



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	https://www.inet.co.jp/english/company/

Stock Information

Share Price	Shares Outstanding		Total Market Cap	ROE (Actual)	Trading Unit
¥1,222	16,242,424 shares		¥19,848 million	10.1%	100 shares
DPS (Estimate)	Dividend Yield (Estimate)	EPS (Estimate)	PER (Estimate)	BPS (Actual)	PBR (Actual)
¥48.00	3.9%	¥114.55	10.7x	¥1,083.14	1.1x

*The share price is the closing price on July 1. Each value are taken from the financial results of term ended Mar. 2022.

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 (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. 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 fiscal year ended March 2022, and other information.

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Key Points

- Based on its own data center with Japan's highest level of safety and management of system operations which has been nurtured for many years, I-NET Corp. offers optimal one-stop solutions to meet various needs from customers, including system planning, development, operation, and monitoring, as well as printing, enclosing and sealing, and advanced cloud computing. Its strengths are the great capability of operating business through vertical integration and horizontal expansion and the stable business model supported by a robust customer portfolio.
- In the term ended March 2022, net sales increased 3.8% year on year to 31,169 million yen. The sales of all three services grew. System development also recovered from the impact of the COVID-19 pandemic. Operating income increased 9.8% year on year to 2,367 million yen. Gross profit increased for all services. SG&A expenses augmented 2.9% year on year, but it was offset. Ordinary income increased 11.5% year on year to 2,542 million yen. The company posted a gain on investment in the investment association. Net income rose 13.4% year on year to 1,694 million yen. While a gain on negative goodwill was recorded as an extraordinary gain, the company did not record a special merit payment, which was recorded as an extraordinary loss in the previous term. Sales fell short of the forecast, but profit exceeded it.
- For the term ending March 2023, the company forecasts a 7.5% year-on-year increase in net sales to 33.5 billion yen and an 11.5% year-on-year increase in operating income to 2,640 million yen. The data center and cloud service business will continue to perform well. The system development business has overcome the impact of the COVID-19 pandemic and is on the road to recovery. The company intends to achieve its full-term forecasts by taking advantage of its balanced business portfolio. The company plans to pay a dividend of 48.00 yen/share, up 1.00 yen/share from the previous term. Namely, the dividend will increase for the 11th consecutive term. Payout ratio is expected to be 41.9%.
- The company announced a new medium-term management plan (April 2022-March 2025). The company will position the information processing services, which yields recurring revenues, as the foundation for growth, and continue to strengthen investments in data centers and cloud service. The company will also focus on strengthening its human capital. The company aims to achieve the following numerical targets: net sales of 37.7 billion yen, operating income of 3.2 billion yen, ROE of 10% or higher, and operating income margin of 8.5% in the term ending March 2025.
- Under the previous medium-term management plan, which ended in the term ended March 2022, net sales and operating income fell short of the forecasts in both the term ended March 2021 and the term ended March 2022, partly due to the impact of COVID-19. However, in the term ended March 2022, sales and profits increased from the previous term, and system development services appear to be on the road to recovery.
- Unfortunately, the new medium-term plan does not disclose forecast figures for each service, but we would like to see how quickly sales and profit will expand, driven by the data center and cloud service business, which continues to perform well.

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.”



(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

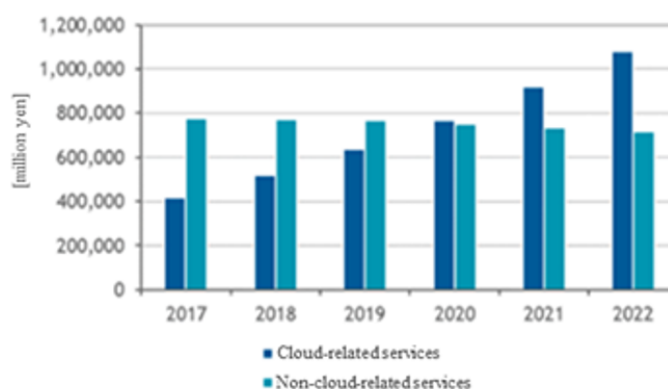
The mid-term management plan will be described later.

【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)



(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.

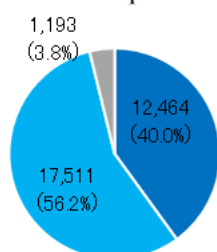
Through the advent and spread of technologies and methods to increase business efficiency, such as cloud computing, AI, IoT, and RPA, the demand for investment in systems is growing in almost all fields in addition to petroleum-related ones, and the business environment surrounding the company is good.

【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.”

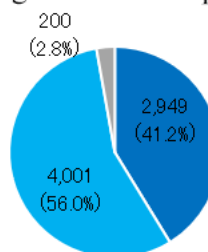
Sales composition



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

*Term ended March 2022; Unit: Million yen

Operating income composition



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

(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.

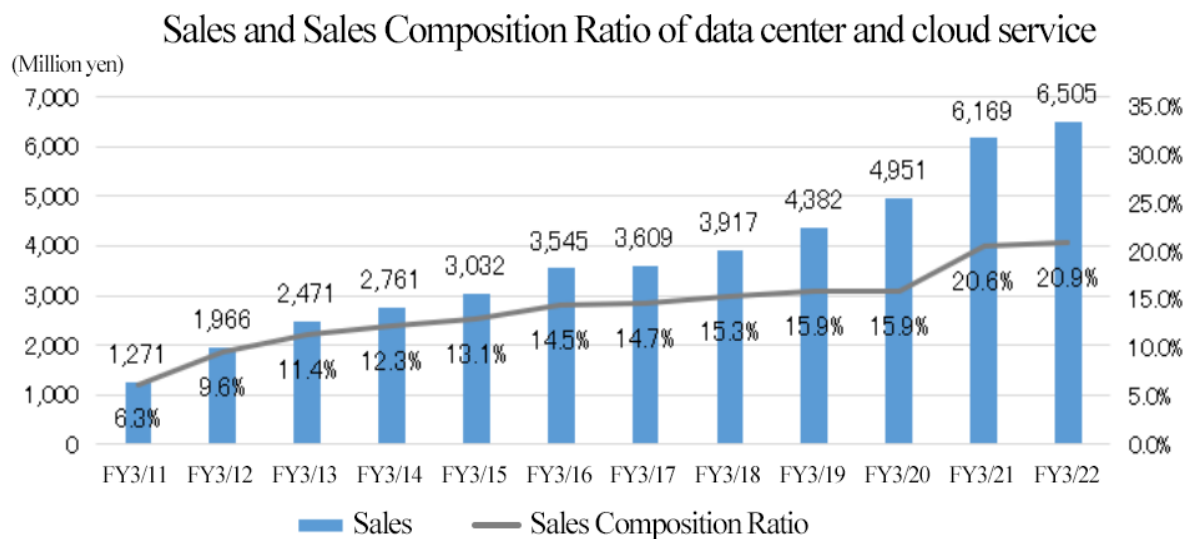
It has data centers in 4 regions: Hokkaido (1 center), Yokohama (4 centers), Nagano (1 center) and Osaka (1 center), which back up one another and can cope with disasters.

◎ 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 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 started providing services for the propane service 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

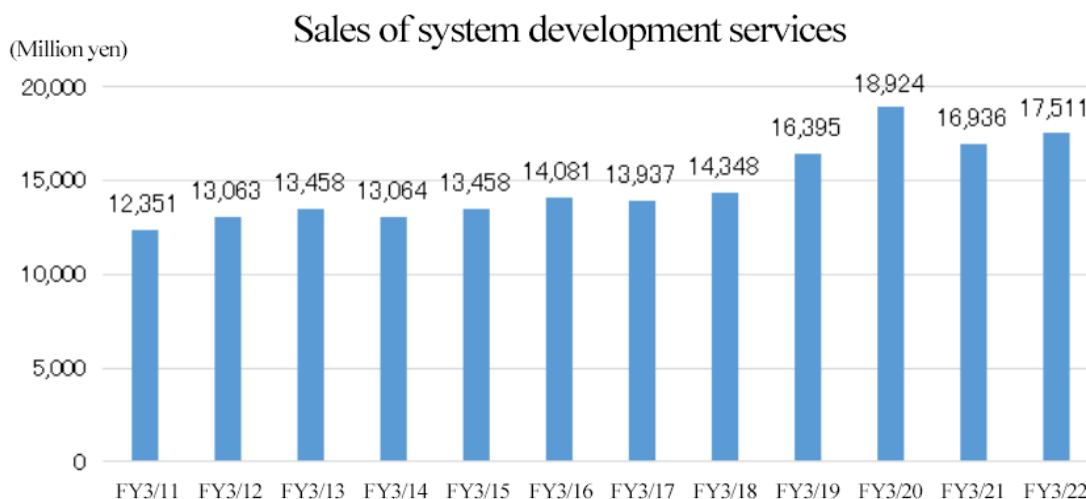
As the company has dealt with the task of dispatching bills at service stations, it also prints, encloses, and seals credit-card statements, tax notices, election cards, direct mails, bills, etc.

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, service 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 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.

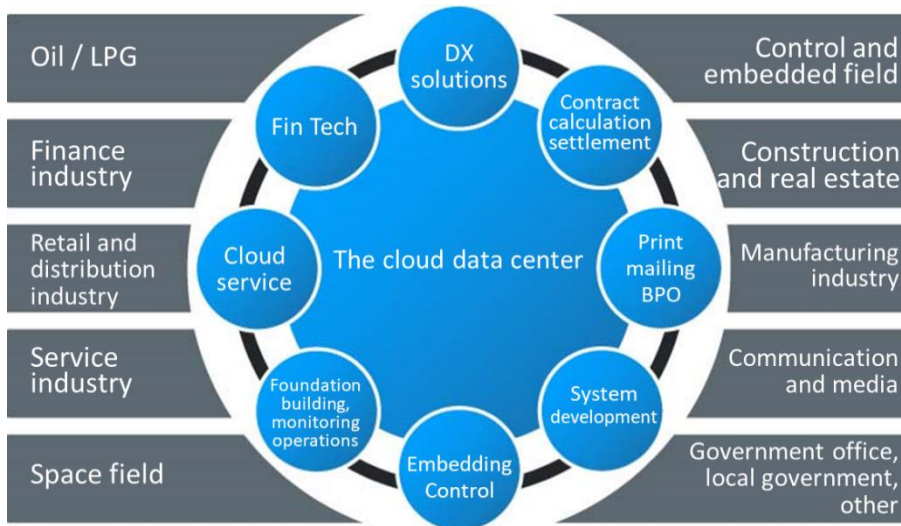
The company’s advanced capability of operating business, which realized the expansion of its business domain and customer base, cannot be ignored when evaluating the company.



(Taken from the reference material of the company)

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

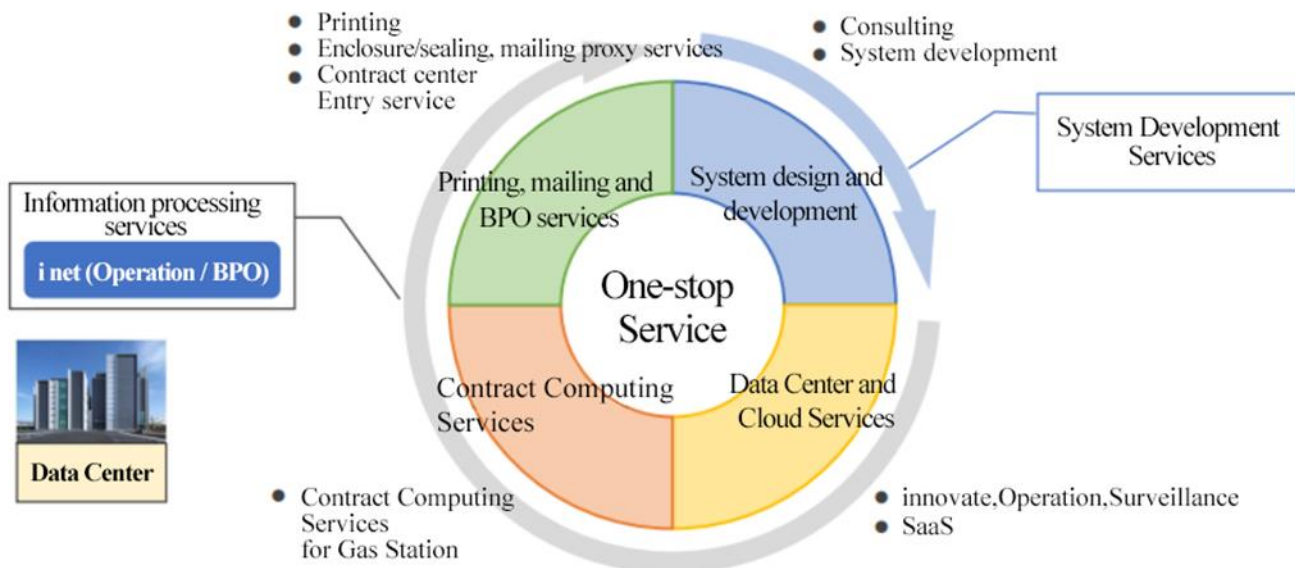
The number of client companies gained with the above-mentioned advanced capability of operating business exceeds 4,300. The customer portfolio is composed of various enterprises in a broad range of fields. Since I-NET offers a wide array of services centered around its cloud data center according to 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)

(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.



(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 (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.

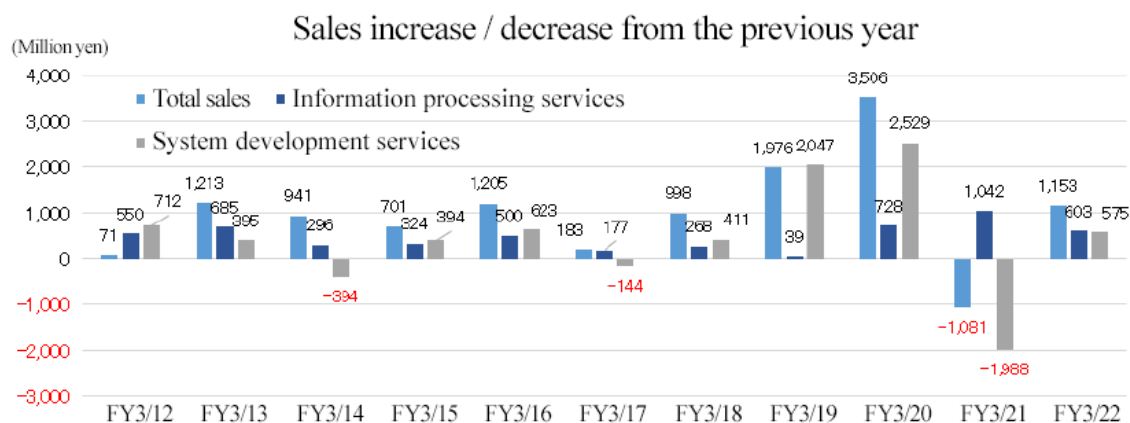
Led by the data center and cloud services, the Information processing services had a CAGR of 5.1% during the same terms, exceeding 4.0% for total sales and 3.2% for System development services.

Excluding the previous term, which was heavily affected by COVID-19, there were two periods of decline in sales in System development services, and only one period of 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 23.7%, 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
ROE (%)	8.8	9.4	10.7	10.4	10.9	11.3	9.5	10.1
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

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.

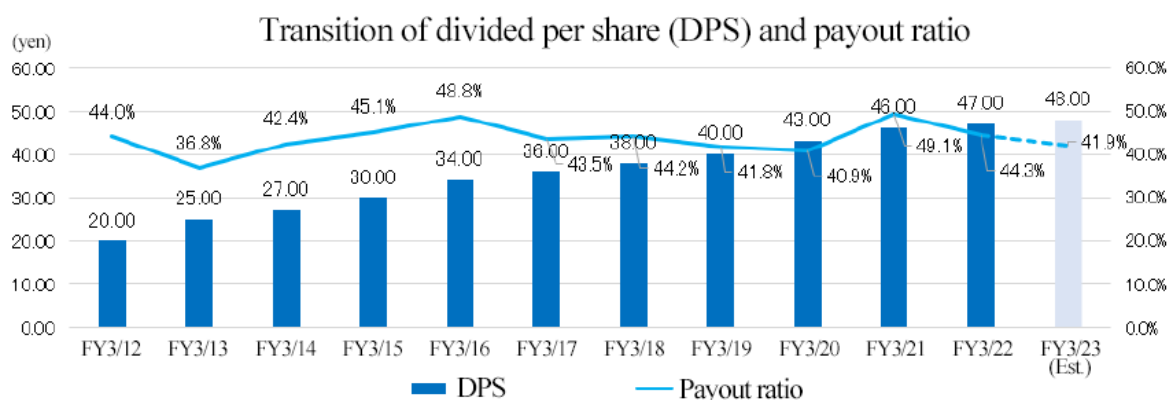
The expected payout ratio for the term ending March 2023 is 41.9%.

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.

◎ I-NET Community Development Foundation

In 2019, Noriyoshi Ikeda, who is the founder and chief advisor to the company, established a new foundation named the I-NET Community Development 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.

Mainly, the foundation supports and subsidizes the sound upbringing of children and youth, sound development of mind and body through education, sports, etc., improvement of public health, environmental conservation and improvement, and sound development of local communities.

It will realize long-term and stable activities and contribute to the development of better local communities.

◎ 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.

2. Fiscal Year ended March 2022 Earnings Results

(1) Earnings Results

	FY 3/21	Ratio to sales	FY 3/22	Ratio to sales	YoY	Difference from the forecast
Net sales	30,016	100.0%	31,169	100.0%	+3.8%	-4.1%
Gross profit	6,804	22.7%	7,151	22.9%	+5.1%	-3.1%
SG&A expenses	4,648	15.5%	4,783	15.3%	+2.9%	-5.3%
Operating income	2,155	7.2%	2,367	7.6%	+9.8%	+1.6%
Ordinary income	2,279	7.6%	2,542	8.2%	+11.5%	+9.1%
Net income	1,494	5.0%	1,694	5.4%	+13.4%	+5.9%

*Unit: Million yen.

Sales and profit increased, Sales fall short of forecast

Sales increased 3.8% year on year to 31,169 million yen, with all 3 services reporting higher revenues. System development services also recovered from the impact of COVID-19. Gross profit increased 9.8% year on year to 2,367 million yen. Gross profit increased for all services. SG&A expenses increased 2.9% year on year, but were absorbed. Ordinary income increased 11.5% year on year to 2,542 million yen. The company recorded a gain on the management of investment partnerships. Net income increased 13.4% year on year to 1,694 million yen. While the company posted a gain on negative goodwill as an extraordinary gain, the company did not incur any special service cost, which was posted as an extraordinary loss in the same period of the previous term.

Sales fell short of forecast, but profits exceeded them.

(2) Trend by Segment

	FY 3/21	Ratio to sales	FY 3/22	Ratio to sales	YoY	Difference from the forecast
Sales						
Information processing services	11,861	39.5%	12,464	40.0%	+5.1%	-0.3%
System development services	16,936	56.4%	17,511	56.2%	+3.4%	-6.2%
System product sales	1,217	4.1%	1,193	3.8%	-2.0%	-11.0%
Total	30,016	100.0%	31,169	100.0%	+3.8%	-4.1%
Gross profit						
Information processing services	2,803	23.6%	2,949	23.7%	+5.2%	+2.0%
System development services	3,821	22.6%	4,001	22.8%	+4.7%	-5.9%
System product sales	179	14.7%	200	16.8%	+11.6%	-16.7%
Total	6,804	22.7%	7,151	22.9%	+5.1%	-3.1%

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

(Information processing services)

Sales and profit grew. Sales fell short of the forecast, but profit exceeded the forecast.

Data center/cloud service and commissioned counting settlement for service stations were healthy.

DX by enterprises, etc. have led the increasement in usage of data centers and cloud computing services.

In terms of the commissioned counting settlement for service stations, the number of service stations is decreasing, but sales are still increasing as a result of sales promotion by offices around Japan, an increase of new calculation tasks for major dealers, and an increase of processing in response to new needs, such as cashless transactions and the use of loyalty points by petroleum wholesalers. The sales from the mailing service increased for the first time in five terms.

BRIDGE REPORT

**(System development services)**

Sales and profit grew. Both sales and profit fell short of the forecasts.

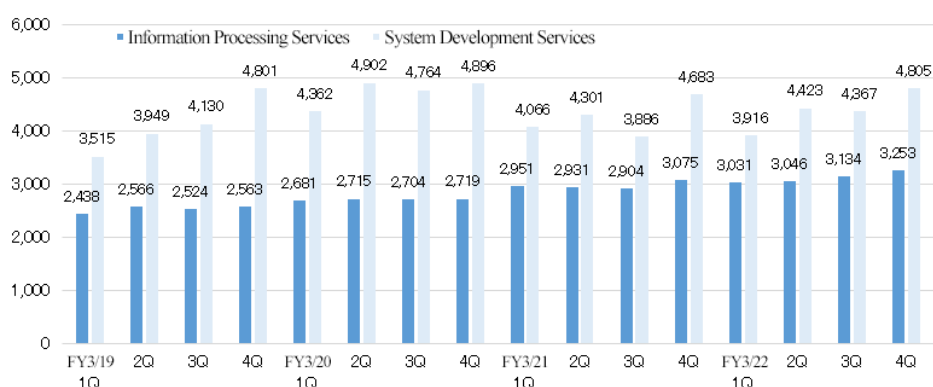
Although the environment remained difficult due to the COVID-19 pandemic, sales from customers in the financial, distribution, and telecommunication service sectors, where the company's knowledge and technology are highly valued, remained strong. Sales increased year on year from the second quarter onward.

(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.

Quarterly Sales of Information Processing Services and System Development Services (Millions of yen)

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

	End of Mar. 2021	End of Mar. 2022	Increase/decrease		End of Mar. 2021	End of Mar. 2022	Increase/decrease
Current assets	10,561	10,701	+139	Current liabilities	8,625	9,903	+1,278
Cash and deposits	4,027	3,684	-343	Trade payables	1,409	1,695	+286
Trade receivables	5,930	5,527	-403	Short-term loans payable	3,039	3,065	+26
Noncurrent assets	21,494	22,802	+1,307	Noncurrent liabilities	7,218	6,295	-922
Property, plant, and equipment	15,547	15,231	-315	Long-term loans payable	6,868	5,858	-1,010
Investments and other assets	4,652	5,736	+1,084	Total liabilities	15,843	16,199	+355
Total assets	32,056	33,503	+1,447	Net assets	16,212	17,304	+1,091
				Retained earnings	9,890	10,576	+686
				Total liabilities and net assets	32,056	33,503	+1,447
				Total borrowings	9,908	8,923	-984

*Unit: Million yen.

Total assets decreased 1.4 million yen from the end of the previous term to 33.5 billion yen due to an increase in investment securities, despite a drop in cash and deposits caused by a decrease in borrowings. Total liabilities increased 0.3 billion yen to 16.1 billion yen. Net assets increased 1.0 billion yen to 17.3 billion yen due to an increase in valuation difference on available-for-sale securities. Equity Ratio increased 1.0 point from the end of the previous term to 51.6%

◎ Cash flow

	FY 3/21	FY 3/22	Increase/Decrease
Operating CF	3,419	3,715	+296
Investing CF	-2,929	-2,185	+744
Free CF	489	1,530	+1,041
Financing CF	454	-1,873	-2,328
Cash and cash equivalents	4,027	3,684	-343

*Unit: Million yen.

Free CF turned positive as operating CF increase expanded 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 declined.

(4) Main Topics

(1) Capital and business alliance agreements signed with AVILEN, a DX supporter

In March 2022, the company signed a capital and business alliance agreement with AVILEN Corporation (Tokyo), a start-up company that provides AI-related development support and AI human resource development support.

(Outline of AVILEN, Inc.)

Founded in 2018. With the vision of "bringing the latest technology to as many people as possible," the company provides comprehensive support for AI-driven DX promotion, including AI/DX strategy planning, development and in-house production of machine learning algorithms such as deep learning, and AI/DX human resource development, for over 360 companies, mainly listed companies.

The company offers AI Solutions, which supports the implementation of AI technologies in business settings; AI Services, which provides the AI technologies they developed to as many people as possible; and AI Training, which trains businesspeople and engineers who use AI technologies in the field.

(Future initiatives)

The alliance will promote the following initiatives:

(1) To accelerate AI/DX human resource development

To accelerate the development of advanced and specialized AI/DX human resources in accordance with programs for each job category and job level, such as data scientists and AI engineers. In addition, AI/DX literacy training will be provided not only for technical personnel, but also for a wide range of employees, including sales personnel, with the aim of further improving their skills to accurately respond to customers' DX promotion and problem-solving using AI.

(2) To strengthen AI/DX business

*To strengthen information linkage, searching projects, and management of projects through the effective operation of the Business Alliance Committee, consisting of company-wide DX-related members of I-NET and AVILEN.

*By integrating the knowledge of both companies, they will make optimal proposals based on client needs for each project.

*To improve the level of I-NET's existing AI and DX products in collaboration with AVILEN.

(3) AI application in data center business

To conduct research on unmanned data centers using AI in the data center business, a core business of I-NET since its establishment.

(4) Use of AI in the drone business, etc.

To expand the drone business and launch a new data business by enhancing AI-based analysis and analysis capabilities for various types of image-based data stored in the data center via drones and other devices.

(2) Collaboration with Broadband Security, Inc.

In March 2022, the company began a collaboration with Broadband Security, Inc. of Tokyo to provide security services.

(Outline of Broadband Security, Inc.)

Since its establishment in 2000, the company has consistently developed its information security services business, including security diagnosis, operation, maintenance, and security consulting. The company has a track record of vulnerability assessments of more than 8,100 systems for approximately 1,200 organizations annually, and employs a large number of security-savvy engineers.

(Background of the collaboration)

The importance of cyber security measures is increasing in line with changes in the corporate IT work environment, such as the expanded use of cloud service and the spread of teleworking. As cyber-attacks become more diverse and sophisticated, companies are required to conduct regular vulnerability assessments and develop security monitoring systems, and it has become essential to collaborate with companies that have specialized knowledge to implement high-level security measures.

Through this collaboration, I-NET aims to realize effective security measures for companies.

(Outline of services)

It will be possible to propose comprehensive consulting and solutions to customers' issues, and respond to increasingly sophisticated and complex corporate security needs from multiple perspectives.

Specifically, the company plans to offer consulting services such as security risk assessment and vulnerability diagnosis services for applications and platforms, and will expand other services to meet the needs of customers.

3. 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 income	2,367	7.6%	2,640	7.9%	+11.5%
Ordinary income	2,542	8.2%	2,770	8.3%	+9.0%
Net income	1,694	5.4%	1,830	5.5%	+8.0%

*Unit: Million yen.

Sales and profit are estimated to increase

The company expects net sales to increase 7.5% year on year to 33,500 million yen, and operating income to grow 11.5% year on year to 2,640 million yen. The data center service and cloud service will continue to be strong. The system development will get over the impact of the COVID-19 disaster and begin to recover. The company expects to achieve its full-year forecast by leveraging its strength in a balanced business portfolio.

The dividend is scheduled to be 48.00 yen/share, up 1.00 yen/share from the previous term, making dividend to increase for the 11th consecutive year. The estimated payout rate is 41.9%.

4. Medium-Term Management Plan (April 2022–March 2025)

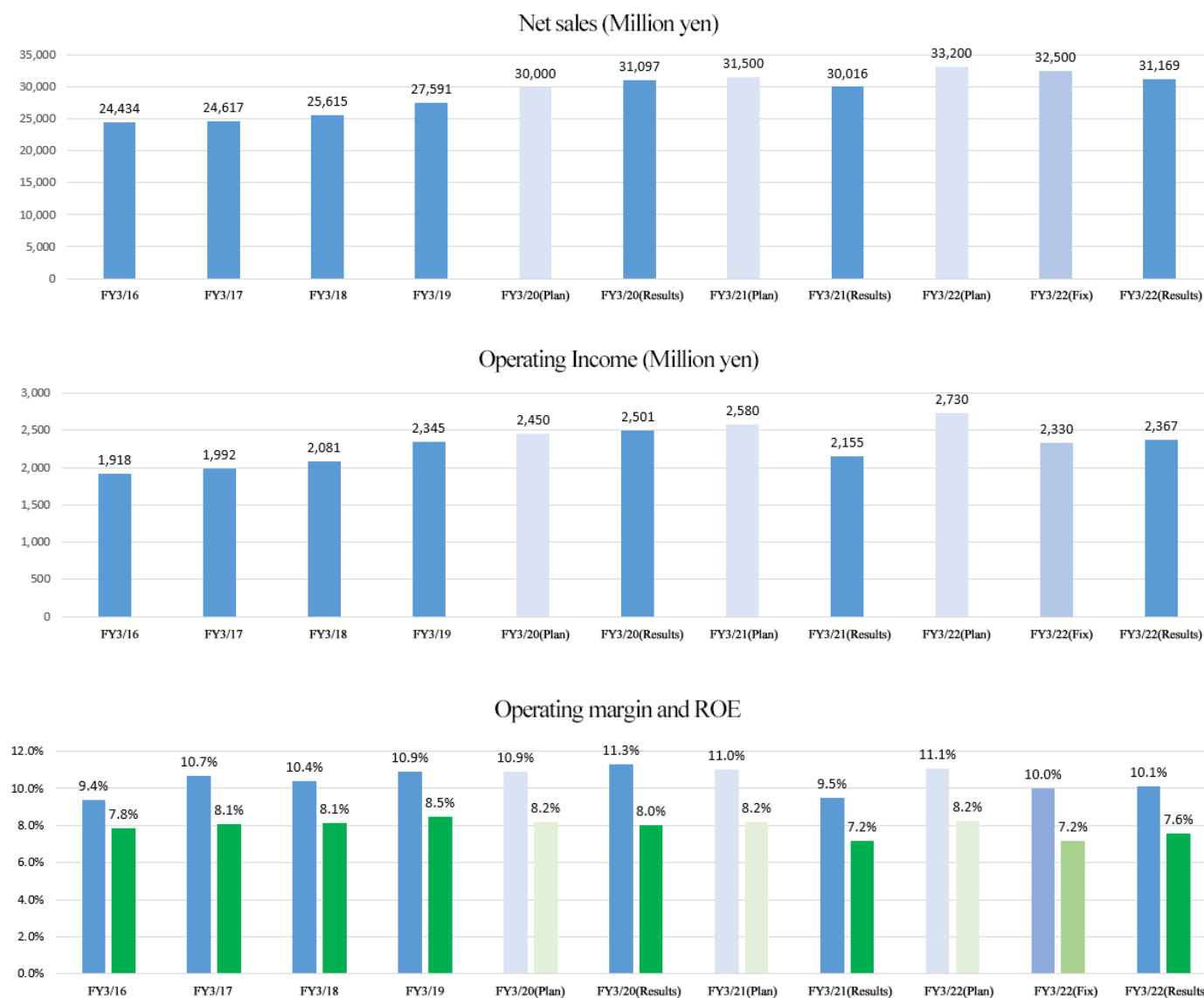
The new three-year medium-term management plan was announced.

(1) Review of the previous medium-term management plan

(1) Company-wide

Net sales and operating income fell short of the forecasts in both the term ended March 2021 and the term ended March 2022, partly due to the impact of COVID-19.

The operating income margin and ROE for the term ended March 2022 were almost in line with the revised forecasts.



(2) Overview of each service

(Information processing services)

Sales were on an upward trend throughout the three terms due to steady growth in the use of data centers and cloud service, as well as commissioned counting settlement for service stations.

Gross profit was also favorable. The foundation of the recurring-revenue business was strengthened.

(System development services)

In the term ended March 2021, sales declined due to the impact of COVID-19, but both sales and gross profit recovered in the term ended March 2022 as the company took measures such as reviewing its structure for each industry sector.

(System product sales)

Sales of POS equipment for service stations and sales of equipment associated with system development services contributed to steady growth.

(3) Initiatives to strengthen the foundation

◎ Business strategy

In commissioned counting settlement, the company strengthened services for petroleum wholesalers, trading companies, and major distributors, and established a joint venture with a petroleum wholesaler to improve operational efficiency and develop digital human resources.

In cloud service, the company expanded sales through cloud service, OEMs, and sales partners, as well as storage and backup products. In DX, the company reviewed its structure for each industry to promote DX among its customers, and expanded its product lineup to include workstyle reform, security service products, and 3Cs data analysis services.

◎ Investment strategy

In human resources development, the company focused on training employees according to their career steps.

In data centers, the company invested in innovative technologies, meeting customer needs, and making systematic investments in renewal.

In R&D, they worked on the development of a next-generation cloud platform, utilization of satellite data through industry-academia collaboration, and participation in a nano-satellite demonstration project.

(4) Summary and issues

Progress was made in strengthening information processing services based on data center and cloud service, enhancing facilities along with customers' use of data centers, reviewing the system development services' structure in each industry, strengthening the ability to identify and solve customer issues, and expanding services and technical capabilities.

The company considers that it is necessary to address the following issues:

Further strengthen information processing services as a foundation for growth, and promote it as a platform for promoting DX among customers and society.

Develop operational knowledge as a service.

Strengthen the company's ability to respond to rising costs.

Maintain investment capacity to match the needs of customers and society, and consider facility expansion, including the construction of new data centers.














Strengthen human capital.

(2) Medium-term management plan

(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"> Expanding Cloud Service Penetration Non-contact, non-aggregated measures Big data, AI, IoT promotion 	  
Co-creation, innovation promotion and value creation	<ul style="list-style-type: none"> Establishment of a department specializing in SDGs promotion Promote industry-government-academia-industry collaboration projects Promotion of business activities by foundations and special subsidiaries Promotion of business activities 	  
Diversification, advancement, and productivity improvement of human resources	<ul style="list-style-type: none"> Employee Development Diversity Promotion Career development support Promotion of work style reform 	    
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"> In-house data center Promote one-stop model Strengthen stock business 	 

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

⑤Target Value

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

5. Conclusions

In the mid-term management plan ending in FY3/22, net sales and operating income fell short of the plan in both FY3/21 and FY3/22, partly due to the impact of the new COVID-19 infection. However, in FY3/22, sales and profits increased from the previous year, and system development services appear to be on the road to recovery.

Unfortunately, the new medium-term plan does not disclose figures for each service, but it will be interesting to see how quickly sales and profits will expand, driven by the data center and cloud services business, which continues to perform well.

<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: June 27, 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.

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

<Policy regarding strategically held shares>

Aiming for smooth business management and the maintenance and strengthening of business relationships, we will hold shares strategically only when deemed necessary after comprehensively examining medium and long-term economic rationality and the 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.

<Criteria for exercising voting rights pertaining to strategically held shares>

Regarding the exercise of voting rights for strategically held shares, we check the management policies and business strategies of the relevant companies and comprehensively discuss whether improvement of corporate value will be achieved, in addition to checking whether the respective case is in accordance with our holding policy. Then we judge the opinions in favor of and against each measure on an individual basis.

In addition, we will have dialogue with respective issuing companies regarding proposal contents, etc. as necessary.

Principle 2-4-1 [Ensuring Diversity in the Appointment of Core Personnel, etc.]

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.

Please refer to the company's website for other initiatives.

<https://www.inet.co.jp/sustainability/social/diversity.html>

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.

Supplementary Principle 3-1-3 [Sustainability Initiatives]

Please refer to the company's website for information on the company's management strategy, sustainability initiatives, etc.

(1) Medium- to Long-term Objectives/Management Strategy

<https://www.inet.co.jp/ir/policy/goal.html#contents>

(2) Medium-Term Management Plan

<https://www.inet.co.jp/ir/policy/mid-goal.html#contents>

(3) Sustainability Initiatives

<https://www.inet.co.jp/sustainability/>

<Investment in Human Capital and Intellectual Property>

The company has formulated a medium-term management plan based on a defensive strategy of strengthening ties with customers and an offensive strategy of pioneering new market areas and services with the company-wide key measures as a basis, and has been promoting thorough implementation of the customer-first philosophy, proposals with added value, development of products and services with growth potential, and investment in human resources to improve tangible and intangible value. In addition, based on the medium-term management plan, we are making investments with an eye to the future, including investments in human resources, which are the foundation of everything we do, data centers, which are the core of the company's business model, and research and development that will lead to differentiation and strengthen competitiveness.

<Disclosure and Other Information Based on the TCFD>

Please refer to the Company's website for information on the company's climate-related financial disclosures (disclosures based on TCFD recommendations).

<https://www.inet.co.jp/sustainability/environment/tcfd.pdf>

Principle 5-1 [Policy regarding constructive dialogue with shareholders]

We have established an IR policy, and disclose basic policies, disclosure criteria, disclosure methods, silence periods, and so on. To a reasonable extent, we also engage in dialogue with shareholders and investors to contribute to sustainable growth and medium-to-long term improvement of corporate value.

We have put the 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.

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.

Principle 2-4-1 [Ensuring diversity in the appointment of core personnel]

We have been actively and continuously recruiting and appointing diverse human resources, including women, non-Japanese, and career hires, and have been working 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. The Company has set a target of increasing the percentage of female managers from the current 5.1% to 10% by April 1, 2025. For more information on other initiatives, please refer to the Company's website.

(<https://www.inet.co.jp/sustainability/social/diversity.html>)

In addition to the initiatives to date, the medium-term management plan calls for the implementation of a mid-career recruitment strategy and the enhancement of education and training programs and content to improve human resource capabilities at all levels.

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