
Hardware contracted development, etc.	+64	Sales growth effect: +38, Fluctuation in profitability: +26
FY3/23 2Q Operating profit	2,142	

\*Unit: Million yen.

**◎System Equipment Sales**

Sales increased 49.7% year on year to 776 million yen, and gross profit rose 54.6% year on year to 161 million yen. With the increase in system development activity, sales of related system equipment also expanded steadily.

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

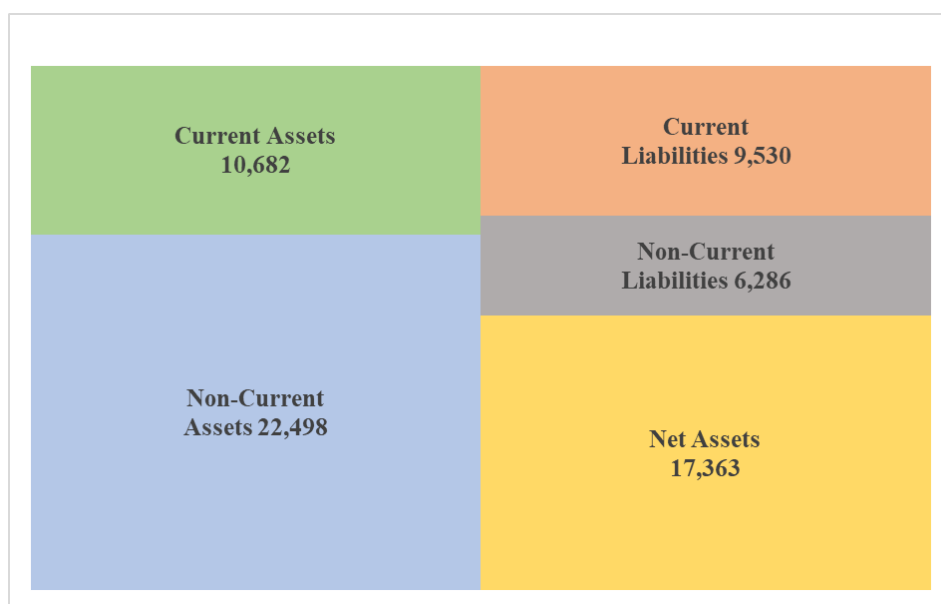
	End of Mar. 2022	End of Sep. 2022		End of Mar. 2022	End of Sep. 2022
Cash and deposits	3,684	3,487	Accounts payable	1,695	1,611
Notes and accounts receivable	6,394	6,265	Short-term borrowings	3,065	3,270
Merchandise and finished goods	329	353	Current liabilities	9,903	9,530
Current assets	10,701	10,682	Long-term borrowings	5,858	5,900
Property, plant and equipment	15,231	15,020	Non-current liabilities	6,295	6,286
Software	1,587	1,859	Liabilities	16,199	15,817
Intangible assets	1,833	2,090	Net assets	17,304	17,363
Investments and other assets	5,736	5,387	Liabilities and net assets	33,503	33,181
Non-current assets	22,802	22,498	Interest-bearing debt	8,923	9,170

\*Unit: Million yen.

\*Inventories = merchandise and finished goods + work in process + raw materials and supplies

\*Interest-bearing debt = borrowings (excluding lease obligations)

## BRIDGE REPORT



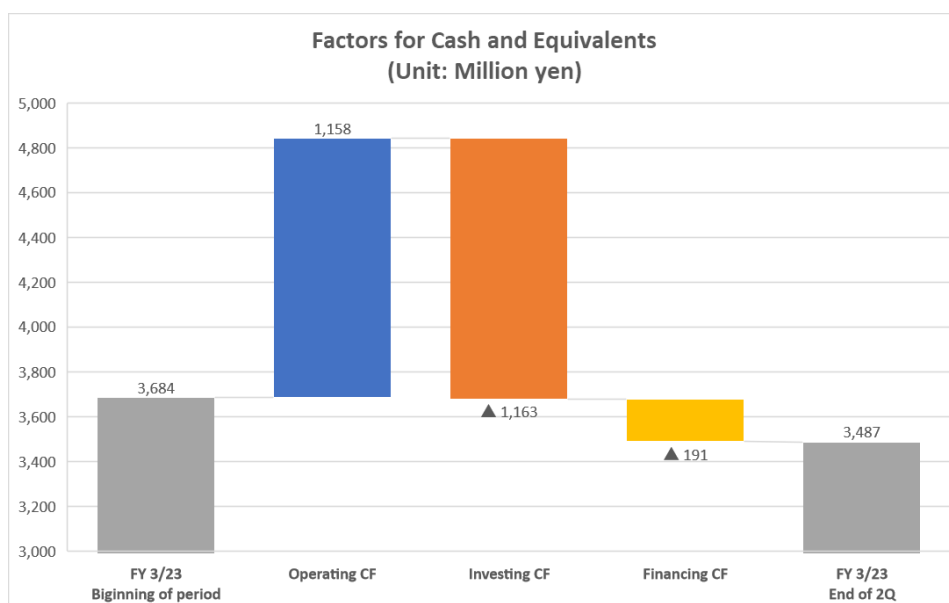
\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

Total assets at the end of September 2022 stood at 33,181 million yen, down 322 million yen from the end of the previous term. On the asset side, cash and deposits, notes and accounts receivable, total property, plant and equipment, and investment securities were the main factors in decrease, while on the liabilities and net assets side, accounts payable, income taxes payable, and valuation difference on available-for-sale securities were the main factors in decrease. Equity ratio was 52.3%, up 0.7 points from the end of the previous term. Interest-bearing debt increased 246 million yen from the end of the previous term.

### ◎ Cash flow

	FY 3/22 2Q	FY 3/23 2Q	YoY	
Cash flows from operating activities	1,423	1,158	-265	-18.6%
Cash flows from investing activities	-861	-1,163	-301	-
Free cash flows	561	-4	-566	-
Cash flows from financing activities	-1,714	-191	1,522	-
Cash and cash equivalents at end of period	2,875	3,487	612	+21.3%

\*Unit: Million yen.



\*Prepared by Investment Bridge Co., Ltd. based on disclosed material.

From a CF perspective, the cash inflow from operating activities was reduced by a smaller decrease in trade receivables and an increase in income taxes paid. In addition, the cash outflow from investing activities increased due to greater expenditure for the purchase of property, plant and equipment, and free CF turned negative. Other factors, such as an increase in long-term debt, reduced the cash outflow from financing activities. As a result of the above, the cash position at the end of September 2022 was up 21.3% from the previous fiscal year.

#### (4) Topics

##### ◎The healthcare MaaS transforming the welfare taxi industry

The company is promoting initiatives to solve social issues through new ventures. By establishing a system that optimally matches people with mobility issues with welfare taxi operators and enables everything from reservations to payment, the company aims to solve problems related to the use of welfare taxis and outings for people with mobility issues, as well as to create demand by expanding the needs of users.

##### ◎Launch of a new ledger sheet solution that can handle both paper and electronic versions of ledger sheets.

The company has begun offering a new service that combines its mailing service with UNIRITA Inc.'s "Marutto Forms Cloud Service" (a cloud service that electronically distributes forms to users) to improve the efficiency of forms operations. This will enable the DX of ledger sheet handing operations through the combined merits of printing and electronic delivery operations. In addition, the company will be able to flexibly respond to the customer's timing in selecting a delivery method, and minimize the risk of data leakage by completing the process in the company's data centers.

##### ◎Signing a contract with a UK-based AI security firm, Darktrace, to enhance security products

The company has signed a distributorship agreement with Darktrace, a UK-based global leader in AI cybersecurity, to sell the "Darktrace Immune System," an NDR product that uses proprietary self-learning AI technology to autonomously detect, investigate, and block all cyber threats on the network on a single platform. This expanded the security coverage for all industries and enhanced security products.

##### ◎The smart meter business for LP gas "Propanet" is growing rapidly

Propanet is the company's cloud-type LP gas sales management system for the LP gas retail industry. It is highly regarded as an optimal tool for improving operational efficiency and promoting DX in the LP gas retail industry. It is equipped with a full range of functions, including a meter reading dispatch service, a web portal system, a safety inspection tablet terminal, and linkage to various payment services. In addition, data are managed at the company's data centers, making the system effective for measures against disasters and BCP measures, while reducing installation and maintenance costs.

## 4. Fiscal Year ending March 2023 Earnings Forecasts

### (1) Earnings Forecasts

	FY 3/22	Ratio to sales	FY 3/23(Est.)	Ratio to sales	YoY
Net sales	31,169	100.0%	33,500	100.0%	+7.5%
Operating profit	2,367	7.6%	2,640	7.9%	+11.5%
Ordinary profit	2,542	8.2%	2,770	8.3%	+9.0%
Profit	1,694	5.4%	1,830	5.5%	+8.0%

\*Unit: Million yen.

### **They project a 7.5% increase in sales and a 11.5% increase in operating income from the previous fiscal year.**

In the first half of the fiscal year, there were no revisions to the company's initial projections of a 7.5% YoY increase in net sales to 33.5 billion yen and an 11.5% YoY increase in operating income to 2,640 million yen for the term ending March 2023.

Sales were in line with initial expectations and are forecasted to remain healthy. Although cost increases, particularly in electricity, have exceeded initial expectations, the company aims to achieve its full-year projections by shifting to energy-efficient equipment, revising prices, and making other efforts to control costs, while increasing sales and reducing SG&A expenses. The ratio of operating income to net sales is projected to be 7.9%, up 0.3 points from the previous fiscal year.

The dividend is also expected to remain unchanged at 48.00 yen/share, up 1.00 yen/share from the previous fiscal year, marking the 11th consecutive fiscal year of dividend increases, with a projected payout ratio of 41.9%.

**(2) Rate of progress**

	FY3/23 1H Results	FY3/23 Company plan	Rate of progress
Net sales	16,808	33,500	50.2%
Operating profit	1,059	2,640	40.1%
Ordinary profit	1,074	2,770	38.8%
Profit	648	1,830	35.4%

\*Unit: Million yen.

As the first half of the fiscal year ended, the progress rate toward the company's full-year plan was steady, exceeding 50% for sales. On the other hand, the progress rate of every kind of profit was below 50% due to the impact of soaring costs, mainly in electricity, which exceeded the initial forecast.

Going forward, the company intends to replace its equipment with energy-efficient devices and revise prices in an effort to reduce costs.

**5. Conclusions**

The results for the first half of the term ending March 2023 confirmed steady expansion in core businesses such as the data center cloud, computation services, mailing, and software. While the external environment is becoming increasingly uncertain, the information service industry, to which the company belongs, does not seem to be significantly affected. On the other hand, the company's data center cloud services have been significantly affected by soaring electricity costs and other factors. The high cost of crude oil due to the Russian-Ukrainian crisis, coupled with the weak yen, has caused electricity costs to soar, which has led to an inevitable deterioration in profitability. In response to this, the company intends to replace its equipment with energy-efficient devices, review pricing, and work to control costs, while aggressively reducing SG&A expenses. As of the end of the first half of the fiscal year, sales exceeded 50% of the company's full-year projection, but all kinds of profits were less than 50%. It remains to be seen how far the company will be able to improve its performance in the second half of the fiscal year in order to achieve its full-year profit plan by reducing cost of sales and SG&A expenses, which will begin in earnest, and by increasing sales in each of its businesses.

In the data centers, which continue to show stable growth, plans are in place to augment facilities as customers continue to increase their use. Since the expansion of the capacity of data centers is a leading indicator of the company's future sales growth, it is necessary to keep a close eye on the company's capital expenditure. Aggressive capital expenditure involving the establishment of new data centers is likely to be a sign of confidence in the company's future prospects. We will keep a close eye on future investments in data centers.

**<Reference: Regarding Corporate Governance>****◎Organization type and the composition of directors**

Organization type	Company with audit and supervisory committee
Directors	11 directors, including 6 outside ones
Audit and Supervisory Committee Member	3 auditors, including 3 outside ones.

**◎Corporate Governance Report**

Last update date: September 20, 2022

**<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.



## &lt;Reasons for Non-Compliance with the Principles of the Corporate Governance Code (Excerpts)&gt;

Principle	Reason for not implementing
Supplementary Principle 1-2-4 【Using an electronic voting right exercise platform and others】	<p>Our company uses electronic voting right exercise services and translates part of the convocation notices of shareholder meetings. Currently, our company does not use any electronic voting right exercise platform for institutional investors.</p> <p>We will consider the English translation of reference materials for the convocation notices of general shareholder meetings and the use of an electronic voting right platform, while paying attention to changes of the shareholder composition.</p>

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

Principle	Details of disclosure
Principle 2-4-1 [Ensuring Diversity in the Appointment of Core Personnel, etc.]	<p>The company actively and continuously hires and appoints a diverse workforce including women, non-Japanese, and mid-career hires, and has made efforts to create a work environment that allows each individual to make the most of his/her characteristics and abilities, as well as to provide management training. We have set a target of increasing the ratio of female managers from the current 5.1% to 10% by April 1, 2025, and have adopted a policy of hiring at least 40% of female new graduates each year.</p> <p>Please refer to the company's website for other initiatives.  <a href="https://www.inet.co.jp/sustainability/social/diversity.html">https://www.inet.co.jp/sustainability/social/diversity.html</a></p> <p>In the mid-term management plan, in addition to the efforts to date, we will implement mid-career recruitment strategies and strengthen our education and training systems as well as their content to improve human resource capabilities at all levels.</p>
Principle 3-1【Enhancement of Information Disclosure】	<p>(i) Our Company's Goals (Corporate Philosophy, Management Policy, and Charter of Corporate Behavior) will be posted at our company's website.  <a href="https://www.inet.co.jp/company/inetway.html">https://www.inet.co.jp/company/inetway.html</a></p> <p>(ii) Basic policy for corporate governance is as stated in "I-1. Basic Policy" in this report.</p> <p>(iii) The policies and procedures for determining directors' remuneration are as stated in "II-1. 【Regarding Directors' Remuneration】. Details of disclosure of the policy for determining the remuneration amount or the method for determining it" in this report.</p> <p>(iv) For director candidates, we will appoint personnel with excellent capabilities and experience of company management along with excellent personality and insight. For outside directors, we will appoint personnel with, in addition to the above requirements, capabilities of supervising and auditing company management and business execution from objective and diverse perspectives.</p> <p>Regarding the appointment, dismissal and nomination of director candidates, the representative director prepares a draft for appointment and dismissal, and makes resolutions at a board meeting, fully based upon the responses at the Appointment and Remuneration Advisory Board. Directors who also serve as Audit and Supervisory Committee members will be determined after obtaining an agreement from the Audit and Supervisory Committee.</p> <p>(v) The reasons for the appointment of the directors are as stated in the convocation notices of general shareholder meetings. The reasons for the appointment of the outside directors are as stated in "II-1 (Regarding Directors) Relationship with the Company (2)" of this report.</p> <p>Convocation Notice (pages 9-23) <a href="https://www.inet.co.jp/ir/20220624-01.pdf">https://www.inet.co.jp/ir/20220624-01.pdf</a></p>

<p>Principle 5-1 [Policy regarding constructive dialogue with shareholders]</p>	<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 resources, business divisions, and so on, and management and financial conditions, etc. are disclosed in a timely and appropriate manner.</p> <p>Dialogues with shareholders take place in the form of business briefing sessions held after financial results announcements, as well as in the form of financial results briefings for analysts and institutional investors we hold twice every year, in which explanation and dialogue are carried out by the president and representative director. In addition, when appropriate, we hold private interviews with institutional investors and company briefings for individual investors, and to a reasonable extent, active IR activities are handled by management executives and IR staff, not to mention the president and representative director.</p> <p>The relevant IR staff member makes an appropriate decision on the opinions, etc. of shareholders and investors grasped from dialogues, and seeks feedback by discussing with and reporting to the board of directors, etc. as necessary.</p> <p>Regarding the management of insider information, we carry out dialogue in accordance with internal regulations.</p>
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#### <Other>

In order to disclose important corporate information to our investors timely and appropriately, our company complies with the Financial Instruments and Exchange Act and “Rules on Timely Disclosure of Corporate Information by Issuers of Listed Securities” (Timely Disclosure Rules), and manages and discloses internal information in accordance with our internal regulations.

Our company discloses information regarding our decisions that should be disclosed timely, information regarding new events, and information regarding earnings results, under the command of the Information Disclosure Manager. For material decisions, the Information Disclosure Manager will promptly take necessary procedures to disclose them, while managing information thoroughly in accordance with our internal regulations after the resolutions at the Information Disclosure Committee and Board of Directors. Any material events shall be reported to the Representative Director and President and the Information Disclosure Manager, and the Information Disclosure Manager will promptly take procedures for disclosing them timely, while managing information thoroughly in accordance with our internal regulations. For any information regarding earnings results, the Information Disclosure Manager shall promptly take disclosure procedures, while managing information thoroughly in accordance with our internal regulations, after the resolutions by the Information Disclosure Committee and the Board of Director.

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