Presentation

Moderator: Thank you very much for taking time out of your busy schedule today to join us for the live-streaming of the financial results briefing of I-NET Corp., for the fiscal year ended March 2025. We will now begin the briefing.

First of all, I would like to introduce today's attendees.

We have Saeki, Representative Director and Executive President of I-NET Corp.

Saeki: My name is Saeki. Nice to meet you.

Moderator: We have Uchida, Representative Director and Senior Managing Executive Officer.

Uchida: My name is Uchida. Nice to meet you.

Moderator: I will now explain today's agenda.

First, Mr. Saeki and Mr. Uchida will explain the financial results and the medium-term management plan.

This will be followed by a question-and-answer session. For Q&A, questions will be accepted during the financial results briefing with the Q&A feature of the Zoom application. When you press the Q&A button on the Zoom app screen, it will display a screen for asking questions. If you have any questions, please enter your company name, name, and the question, and then press the submit button. Please note that we may not be able to answer all questions today due to time constraints. We appreciate your understanding in advance.

Now, it is time for us to begin. Mr. Saeki, Mr. Uchida, the floor is yours.

Saeki: I am Saeki, the president of I-NET. Thank you very much for attending our financial results briefing. The event will be held online today. Thank you.

Mr. Uchida will now explain the financial results for the fiscal year ended March 2025.

Uchida: I am Uchida, Senior Managing Executive Officer. Please allow me to start.

First, I will begin with a performance summary for the fiscal year ended March 2025.

As you can see from the figures, net sales increased by JPY1,224 million YoY to JPY38,987 million. Operating profit decreased by JPY246 million YoY to JPY2,640 million. Net profit attributable to owners of parent grew by JPY62 million YoY to JPY2,259 million. The net sales reached an all-time high.

I would like to explain about net sales. First is about information processing services. Data center and cloud services, as well as commissioned settlement services for service stations remained strong, while mailing services expanded, partly due to taking over other companies' business.

As for system development services, while projects for energy and distribution industries declined, we were able to achieve the same level of sales as the previous fiscal year as a result of growth in system development for the financial and manufacturing industries, as well as space and defense-related business.

I will now explain more details on operating income. The cost remained high during this fiscal year due to higher licensing costs for cloud services and an increased depreciation burden for system and capital investments. As a countermeasure, we pushed forward the revision of sales prices and cost savings. As a result, the profit margin gradually improved, but due in part to increased SG&A expenses, particularly labor costs, the profit decreased for the full year. Net profit attributable to owners of parent increased YoY, boosted by the booking of gain on sales of investment securities.

This graph shows the factors that affected positively or negatively to operating income. As for major factors that affected the gross profit of the fiscal year ended March 2025, the factors such as increased sales and revision of prices increased the profit by JPY428 million. However, system-related depreciation expenses increased by JPY231 million and a cost increase due to the higher price of virtual infrastructure was JPY186 million. Therefore, the increase YoY was only JPY11 million.

Operating income, shown on the far right, decreased by JPY246 million YoY to JPY2,640 million due to an increase of JPY259 million in SG&A expenses caused by factors such as higher personnel costs.

Next, I will explain the consolidated balance sheet. The balance of the total assets at the end of March 2025 amounted to JPY37,062 million, down JPY545 million from the end of the previous fiscal year. The decrease in total assets was mainly due to a decrease of approximately JPY1,200 million resulting from the sale of investment securities.

I will explain the consolidated cash flow now. The cash flow provided by operating activities for the fiscal year ended March 2025 was JPY2,487 million. The breakdown is the cash inflow of JPY3,724 million for net profit, depreciation, working capital, etc., and the cash outflow of JPY1,237 million due to corporate tax payments and others. As for the cash flow for investing activities, there was an outflow of JPY2,572 million. The big factor was JPY2,920 million for data-center capacity expansion.

The cash flow used for financing activities amounted to JPY458 million, due to spending such as purchase of treasury shares and dividend payments.

As a result, cash and deposits at the end of March 2025 totaled JPY4,736 million.

This chart indicates main services and the composition of net sales and gross profit by service category. The left side shows system development services and the right side shows information processing services.

System development services include system development for a wide range of industries, such as financial institutions, manufacturing, distribution, and transportation, including the design and assembly of satellites as our distinctive business. The whole system development services constitute 55% of net sales and 58% of gross profit.

Information processing services consist of cloud services using the Company's own data center, calculation and settlement services for gas stations, and mailing services for printing, enclosing, sealing, and dispatching post items. They account for 40% of the whole net sales and 37% of gross profit.

System equipment sales are sales of equipment accompanying information processing and system development services. They account for 5% of both net sales and gross profit.

Here are the results for each service for the fiscal year ended March 2025. As shown in the table, the sales of information processing services increased, while gross and operating profits decreased YoY. System development services saw a decline in net sales, but gross and operating profits increased YoY. I will explain more details later in another slide.

As for system equipment sales, mainly those to customers using information processing services performed well.

I will now explain the situation of each service. First, I will explain net sales and gross profit for each of the services that comprise our information processing services, as well as the affecting elements.

The pie charts at the bottom left show the composition of services in net sales of information processing services. For the fiscal year ended March 2025, data center and cloud services recorded sales of JPY8,413 million, accounting for 53% of the total. Commissioned settlement services for service stations accounted for 28% of the total with sales of JPY4,341 million, and mailing services accounted for 19% with sales of JPY2,928 million.

The bar graph in the upper right-hand corner shows the factors that contributed to the increase or decrease of net sales of information processing services. While sales from commissioned settlement services declined this fiscal year, sales of data center and cloud services as well as mailing services grew steadily, resulting in increased sales.

The bar graph at the bottom right shows the factors that contributed to the increase or decrease of gross profit of information processing services. Gross profit declined by JPY83 million YoY due to lower profitability of data center and cloud services as well as commissioned settlement services.

The profit ratio declined mainly due to higher prices of licenses for software used in cloud services as well as higher depreciation costs associated with investments in the development of in-house system for commissioned settlement services.

Mailing services recorded an increase of profit YoY, partly due to the acquisition of large-lot projects and the expansion of services through the transfer of business from other companies.

Next, I will explain the composition of net sales and gross profit of system development services and the factors that affected the figures. System development services consist of commissioned development of software as well as hardware and others. Commissioned software development accounts for approximately 90% of sales.

The bar graph in the upper right-hand corner shows the factors that caused an increase or decrease in sales of system development services. The bar graph at the bottom right shows the factors that caused an increase or decrease in gross profit by service. Commissioned software development contributed to an increase of JPY55 million, and commissioned hardware development caused a decrease of JPY17 million.

Although the profit ratio declined in H1 due to delays and other factors in some development projects, gross profit of the full year exceeded that of the previous fiscal year as a result of efforts to reduce costs and strengthen project management.

I would like to explain the sales trends for the past 12 fiscal years for information processing services and system development services that I have briefed on so far.

At our company, information processing services with a recurring-revenue model have generated stable earnings that are less susceptible to economic conditions, while system development services with a one-time-fee business model absorbed economic fluctuations and enabled higher orders. This way, we maintained an upward trend in sales. Sales from recurring-revenue and one-time-fee business models complement and balance each other, creating an overall growth trend of sales.

For the past 11 years, we have continuously increased sales of information processing services. Mailing services began to increase sales in the fiscal year ended March 2022, and data center and cloud services grew significantly by approximately 2.9 times over the past 11 years. System development services have also maintained an upward trend in sales, despite being affected by the economy, with net sales increasing 1.6 times over the past 11 years to JPY21,300 million.

The graph here shows our quarterly sales by service category. If you look at the sales of Q4, you will see that they have grown by about 20% since the fiscal year ended March 2022, which is three years ago, and that they are growing steadily. Sales of information processing services, a recurring revenue business we are focusing on, grew steadily, and we recorded quarterly sales of more than JPY10,000 million for the first time.

Next, I will show you the quarterly operating profit trend. As you can see, our profit tends to be larger in Q2 than in Q1 and bigger in Q4 than in Q3. Operating profit for Q4 of this fiscal year was up 52% YoY and recorded the highest quarterly profit in the past four years.

As reference, I show you the development of sales from our business partners by industry. Amounts are semiannual sales. By industry, sales to the telecommunications and SaaS service industries, which use our data centers, were the largest. As for sales to the system development industry, shown in the upper right-hand corner, the end users are mainly distributors including convenience stores. Sales to the space and defense industry, shown at the bottom right, are growing steadily, reaching approximately JPY2,400 million in the fiscal year ended March 2025. This is all about our business performance for the fiscal year ended March 2025.

Next, I will explain topics related to our business. On the left is the business partnership agreement with ALL NIPPON AIRWAYS TRADING CO., LTD. In February 2025, we entered into a comprehensive business partnership agreement with All Nippon Airways Trading with the aim of expanding our space business and contributing to the development of the space industry in Japan. By combining our technical expertise in space with All Nippon Airways Trading's trading company function in the aeronautical industry, we will take on the challenge of revolutionizing the mass production of satellites.

On the right is about the new print-on-demand service. In December 2024, the Company took over the business of various document printing and binding, etc., from Fujitsu Coworco Limited.

The print-on-demand business, which is one of its strengths, enables high-quality, small-lot printing, reducing disposal loss and storage space, speeding delivery. Our services are expanding as part of our platform strategy, and we will continue to grow by increasing and extending our services and partners.

On the next page, on the left is about the opening of inet annex, a data center. In order to meet customer demand that will grow, we have decided to open a new data center, inet annex, in NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION's facilities in January 2026, which will be linked to our data center. It has approximately 100 racks, and it’s available from a single rack. It is directly connected to our data center and features 24/7 continuous-presence support for peace of mind.

On the right is about SupplyLinker and LOAN RANGER UC. As part of our business strategy, we launched and received orders for our own services SupplyLinker and LOAN RANGER UC. Both services are provided by the deployment of self-developed systems from our data center. We will continue to increase services on our platform to support our customers' DX.

Next, we would like to inform you of the amount of transactions through credit card payments using our commissioned settlement services.

We provide a one-stop service from receiving sales data from gasoline retailers via the Internet to computing, creating invoices, and sending them out. As a credit card merchant, we also bill the credit card companies for the user's card charges and process the settlement.

Card payment transaction volume has been increasing year after year and has exceeded JPY30,000 million in the fiscal year ended March 2025. While the number of service stations has been declining over the long term, the sales of our energy-related sector have remained flat over the past few years. An increasing number of retailers that have been using their own in-house systems for sales management and billing are switching to our cloud-based system. We are currently doing business with approximately 30% of the nationwide service stations affiliated with oil companies that import crude oil, refine it into oil-based products, and sell them as a wholesaler.

That is all from me.

Saeki: Now, I will explain the earnings forecast for the fiscal year ending March 2026.

We forecast net sales of JPY42,250 million, up 8.4% YoY; operating income of JPY2,750 million, up 4.1% YoY; ordinary profit of JPY2,800 million, up 4.4% YoY; and net profit of JPY1,850 million, down 18.1% YoY.

Since net profit of the previous fiscal year recorded approximately JPY490 million in gain on the sale of investment securities, net profit is actually forecast to increase in real terms when this factor is omitted. Although the business environment remains challenging, the entire group will make a concerted effort to achieve this performance forecast.

Next, I will explain shareholder returns. Our shareholder return policy is to continue to pay stable dividends while striving to keep internal reserve to meet future capital needs. To achieve this, we aim to reach a total return ratio of 40% or more, including share buybacks.

The annual dividend for the fiscal year ended March 2025 was set at JPY56 per share, marking the 13th consecutive year of dividend increases. The annual dividend for the fiscal year ending March 2026 is expected to be JPY58 per share, an increase of JPY2 YoY. We aim to increase dividends for the 14th consecutive fiscal year through stable dividends.

I will now explain our new medium-term management plan for the three years beginning in the fiscal year ending March 2026.

The late Noriyoshi Ikeda, the founder of our company, always kept the slogan "Up Stage, Up Player" in order to materialize further growth, as he paved the way for our company's future. In order to once again carry on our founder's vision and demonstrate our determination to achieve sustainable growth, we have named our medium-term management plan through FY2027 "Up Stage 2027”.

I would like to review the previous medium-term management plan. Sales were JPY39,000 million in the final fiscal year which ended March 2025, against the target of JPY40,000 million. Operating profit was JPY2,640 million, missing the target of JPY3,200 million.

The main reasons for this were that cost increases including price raise of electricity were not anticipated at the time of planning, and that some software development projects were delayed. We have responded by passing it to the sales price and thoroughly strengthening progress management for development projects, but unfortunately, we were not able to achieve our goals.

Now, I will explain the basic policies of the new medium-term management plan. We have established four policies to help realize a sustainable digital society. First is strengthening infrastructure and promoting DX. We will support our customers' digital transformation and help realize richer society by strengthening the use of cloud and AI.

The second is to expand and optimize data center business. We will promote green data centers by conserving energy and will realize the expansion and opening of data centers.

The third is developing human resources and strengthening the organization. We will develop the next generation of management executives and professionals in the areas of expertise of each business. We will also promote diversity in our human resources to improve productivity.

Lastly, we aim to be a company that is needed by society. We will provide the optimal services required by the society and give back and contribute to the community without forgetting to be grateful.

Next, I will explain the target figures.

The goal is to achieve sales of JPY50,000 million and market capitalization of JPY50,000 million in the fiscal year ending March 2028, which is the final year of the new medium-term management plan. To achieve these goals, we have established four KPIs, aiming for sales of JPY50,000 million, operating profit of JPY3,500 million, EBITDA of JPY6,500 million, and ROE of 13%.

The sales target of the new medium-term management plan assumes a high average annual growth rate of 8.6%. We will achieve growth in operating profit and EBITDA that exceeds the growth in net sales. As for ROE, we will aim to increase and improve profitability.

Since we own infrastructure including data centers, planned capital expenditures will be incurred. We believe that improving asset efficiency and increasing cash flow are important for management. For this reason, we have decided to adopt EBITDA as a new numerical target from this medium-term management plan.

The Company follows a platform strategy. The Group will grow by extending and increasing the number of services and partners on its platform, adapting to changes in society.

In order to further strengthen and promote this business strategy, we have established a business promotion division as a cross-functional sales structure. In addition to strengthening our proprietary services, we will promote collaboration with other companies by increasing the number of business partners.

Presented here is our company's portfolio analysis by business area. We will focus on DC business, which includes data center and cloud business, as our core business.

In addition, we also work on service station and BPO business as our foundational business. Both have a certain share of the market, ensuring stable earnings and growth. In addition, the DX business, which has a large scale of sales, has been able to secure both profitability and growth by promoting the areas of specialty.

By combining the growth of each business, we aim to achieve net sales of JPY50,000 million and gross profit of JPY11,100 million in the fiscal year ending March 2028, which is the final year of our medium-term management plan.

Next, I will explain our ESG goals.

In terms of environment, we will make 50% of the electricity used in our data centers to be derived from renewable energy sources in FY2030. We will aim to be carbon neutral by FY2040.

Regarding social contribution, the Group will hire 3.2% of its employees among people with disabilities and ensure 18% of management positions are occupied by women.

We will aim for further growth of I-NET DATA SERVICE CORP., a special subsidiary for the purpose of employing people with disabilities.

With regard to governance, we will focus on practicing capital cost-conscious management. We will also focus on strengthening group governance, enhancing management and monitoring functions, and developing next-generation of management and back-office human resources.

That is all for the explanation of the new medium-term management plan. In order to achieve the plan, the entire group will work together to push forward.

Thank you very much for your kind attention.

Moderator: Thank you, Mr. Saeki, Mr. Uchida.

That's all for the briefing on financial results and the medium-term management plan.

Question & Answer

Moderator [M]: We will now move to the question-and-answer session.

Does anyone have any questions? Since there appears to be none, I will now conclude today's financial results briefing.

If you have any questions after the briefing, please get in touch with the contact on the last page of the presentation slides.

Today's event will be released as an archive on our website at a later date.

Thank you very much for joining us today despite your busy schedule.

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