I-NET CORP.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2020

November 14, 2019

Event Summary

[Company Name]	I-NET CORP.
[Event Type]	Earnings Announcement
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2020
[Fiscal Period]	FY2019 Q2
[Date]	November 14, 2019
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[Venue]	Tokyo Shoken Kaikan, 9F Room 1,2 1-5-8 Kayabacho Nihonbashi, Chuo-ku, Tokyo, 103-0025
[Venue Size]	
[Participants]	45
[Number of Speakers]	4

Mitsuru Sakai	Representative Director, Executive President
Hiroshi Wanibuchi	Representative Director, Senior Managing Executive Officer
Naokatsu Uchida	Director and Managing Executive Officer
Mikio Ito	Executive Officer

Presentation

Moderator: Now we will hold I-NET CORP.'s financial results briefing for the first half of the fiscal year ending March 31, 2020. First of all, we would like to introduce four people from the Company. First, Mr. Mitsuru Sakai, Representative Director and Executive President.

Sakai: Sakai. Thank you very much.

Moderator: Mr. Hiroshi Wanibuchi, Representative Director and Senior Managing Executive Officer.

Wanibuchi: Wanibuchi. Thank you.

Moderator: Mr. Naokatsu Uchida, Director and Managing Executive Officer.

Uchida: Uchida, thank you.

Moderator: Mr. Mikio Ito, Executive Officer.

Ito: Thank you.

Moderator: Thank you. Mr. Sakai will give an explanation today. Finally, we will have time for questions and answers.

Today's financial results briefing, including the question and answer section, will be posted and published. Accordingly, I would like to ask anyone who wants anonymity not to identify oneself.

Sakai: Thank you very much for coming here today. I'm Sakai, Executive President. I would like to give you an explanation based on the materials that you have on hand.

First of all, I would like to provide an overview of the Company, the financial results for the first half of the current fiscal year ending March 31, 2020, the medium-term management plan, and the status of our initiatives. Finally, I would like to explain the financial results forecasts for the current fiscal year.

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- Trade Name: I-NET CORP.
- Founded: April 22, 1971
- Headquarters: 3-3-1 Minatomirai, Nishi-ku, Yokohama, Kanagawa, Japan
- Capital: 3,203 million yen
- Founder: Chairman of the board Noriyoshi Ikeda
- Representative:
  Representative Director,
  Executive President
  Mitsuru Sakai
- Subsidiaries:
  IST-Software Co.,Ltd.
  Software Control Co., LTD.
  I-NET DATA SERVICE CORP.
- Consolidated: 1,659 employees
  Non-consolidated: 942 employees
- Service Stations Department:
  Tokyo office
  Sapporo Branch, Sendai Branch, Sendai Branch, Chubu Branch, Osaka Branch, Chu-sikoku Branch, Fukuoka Branch
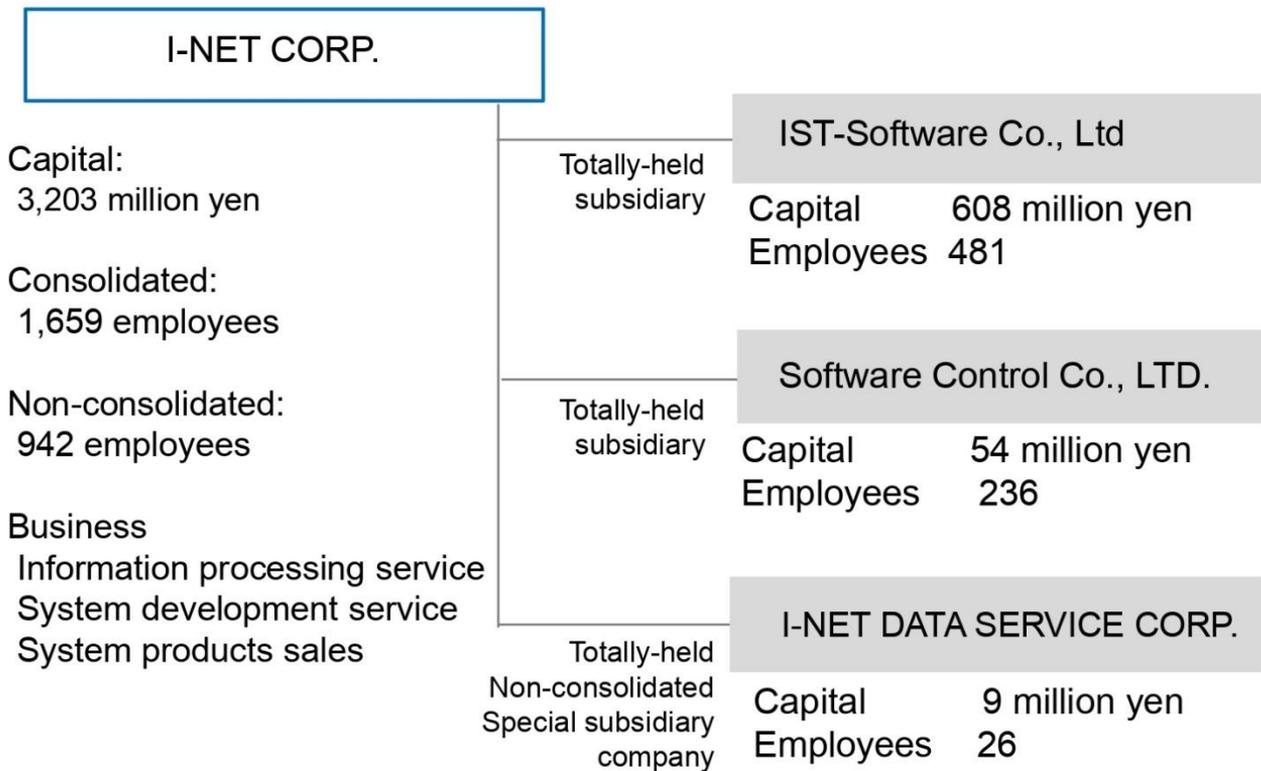 The 1st Data Center, The 2nd Data Center

First of all, I would like to explain the Company's outline to deepen your understanding. The Company was established in 1971, and we are now in the 49th fiscal year. The capital amount is 3,203 million yen and the head office located in Minato Mirai, Yokohama. The number of employees is 1,659 and 942, on a consolidated and non-consolidated basis, respectively.

inet Affiliate Group（November 30, 2019）

I-NET CORP.

Capital:
3,203 million yen

Consolidated:
1,659 employees

Non-consolidated:
942 employees

Business
Information processing service
System development service
System products sales

| Totally-held subsidiary | **IST-Software Co., Ltd** |
| | Capital 608 million yen
Employees 481 |

| Totally-held subsidiary | **Software Control Co., LTD.** |
| | Capital 54 million yen
Employees 236 |

| Totally-held
Non-consolidated
Special subsidiary
company | **I-NET DATA SERVICE CORP.** |
| | Capital 9 million yen
Employees 26 |

This is an overview of the I-NET Group. Software Control Co., LTD. was newly added in October last year.

History(Trade openly ～ Today)
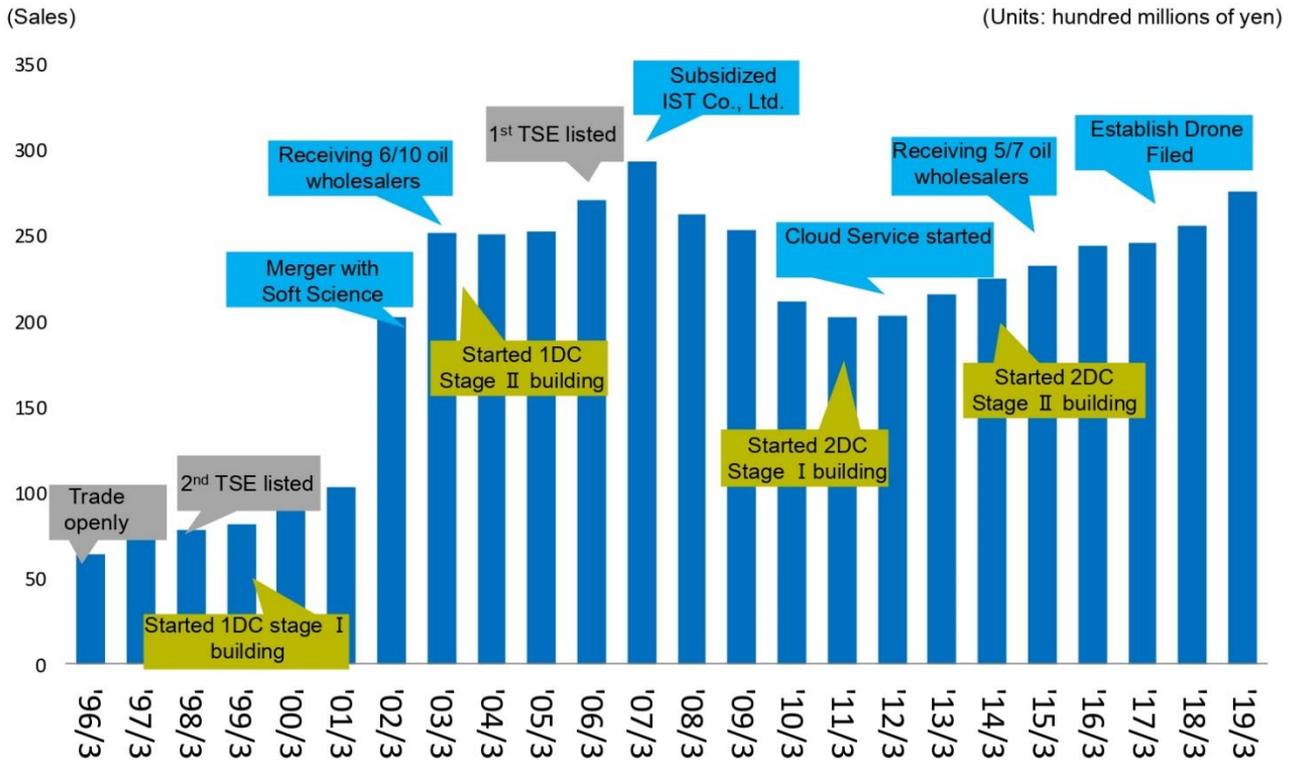
This is a graph of sales during the period from the public offering on the over-the-counter market to the present.

Next, I would like to explain our business activities by service category. We have three service categories: Information processing service, System development service, and System products sales. I will introduce the Information processing service and System development service, which account for majority of sales.

【Business】 Information processing service

【SS of contract calculation/ payment processing】
SS: Service Station

About 33% of domestic customers use our processing
No.1 share in Japan!!

Founding Business

Invoice

Utilize achievements and business foundations to expand payment processing to other industries

【Printing・Mailing】
Printing and enclosing seal of report printing, direct mail, Invoice, and etc.

Ex:
Credit card usage detail, Tax payment notice, election postcard, etc.

【BPO・Call Centre】
Input data/ Credit Card application reception
Card usage inquiry/Call Centre

(Sealing equipment)

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Pages seven and eight explain the Information processing service. I will begin the explanation of the Information processing service with the SS (service station) business at the top. At gas stations, there are various payment methods including cash, credit cards, and selling on credit. We offer credit card and selling on credit services.

First, our data centers intensively process credit card payments. In addition, we calculate data of selling on credit on behalf of gas stations, and issue and send invoices at the end of the month. Of 30,000 service stations nationwide, around one-third, more than 10,000 gas stations, are our customers, and we have the biggest market share in Japan.

As shown in the middle of page seven, we offer the printing of forms and enclosing and sealing services. In addition to the printing and sending of invoices for gas stations, we are in charge of preparation of documents closely related to everyone's daily lives, such as statements of credit card uses, tax notices, and election notices.
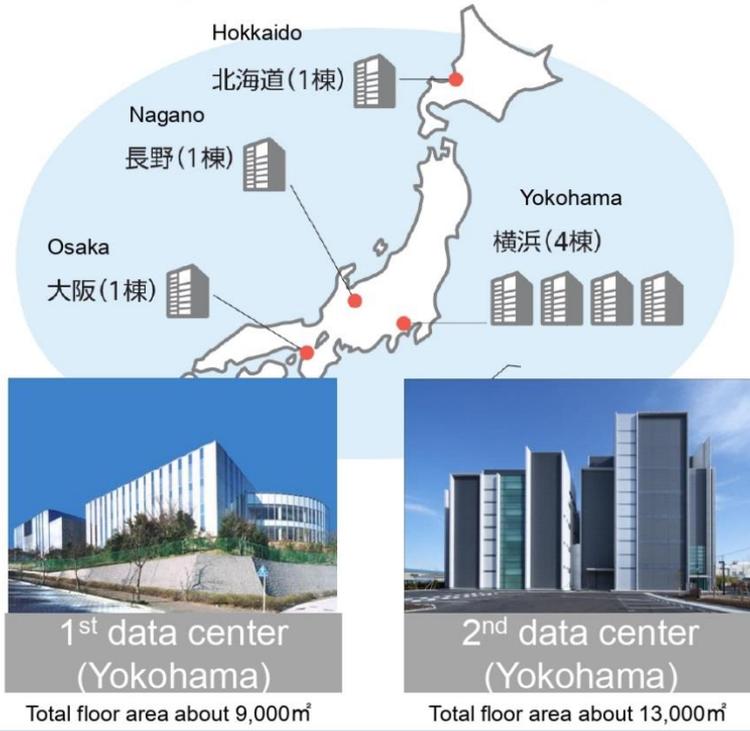
Recently, there is a growing trend toward the online distribution of payroll statements, credit card usage statements, and the likes, but demand for direct mail is still high, partly because notices in paper are more impressive and effective. In addition, we provide BPO services, such as call centers, data inputting and the acceptance of applications for cards.

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【Data center service】

Hokkaido
北海道（1棟）

Nagano
長野（1棟）

Osaka
大阪（1棟）

Yokohama
横浜（4棟）

1st data center
(Yokohama)
Total floor area about 9,000㎡

2nd data center
(Yokohama)
Total floor area about 13,000㎡

【Cloud service】

Various cloud service on our data canters

"Cloud infrastructure"
Next Generation
EASY Cloud®

"File sharing service"
Cloudstor®
Private Cloud HDFS Storage Service

"Virtual desktop service"
VIDAAS®
Private Cloud Desktop as a Service

"Business card management service"
名刺情報管理サービス
名刺バンク

This page provides an outline of data centers and cloud services. We are focusing our most efforts on the data center services and cloud services. We were among the first to focus on this business within the industry. Please see Japan's map on the left. We have four in-house data centers in Yokohama. The photos show two centers in Yokohama. In addition to the above, we have also partnering with data center companies in Hokkaido, Nagano, and Osaka to provide mutual backup in preparation for disasters. The right column shows part of the cloud services that use our data centers. You can see that we are offering a variety of services.

Page nine shows our position as a data center operator. In the Cloud & Data Center Complete Guide published by Impress, I-NET is ranked 20th in terms of total floor space of data centers, shown in the lower right position.
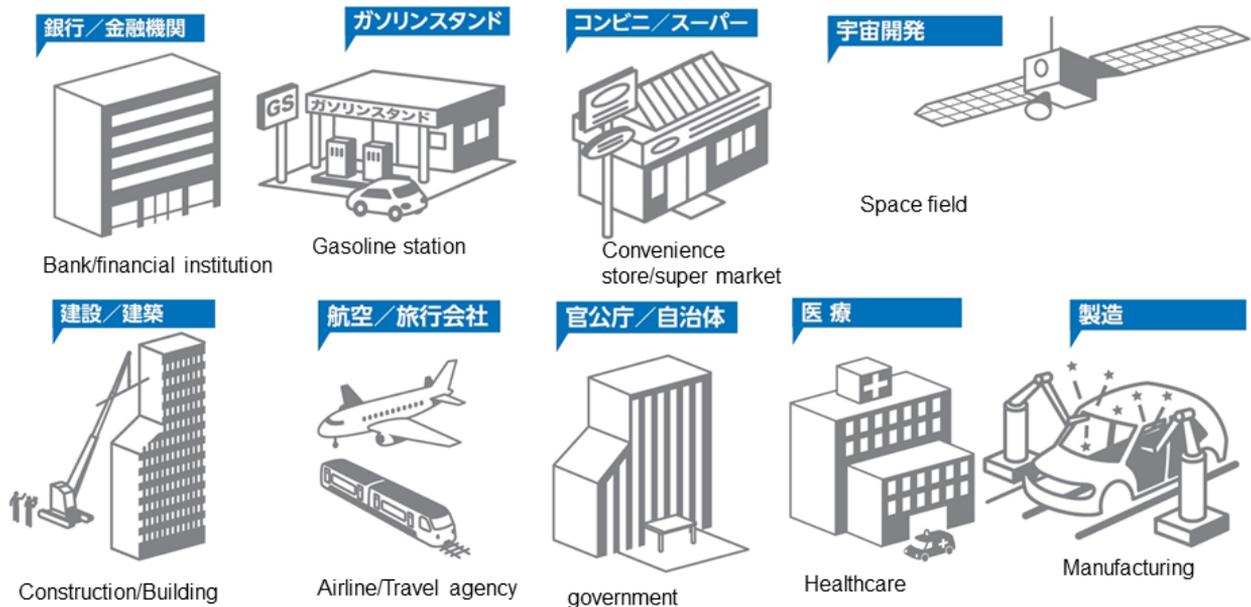
While many data center operators are telecoms carriers or specialists in data center facilities, I-NET is ranked second among independent SIers that operate the data center business. In this sense, I think we are a top-class company. You can see that we are one of the few companies that are strong in both data centers and system development.

inet 【Business】 System development service

We are designing and building systems for many customers in a wide range of fields, such as business application development, package software development, space development and, etc.., based on our long-standing relationship of trust.

銀行／金融機関 — Bank/financial institution

ガソリンスタンド — Gasoline station

コンビニ／スーパー — Convenience store/super market

宇宙開発 — Space field

建設／建築 — Construction/Building

航空／旅行会社 — Airline/Travel agency

官公庁／自治体 — government
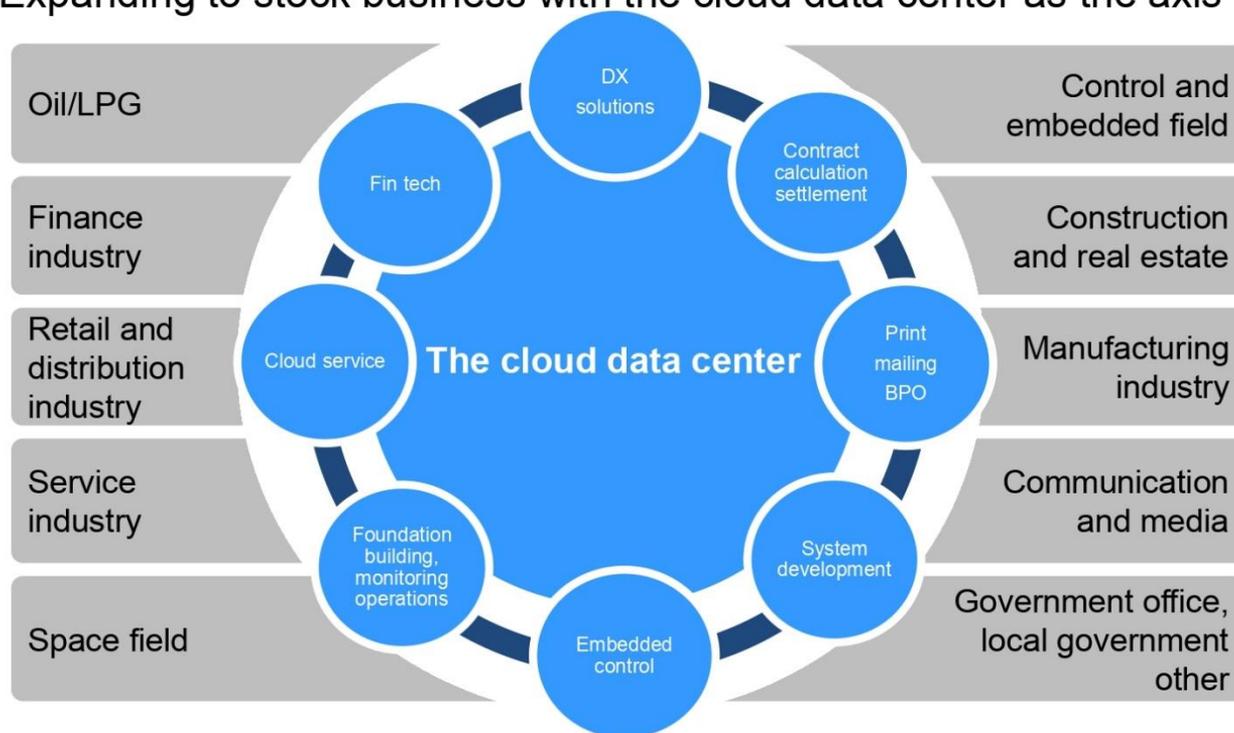
医療 — Healthcare

製造 — Manufacturing

Next are the System development service. Based on the relationships of trust we have built over many years in sectors including distribution, finance, manufacturing, construction, and healthcare, we design and build systems for many customers in a wide range of fields. As an area with distinctive features, we were involved in the weather satellite Himawari in 1977, and we develop artificial satellites and we are one of the operators of the International Space Station.

Our group of business model

Aligning various services with our customer`s businesses
Expanding to stock business with the cloud data center as the axis

Oil/LPG

Finance industry

Retail and distribution industry

Service industry

Space field

DX solutions

Fin tech

Contract calculation settlement

Cloud service

The cloud data center

Print mailing BPO

Foundation building, monitoring operations

System development

Embedded control

Control and embedded field

Construction and real estate

Manufacturing industry

Communication and media

Government office, local government other

Next, I will explain our business model. This is a conceptual diagram of our business model. At the center of the screen is a cloud data center. With this as an axis, we combine various services to meet the diverse business needs of our customers and develop a so-called stock business, a business with recurring revenue or that based on a subscription model, which is in fashion.

By offering services to customers in a variety of industries and business categories, we help us stabilize our management. In other words, we were able to grow steadily without suffering a significant impact from rises and falls of customers and the industry.

It is convenient for customers as we provide not only a single service but also a variety of services. From the standpoint of the Company, sales and profits increase of course, and this also acts as a barrier to entry from other companies. Our strength lies in providing various one-stop IT-related services to customers in a wide range of industries and categories.

We are not a company that provides only system development or specializes in data center operations, but we also construct and manage systems and provide a variety of cloud services. We also print invoices and various forms, enclose, seal and ship them. We differentiate ourselves from our competitors by engaging in all IT-related processes from upstream to downstream and providing services with a high level of security.

Summary of FY2020 2Q performance(Consolidated)

(Unit: millions of yen・%)

	FY2019 2Q		FY2020 2Q		Year-on-Year(YoY)	
	Amount	Ratio	Amount	Ratio	Change of amount	Change of ratio
Sales	12,957	100.0	15,360	100.0	2,403	18.5
Cost of Goods Sold(COGS)	9,883	76.3	11,818	76.9	1,934	19.6
Gross profit	3,074	23.7	3,542	23.1	468	15.2
Selling, General and Administrative Expenses(SG&A)	2,066	15.9	2,285	14.9	218	10.6
Operating income	1,007	7.8	1,257	8.2	249	24.8
Ordinary income	1,002	7.7	1,250	8.1	247	24.7
Profit attributable to owners of parent	670	5.2	827	5.4	156	23.3
Earnings per share(yen)	42.20	—	52.01	—	9.81	23.2

Record high

Record high

Next, I would like to explain the Company's financial results for the first half of the fiscal year ending March 31, 2020. First, I show the income statement. This table compares our results in the first half of the current fiscal year with those in the first half of the previous fiscal year. As you can see, net sales were 15.360 billion yen, up 18.5% year on year, operating income was 1.257 billion yen, up 24.8%, ordinary income was 1.250 billion yen, up 24.7%, and profit attributable to owners of the parent was 827 million yen, up 23.3%. Both sales and profits increased significantly year on year, and both marked new record highs.

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Full-year progress (Consolidated)
【Full-year consolidated forecast(Announced at the beginning of the fiscal year) 】

(Unit: millions of yen・%)

	FY 2019 2Q		FY 2020 2Q		YoY	FY 2020 4Q		Progress rate
	Amount	Ratio	Amount	Ratio	Change of amount	Amount	Ratio	
Sales	12,957	100.0	15,360	100.0	2,403	30,000	100.0	51.2
Cost of Goods Sold(COGS)	9,883	76.3	11,818	76.9	1,934	22,670	75.6	52.1
Gross profit	3,074	23.7	3,542	23.1	468	7,330	24.4	48.3
Selling, General and Administrative Expenses(SG&A)	2,066	15.9	2,285	14.9	218	4,880	16.3	46.8
Operating income	1,007	7.8	1,257	8.2	249	2,450	8.2	51.3
Ordinary Income	1,002	7.7	1,250	8.1	247	2,390	8.0	52.3
Profit attributable(quarterly) to owners of parent	670	5.2	827	5.4	156	1,590	5.3	52.0

Please refer to p.41 for information on revisions to full-year consolidated financial forecasts.

This table shows the progress made during the first half of the current fiscal year against the full-year forecasts announced at the beginning of the year. As shown on the right side of the table, the progress rates exceed 50% in terms of sales, operating income, ordinary income, and net income, performing very well. Later I will explain the revisions to the earnings forecasts, which we announced the other day.

inet Service category of sales performance・Operating profit(Consolidated)

(Unit: a million of yen・%)

			FY2019 2Q	FY2020 2Q	Change	
					Change of amount	Change of ratio
Information processing service	①	Sales	5,004	5,396	392	7.8
		Operating income	480	549	69	14.4
		Operating margin	9.6	10.2	0.6	-
System development service	②	Sales	7,464	9,264	1,800	24.1
		Operating income	498	677	179	35.9
		Operating margin	6.7	7.3	0.6	-
System products sales		Sales	488	699	211	43.3
		Operating income	28	30	1	5.6
		Operating margin	5.9	4.4	△1.5	-
Total		Sales	12,957	15,360	2,403	18.5
		Operating income	1,007	1,257	249	24.8
		Operating margin	7.8	8.2	0.4	-

(Main factors)
① Increased sales and profits due to strong performance of high-margin data center services and cloud services, including large-scale projects acquired in the previous fiscal year, as well as the steady increase in data center usage by existing customers.
② Sales and profits increased due to the strong performance of system construction for the oil and distribution services industries in addition to the favorable trend of software investment, as well as the contribution of Software Control Co., LTD. in October last year.
※Operating profit is created by our own simplified method. Also, the numerical value is a reference value.

This table shows sales and operating income by service category. Information processing services posted net sales of 5.396 billion yen, up 7.8%, and operating income of 549 million yen, up 14.4%. Both revenues and profits increased due to the steady performance of high-margin data center services and cloud services, including large-scale projects acquired in the previous fiscal year and a steady increase in the use of data centers by existing customers.

In System development service, net sales totaled 9,264 million yen, up 24% year on year, and operating income totaled 677 million yen, up 35.9%. In addition to robust sales to petroleum-related customers and of system construction for distribution service operations, the acquisition of Software Control Co., LTD. as a subsidiary in October of last year also contributed to the rises in sales and profits. Please see the results of System product sales when you have time.
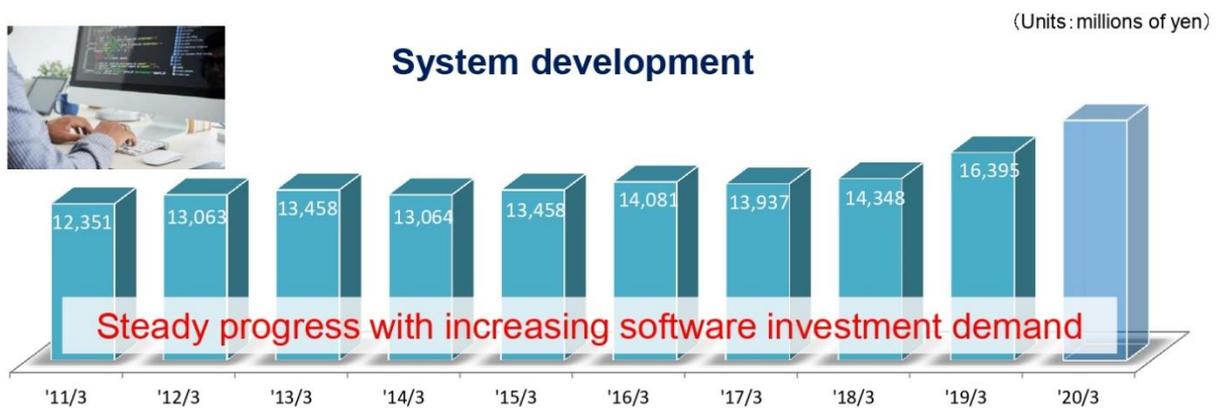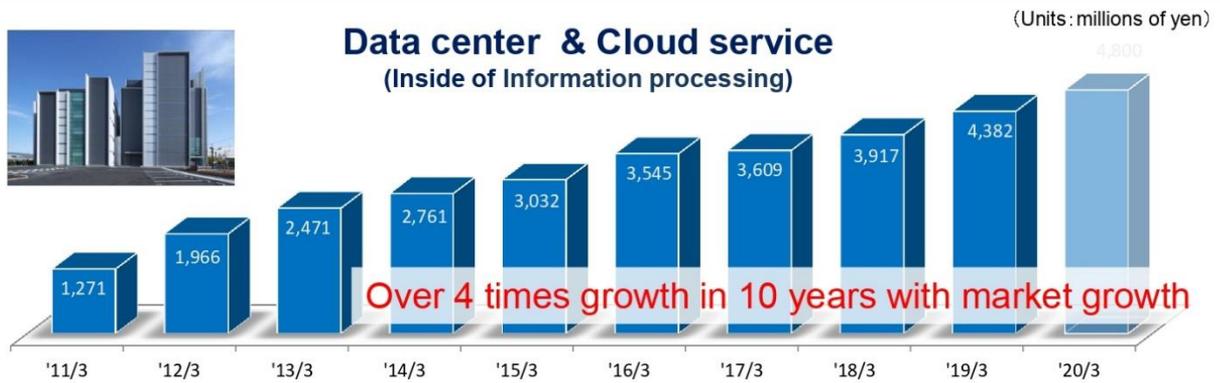
Data center & Cloud service
(Inside of Information processing)

(Units: millions of yen)

Data center & Cloud service values:
'11/3	'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3
1,271	1,966	2,471	2,761	3,032	3,545	3,609	3,917	4,382	4,800

Over 4 times growth in 10 years with market growth

System development

(Units: millions of yen)

System development values:
'11/3	'12/3	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'19/3	'20/3
12,351	13,063	13,458	13,064	13,458	14,081	13,937	14,348	16,395	

Steady progress with increasing software investment demand

For reference, we introduce annual sales trends for the services we are focusing on. The graph above shows the trends in sales of data center and cloud services, on which we have focused most in the last few years among Information processing service. Over the past 10 years, the business has grown more than four times in tandem with market growth. We plan to continue focusing on this business as a growth driver.

The graph below shows the trends in overall sales of System development service. Demand for software investment from companies is stably high in order to strengthen their competitiveness, such as by improving operational efficiency and addressing labor shortages, and we believe that sales have increased steadily. We expect this trend will continue.

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inet Balance sheet（Consolidated）

(Unit: millions of yen・%)

	FY2019 2Q		FY2020 2Q		Year-on-Year(YoY)	
	Amount	Distribution ratio	Amount	Distribution ratio	Change of amount	Change of ratio
Current asset	9,997	35.1	10,001	34.1	4	0.0
Noncurrent asset	18,518	64.9	19,306	65.9	788	4.3
Total asset ①	28,515	100.0	29,307	100.0	792	2.8
Current liability	7,933	27.8	8,002	27.3	68	0.9
Long-term liability	6,224	21.8	6,451	22.0	226	3.6
Total liability ②	14,158	49.7	14,454	49.3	295	2.1
Net asset ③	14,357	50.3	14,853	50.7	496	3.5
Total liability・Net asset	28,515	100.0	29,307	100.0	792	2.8

(Main factors)
① PPE △ 758 million yen, Intangible assets ▲ 41 million yen, investment securities △ 45 million yen
② Expansion of data center facility resulted liabilities with interest △733million yen, accounts payable ▲ 487 million yen
③ Retained earnings △ 509 million yen, net unrealized gains on securities ▲19 million yen

The following is the balance sheet. The balance of current assets totaled 10.001 billion yen, up 4 million yen from the end of the previous fiscal year. Noncurrent assets totaled 19.306 billion yen, an increase of 788 million yen. This was mainly due to an increase of 758 million yen in property, plant and equipment.

The balance of current liabilities amounted to 8.002 billion yen, an increase of 68 million yen from the end of the previous fiscal year. Long-term liabilities were 6.451 billion yen, up 226 million yen from the end of the previous fiscal year. The increase in liabilities was mainly attributable to an increase of 733 million yen in interest-bearing debt associated with the expansion of data center facilities and a decrease of 487 million yen in accounts payable-other associated with the acquisition of noncurrent assets.

inet Cash flow statement(Consolidated)

(Units: millions of yen)

	FY2019 2Q	FY2020 2Q	Year-on-Year(YoY)
	Amount	Amount	Change of amount
Cash flows from operating activities	1,692	① 1,471	▲220
Cash flows from investing activities	▲600	② ▲2,123	▲1,523
Cash flows from financing activities	▲872	③ 262	▲610
Increases and decreases cash and cash equivalents	219	▲390	▲170
Beginning balance of cash and cash equivalents	3,303	3,299	▲3
Ending balance of cash and cash equivalents	3,522	2,909	▲613

(Main factors)
① Increase・・・Retained earnings, depreciation, internal reserves of goodwill amortization 2,096 million yen
   Decrease・・・Increase notes and accounts receivable-trade 208 million yen, payed income taxes 423 million yer
② Expanded data center facilities in response to orders for large projects increase expenses of 2,039 million yen
③ Increase liabilities with interest 733 million yen, pay back lease obligations 153 million yen, payment of dividends 318 million yen

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Next is the cash-flow statement. Net cash provided by operating activities was 1.471 billion yen. This was mainly attributable to an increase of 2.096 billion yen in retained earnings due to income, depreciation and amortization of goodwill, an increase of 208 million yen in notes and accounts receivable-trade, and a decrease of 423 million yen in income taxes paid.

Net cash used in investing activities amounted to 2.123 billion yen. This was mainly attributable to 2.039 billion yen in payments for purchasing property, plant and equipment.

Net cash provided by financing activities was 262 million yen. This was mainly due to an increase in interest-bearing debt of 733 million yen, repayments of lease obligations of 153 million yen, and cash dividends paid of 318 million yen.

As a result of the above, cash and cash equivalents at the end of the first half decreased totaled 2.909 billion yen, down 613 million yen from the previous fiscal year.

I would like to explain our medium-term management plan that we announced for the first time in the current fiscal year.
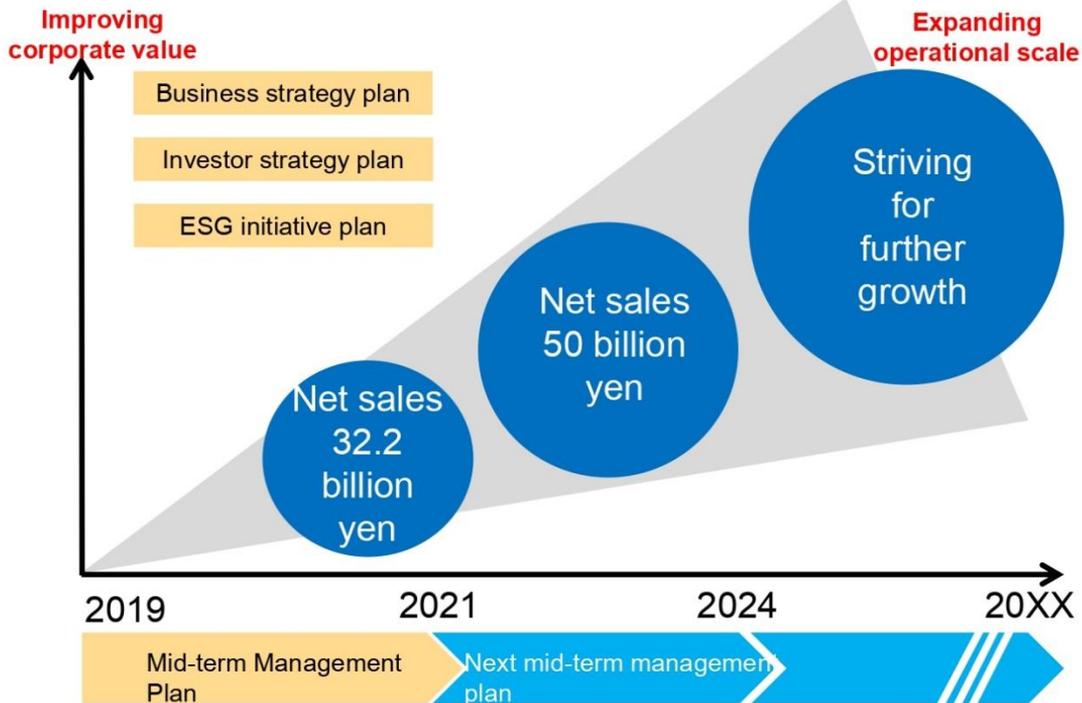
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This figure shows the positioning of the medium-term management plan. The medium-term management plan covers the three-year period from FY2019, the current year, to FY2021. The targets of our medium-term management plan are the expansion of business scale and enhancement of corporate value. Our sales targets are 33.2 billion yen in three years and 50 billion yen in 2024, six years ahead.

In the medium-term management plan, we formulated a business strategy plan, an investment strategy plan, an ESG action plan, and a performance plan. We will thoroughly implement the medium-term management plan based on our management policy. I would like to explain our management strategy and important company-wide measures.

This philosophy is the foundation of the Group's efforts to achieve further growth since I became President. We position this as our management strategy.

Until now, our Group has been promoting a unique business model that leverages our strengths. As a result, we have continued to grow steadily. Amid this tailwind, we believe that the key theme for the Group going forward will be further expanding our business scale and accelerating the speed of growth.

In the 49th year since foundation, we now have more than 4,300 customers thanks to our accumulated businesses. By creating solid bonds with the customers and reinforcing those bonds, I-NET can be further trusted. This is an aspect of defense. In the other aspect of attack, I-NET develops other business domains for existing customers, finds new customers, and creates new services. We would like to promote these two aspects in keeping a good balance.

In addition, we require our employees to stick to the concept of always putting the customer first when they make decisions on various matters and to make proposals that exceed customer expectations so that customers highly evaluate I-NET.

We will also actively develop new products and services in response to the changing times and to the needs of the market and customers.
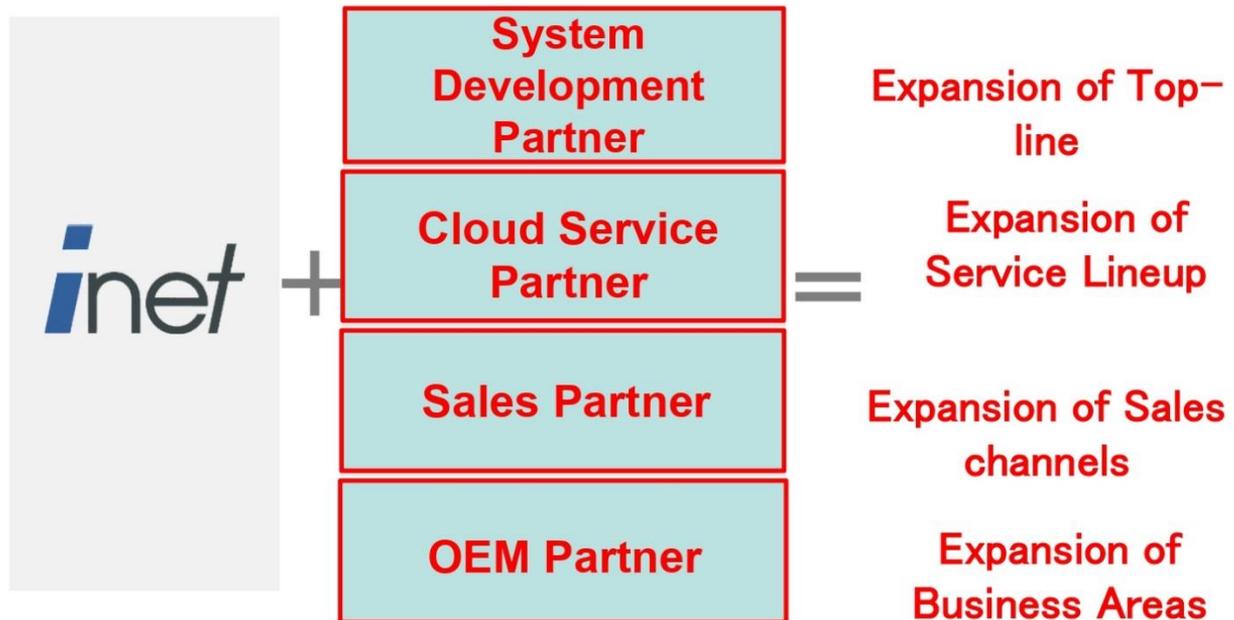
In order to accomplish these three objectives, it is essential for our employees to grow both from technological and human perspectives. The Company will conduct investments in human resources, including the recruitment of superior human resources, the development of human resources, and career development.

"Partner strategy & Channel strategy"

i net +

| System Development Partner |
| Cloud Service Partner |
| Sales Partner |
| OEM Partner |

=

Expansion of Top-line

Expansion of Service Lineup

Expansion of Sales channels

Expansion of Business Areas

Now, I will explain the company-wide priority measures that are being implemented specifically. The first is our partner strategy and channel strategy. As the business environment continues to change drastically, it is becoming increasingly difficult for us to do all businesses on our own. For this reason, we are strengthening relationships and collaborations in system development with partners who have reliable strengths.

We are also increasing collaborations with cloud service partners, such as services like NEOJAPAN Inc. of groupware and business chat, which are operated on our data centers and cloud platforms and at the same time sold by our sales staff.
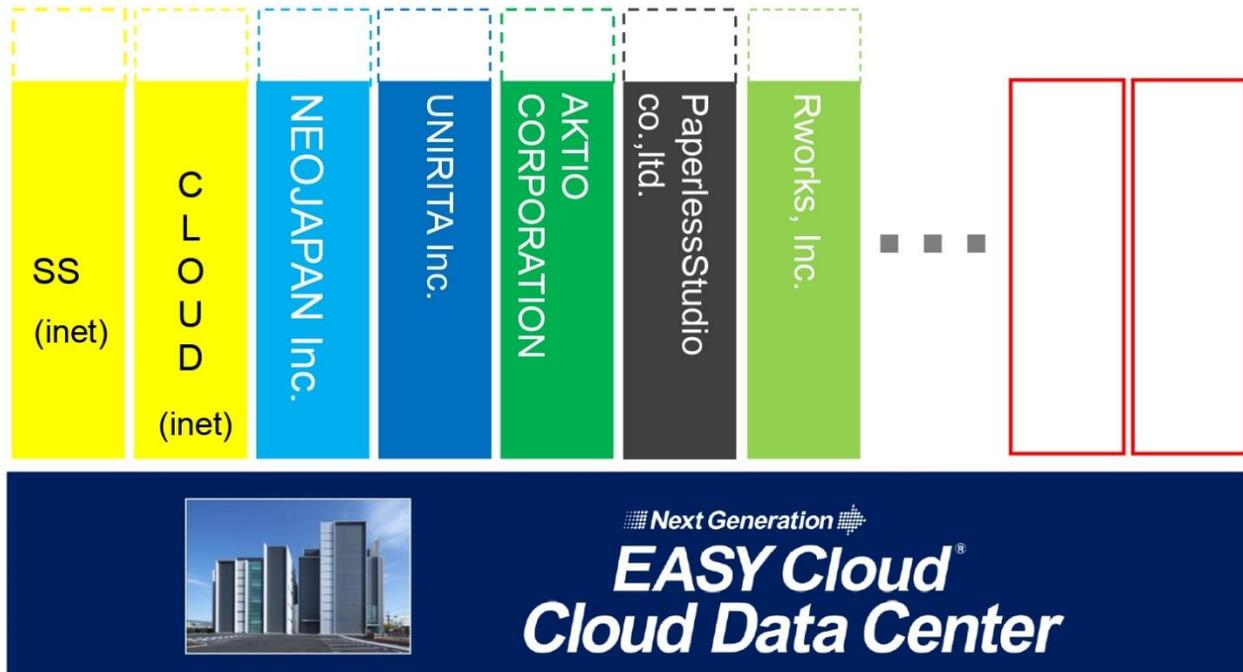
Not only we sell these services and products by ourselves, but we also increase the number of sales partners and OEM partners. We would like to expand our sales channels by forming sales partnerships with manufacturers such as TOSHIBA CORPORATION and Hitachi, Ltd., which have rich customer bases, as well as Fuji Xerox Co., Ltd. and Ricoh Company, Ltd., which have abundant sales capabilities.

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"Cloud based（NGEC）＋Application" of serviceization as a **Platformer**

SS (inet)

CLOUD (inet)

NEOJAPAN Inc.

UNIRITA Inc.

AKTIO CORPORATION

PaperlessStudio co.,ltd.

Rworks, Inc.

Next Generation
EASY Cloud®
Cloud Data Center

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Now I move to the second priority measure. We have been providing an advanced cloud environment as an IT platform. Using the strength as a platform provider, we provide cloud services by placing applications of other companies, which are strong in their respective specialized fields, on our cloud platform.

In other words, we are transforming the on-premises model of packaged product business to a cloud-based service model.

For example, AKTIO CORPORATION of systems for construction and design and PaperlessStudio co., ltd. of BIM/CIM, Building Information Modeling and Construction Information Modeling, are systems on very high levels. Providing them as our service makes them available to a wide range of customers. We also provide UNIRITA Inc. of automated driving package in a service environment that can be used with minimal investment. We will continue to work with alliance partners that specialize in a variety of fields to steadily increase the number of services we provide.

Further promotion of "Cross-selling in integrated business from planning to BPO"

Consultation Requirements definition	System design & construction	Contract calculation Data center Cloud service	Printing Sealing

Data center・Facility(ITMS)

SS (Service Stations) Department	✖	SOL Department	✖	Data Center Department	✖	Mailing Service Division

Sales(About 130 employees)
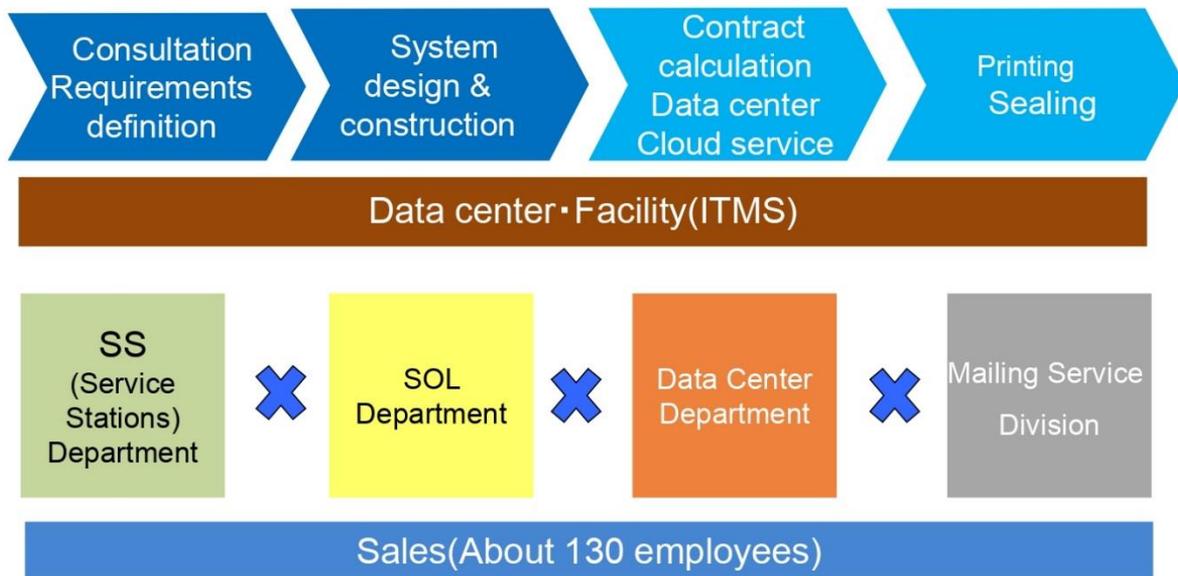
The third point is, as part of our continuous efforts as one of our strengths, to respond to our customers with one-stop solutions by combining various services.

When a customer considers systematization, we will cooperate from the planning stage, develop a system, help the customer to operate it or our data center will operate it, separate operations that are suitable for cloud-based operations, and finish with enveloping and sealing operations if there is printing work. If requested, data can be processed without going out of the data center. This is very important in terms of the protection of security.

In this way, we will conduct a wide range of business activities regardless of the type or category of business of our customers. As a result, we intend to further invigorate cross-selling between departments within the Company. Cross-selling means that our 130 sales employees constantly think about our customers and provide them with the best possible services.
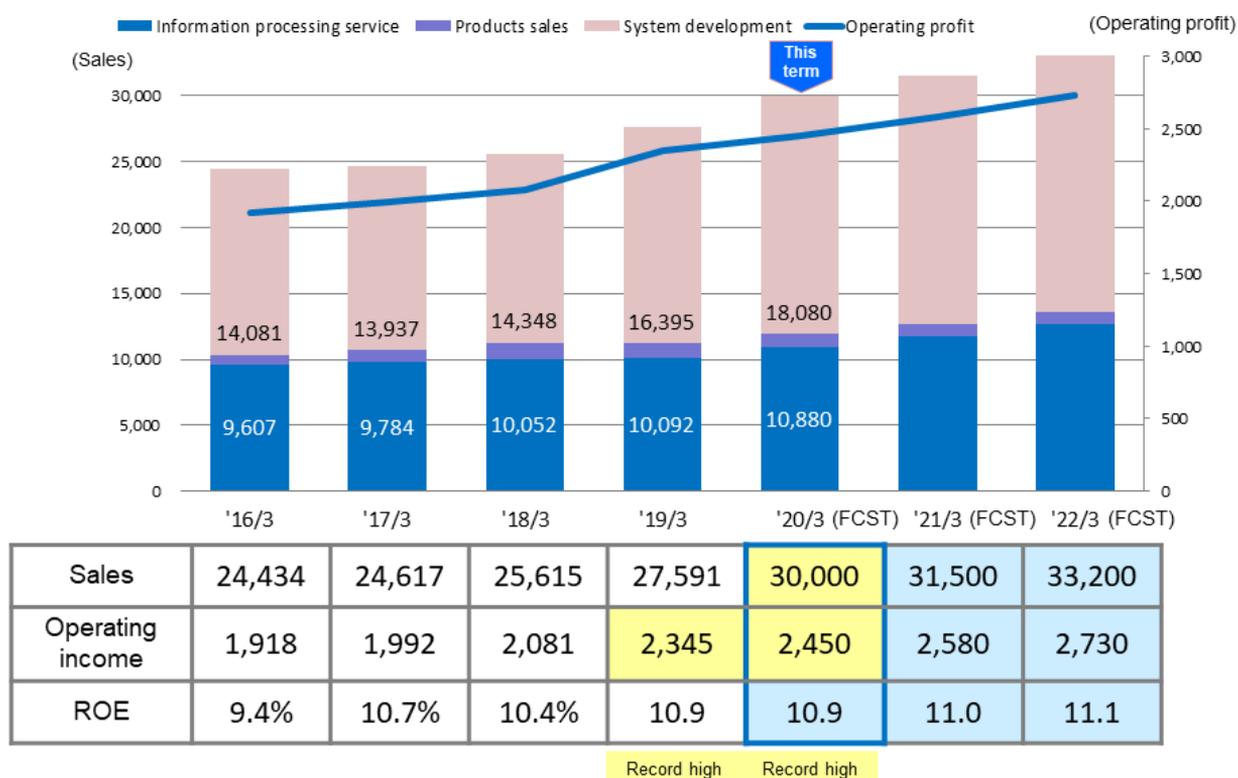
Medium-term business plan (Consolidated)

(Units: millions of yen)
(Operating profit)

Legend: Information processing service | Products sales | System development | Operating profit

System development values shown on bars: 14,081 ('16/3), 13,937 ('17/3), 14,348 ('18/3), 16,395 ('19/3), 18,080 ('20/3 FCST)

Information processing service values shown on bars: 9,607 ('16/3), 9,784 ('17/3), 10,052 ('18/3), 10,092 ('19/3), 10,880 ('20/3 FCST)

This term → '20/3 (FCST)

	'16/3	'17/3	'18/3	'19/3	'20/3 (FCST)	'21/3 (FCST)	'22/3 (FCST)
Sales	24,434	24,617	25,615	27,591	30,000	31,500	33,200
Operating income	1,918	1,992	2,081	2,345	2,450	2,580	2,730
ROE	9.4%	10.7%	10.4%	10.9	10.9	11.0	11.1

Record high / Record high

Finally, I would like to explain our performance plan. Here, we show the three-year medium-term performance plan in a graph over time. The bars show sales figures by service category in different colors. The line chart shows operating income. Overall sales, operating income, and ROE are shown below the screen.

The market is supported by a tailwind, and we plan to steadily increase sales of Information processing services and System development services. Going forward, in line with our strategy of expanding into a business with recurring revenue based on data centers, which are our business model, we will continue to expand our recurring revenue businesses, focusing on data centers and cloud services in order to ensure stable management.

ROE has been steady, reaching 10.9% in the previous fiscal year. Looking ahead, we will continue to focus more on improving profitability with ROE as an important management indicator and will return profits to shareholders. That was an explanation of our medium-term management plan.

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【Drone】Demonstration experiment of bridge inspection by drone

On May 2019, I-NET, Kimitsu City, and D Academy aimed to establish a maintenance cycle for extending the life of infrastructure using drones, and signed a memorandum concerning demonstration experiments.

Please see the next page. I would like to explain our business strategy plan in the medium-term management plan.

We will conduct demonstration tests of bridge inspection using drones in cooperation with Kimitsu City, which has an airfield for drone demonstration tests, and D Academy, a partner company. In the press conference for the demonstration tests, the mayor of Kimitsu, the only female mayor in Chiba Prefecture, stands in the middle.

Chiba are likely to rust unexpectedly as the prefecture faces the ocean and the sea wind is strong, so careful inspection is needed. The bridge inspection used to be conducted by riding a special inspection vehicle, going to the side of the bridge or going below the bridge, closing the roads, and the inspection was made by sight. Inspecting bridges using drones is expected to reduce inspection costs and ease traffic regulations, so we are advancing the demonstration experiments.

In addition to providing technical advice on drones and storing videos and data on drones, we consider ways to utilize practical data and will verify its effectiveness in the future.

We have also signed a disaster prevention agreement with Kimitsu City, and the recent typhoon caused great damage there. We took pictures and videos of typhoon-hit areas by drones from the day after next, but most areas were covered with blue sheets. In fact, there was a power outage, so it was not easy to fly drones immediately. But by taking pictures in normal times, we will be able to compare them with those taken in disasters.

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Therefore, we take pictures and videos in normal times, rather than taking them after there is a problem. By doing this, we are also able to use those materials for promoting tourism.
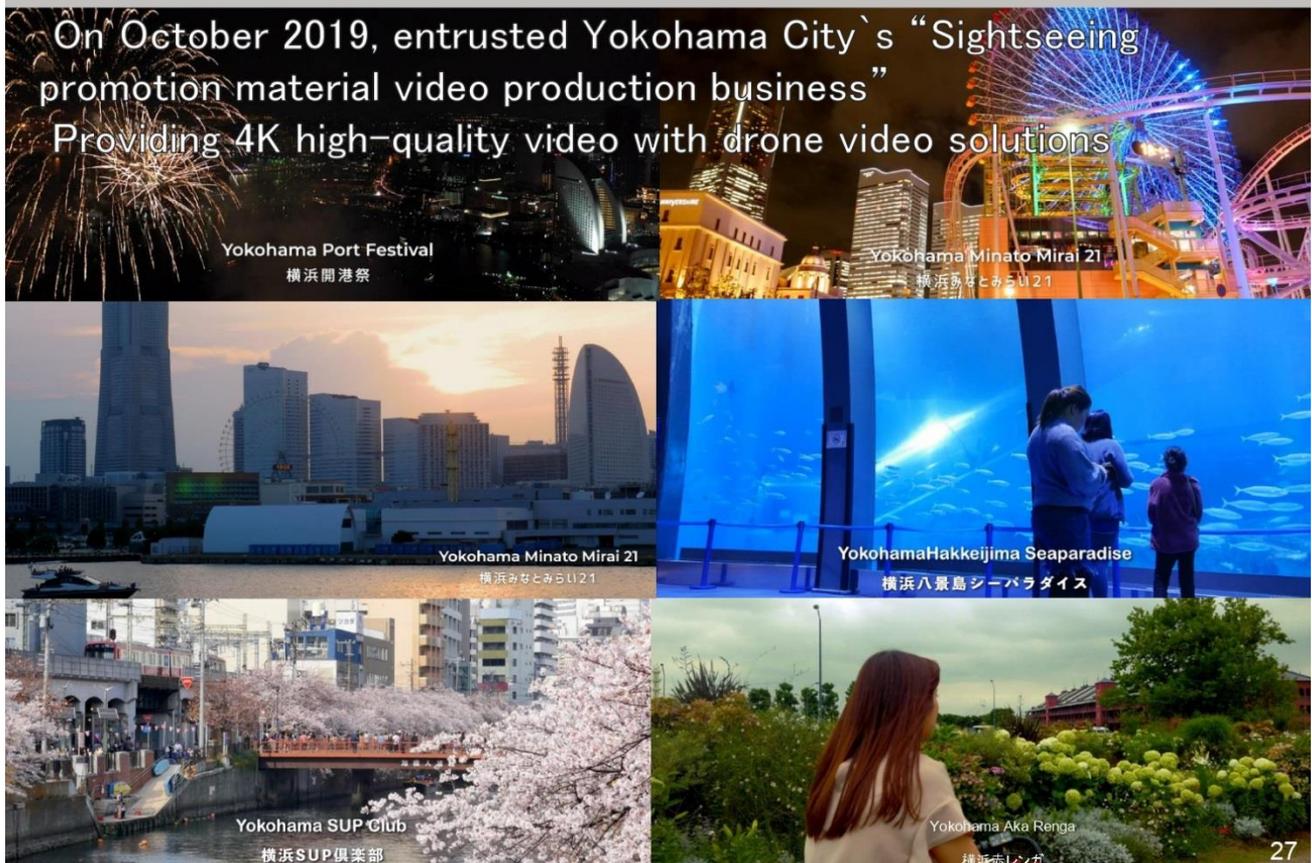
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Though Kimitsu is also a user of imaging materials for tourism, these are Yokohama City's promotion images for tourism.

This is an example of our drone business. We took video clips and pictures of attractive facilities in Yokohama, together with TripodWorks CO., LTD, a business partner company, to promote the transmission of tourism information. These are used by foreigners who visited Japan for the Rugby World Cup, whose final match was held in Yokohama, and are highly expected to be used in next year's Olympic and Paralympic Games.

We believe that drone-based initiatives will continue to grow in the future. We have an IoT platform for drones based on cloud data centers to process a large volume of data. Based on the technologies and achievements we have gained through these initiatives, we would like to receive orders for video solutions from local governments, companies, and various organizations.

We plan to store and accumulate 4K videos and flight data at our data centers and use them for analysis and other uses by way of very fast computers with GPUs that can process data with virtual desktops and other devices.

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【AI/Data analysis】
Signed a joint research agreement with the University of Tokyo lab

On October 2019, we signed a joint research agreement with the University of Tokyo Hashida lab.
"Utilize safe, inexpensive, and convenient PLR (Personal Date Store) technology for personal information management and AI/data analysis"

PLR: Personal Life Repository
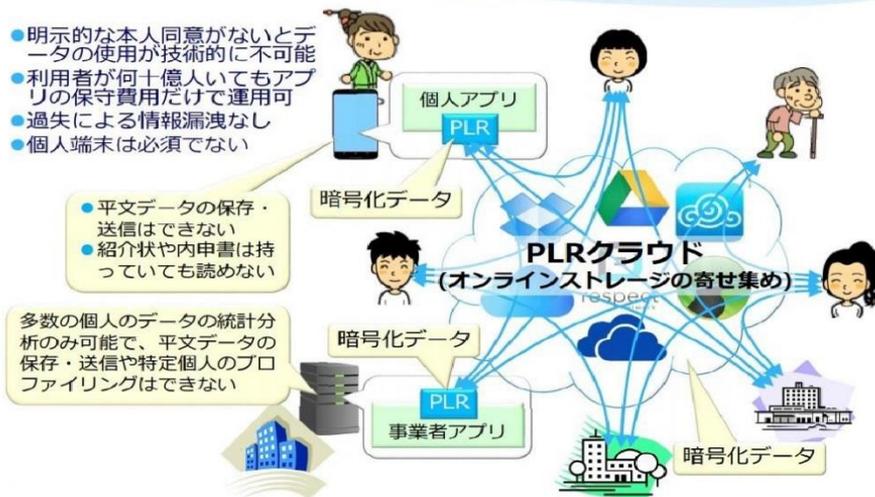
Our role

- Develop high convenient application to utilize PLR
- Develop breast self-check, body care analysis, and etc. applications
- Provide data analysis infrastructure and video streaming service infrastructure

● 明示的な本人同意がないとデータの使用が技術的に不可能
● 利用者が何十億人いてもアプリの保守費用だけで運用可
● 過失による情報漏洩なし
● 個人端末は必須でない

● 平文データの保存・送信はできない
● 紹介状や内申書は持っていても読めない

多数の個人のデータの統計分析のみ可能で、平文データの保存・送信や特定個人のプロファイリングはできない

個人アプリ PLR
暗号化データ
PLRクラウド
(オンラインストレージの寄せ集め)
暗号化データ
事業者アプリ PLR
暗号化データ

PLR・・・one of the PDS (Personal Date Store) system which personal data is operated and managed only by the person, and is shared and used with other companies only when the person consents

Following drones, we signed a joint research and development agreement with Professor Hashida of the University of Tokyo on demonstration tests using safe and convenient PLR technology for the management of personal information and AI/data analysis. PLR, or Personal Life Repository, is data of personal life only managed by the individual in question and stored in an exclusive territory. If necessary, with the consent of the individual, the data can be shared with others and used collectively.

Compared with conventional data management systems, which are subject to third-party management, the PLR system can be established and managed far safer and cheaper. For example, it can be used in a variety of ways that are of great social significance: medical checkup and medical examination data can be managed on one's own, and if necessary, the data can be provided to a hospital for a second opinion, or data from breast cancer examination can be provided to a research institution for the purpose of analyzing the causes of cancer..

For those who have undergone surgery for breast cancer, we would like to use AI to provide a way for analyzing the relationship between subsequent daily behavior and the recurrence of breast cancer or finding what kind of behavior is better or what kind of food is better for them while they keep their personal information secret. That's what we plan to use the PLR system for society.

In areas other than healthcare, some demonstration tests have begun for high-school students, who are allowed to manage their performance data and freely use the data for entering universities or business colleges or getting employed at companies.

In the area of joint R&D, we will leverage the system development technologies we have cultivated over many years to develop highly convenient applications that make use of PLR as well as body care analysis that utilizes data obtained from PLR. We will use our data center and cloud services to do this.

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【Soar in the Space】 New efforts in the Space business

Based on experience and trust that we have been involved in space satellite development for many years, and accelerate collaborations with private-sector space startups

Over 40 years experiences

Provided various satellite designs, inspections, and operations from the first meteorological satellite "Himawari" in 1977, asteroid probe "Hayabusa" returned in 2010, and etc. to the present

システム設計 → 検査／試験 → 運用／評価

衛星開発、運用

概念設計　製造組立　ロケット打上げ　運用終了

Support satellites` system design, inspection/test, operation/evaluation from both hardware and software perspectives

Collaboration with private startup

Space startups have been born one after another with the support of the government to position the space business as one of the pillars of its growth strategy.
Our trading opportunities have increased with each startups because we are the one of the few space system development player.

(Capital and business alliance) (Fund investment)

SPACE WALKER

(Business alliance)

天の技 Amanogi

@START
※First Space Venture specialization Fund in Japan

Next, we will introduce new initiatives in the space business. As I mentioned earlier, we have been involved in a variety of satellite design, inspection, and operation businesses, starting with the weather satellite Himawari in 1977 and leading to the asteroid exploration aircraft Hayabusa, which returned to the earth in 2010.

Until now, most of Japan's satellites have been developed under the leadership of the government, such as JAXA. Recently, however, with the impact of foreign countries such as the US and governmental support for the space business, there has been a string of private-sector startup companies in Japan that have expanded into the space industry.

We are one of few system development players involved in the space development business for over 40 years, and at the same time, as a data center operator, we have many opportunities to collaborate with private-sector startup companies.

In the first half of the current fiscal year, we started collaborating with two startup companies, and in addition, we invested in Japan's first space venture specialization fund. Our efforts in the space business were largely posted in the Nikkei Shimbun on October 24.

【Space】Business alliance for development of Space plane business

On August 2019, We conclude a business alliance with SPACE WALKER Inc. which is Space Startup company for the development of space plane business.

SPACE WALKER

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I would like to introduce the two startup companies that have started collaboration with us. One is SPACE WALKER INC, which will move forward with the space plane business with the aim of implementing Japan's first-ever manned space flight. Unlike space shuttles, a space plane flies in space alone like an airplane and return to the earth. The type of aircraft is shown on this page.

We will provide support for SPACE WALKER INC so that it can develop the spaceplane that enable anyone to fly to the universe with ease, not only in terms of technical and operational aspects, but also from the perspective of security management systems, as a data center operator.

The other is collaboration with Amanogi, a startup from the Tokyo Institute of Technology involved in satellite component business and AI satellite data business. Amanogi develops and works to provide an apparatus called Star Tracker, which is one of the common components for satellites. The Amanogi Star Tracker is shown on the right side of the screen.

The Star Tracker is used to judge where the earth is and where a satellite is directed by locating the positions of stars in space.

By realizing a very short development period at a price of less than half those of conventional star trackers made by foreign companies, Amanogi is expected to become an important vendor of components for satellites not only in Japan but also overseas because it is believed that there will be a large number of small satellite launches in Japan in the future.

In addition, Amanogi also aims to use edge computing technologies to screen data to be sent from satellites. As a huge amount of data is sent from space, satellites screen the data and transmit only necessary data by way of edge computing. This will make desired data from space available quickly and at low lost.

In addition to jointly developing satellite components and satellites, I-NET will jointly develop services such as a satellite sensor service and an AI analysis of satellite data using our data centers.
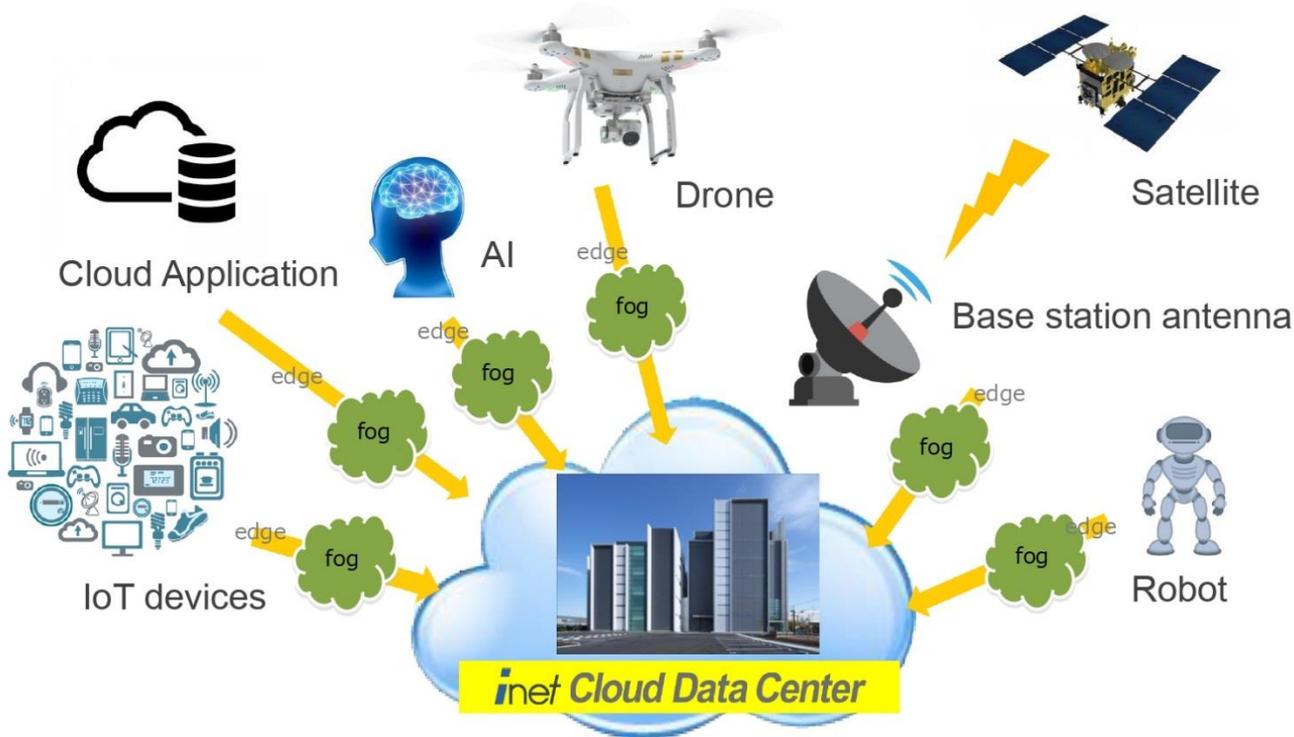
As I have told, drones, AI, and space development seem to have no relations to each other. However, as shown in this illustration, there is an enormous amount of data put out from these new services. By collecting these data at our data centers, we can accumulate, analyze, and provide them as big data. This business is precisely what our group has been promoting for many years. We link the various services to our customers' businesses, integrate them into our data centers, and operate them safely. This is exactly our business model.

Going forward, we will continue to develop data centers and cloud services by actively taking in fields with further growth potential, such as the IoT, AI, and FinTech, and intend to steadily build up earnings.

Strengthen investment in Human Resources

New employees

Increasing the number of the new employees every year

I-NET(non-consolidated)   Number of the new employees

Joined on April 2015	Joined on April 2016	Joined on April 2017	Joined on April 2018	Joined on April 2019	Plan to Join on April 2020
33	42	42	44	48	70

A mid-career recruit

Proactively hire human resources with the latest IT technology such as data analysis and space development field

HR development

Conduct the training for career steps

New employee training → Six-month training

Young employee training → Annual training for each year of employment

Management training → Training for the new manager

Executives training → Training for the future executives development

Others: Strengthen sales, diversity programs, and etc.

Next, I will explain our initiatives for the investment strategy plan. We believe that investing in human resources is the most important investment in achieving our medium-to long-term goals of expanding the scale of our businesses and increasing corporate value, and we have strengthened this investment even more than in the past.

On a non-consolidated basis, we had 48 new employees in the current fiscal year and expect 70 new employees in April next year. We intend to continue to actively recruit new employees, who will play a key role in our growth.

As for mid-career recruitment, we will actively recruit highly skilled IT personnel who possess technologies in new fields, such as AI and big data, as well as those who are ready to work in the field of space development, which is one of our key businesses.

We focus on human resource development for our employees. We have training courses like six-month training for new employees. In addition to training for younger employees, we have training courses for department managers and section managers and have started a new program to foster potential executives, who study management and consider measures for the growth of the company.

*Established a representative office in Singapore on November 1, 2019

*Singapore is where IT-related markets are growing rapidly on the Southeast Asia as part of our overseas business strategy

*Purpose
 We aim to develop combination of strong area and advanced technology as service, and plan to upgrade to business bases within one year

www.inet.co.jp
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I would like to introduce another initiative. On November 1, we opened a representative office in Singapore as the first overseas base. As part of our overseas business strategy, we will aim at providing services using cutting-edge technologies, such as the IoT, AI, and data analysis, based on the areas of our expertise, namely data centers and cloud services, outsourced computation for gas stations that we have cultivated over many years, and system development. In Singapore, the center of Southeast Asia, where the IT-related market is rapidly growing, we will consider how to do overseas businesses. We plan to upgrade the representative office to a business base within one year.

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inet Strengthen corporate governance

Establish an **aggressive** organization of executive members to accelerate growth

Introduce the Entrusted Executive Officer System

Accelerate decision-making and strengthen supervisory function by optimizing the number of directors
Clarify responsibility for execution and efficiency & accelerate business

Introduce a remuneration system of restricted stock

Provide incentives for continuous improvement of corporate value and **promote further sharing of value with shareholders.**

Number of directors
November 2017   November 2019 (Today)
12 → **7**
(2 outside directors)

Number of Executive Officers
Appoint 11
(4 common directors)

Directors share vector with shareholders

Finally, I would like to explain our ESG initiatives. During the current fiscal year, we have worked to strengthen corporate governance. Against the backdrop of various social issues and the evolution of IT, the pace of changes surrounding corporations is accelerating extremely. In order to respond swiftly to these conditions, we have strengthened our governance with the aim of building an aggressive management structure.

Specifically, we have introduced the entrustedexecutive officer system. We have streamlined the number of Directors to accelerate decision-making, strengthen supervisory functions, and clarify the responsibilities of executives. We also introduced a remunerationsystem of restricted stock, with the aim of achieving sustained growth in our corporate value and promoting the sharing of value with our shareholders.

Strengthen & Clarify Wellness management system

We aim for sustainable corporate value improvement and clarify to actively promote health management that supports employee health.

Wellness Management Declaration

Based on the philosophy that employees are the greatest asset in management, I-NET recognizes employee health from a management perspective.

We believe that the mental and physical health of employees is the source of sustainable corporate value improvement.

Therefore, we will actively promote health management that supports employee health.

For more information→https://www.inet.co.jp/company/csr.html#a05

Since our founding, we have emphasized gratitude, continuity, and health as part of our guiding principles. In order to realize our management policy of becoming an excellent company that realizes sustainable growth, we believe that the mental and physical health of our employees is the source of our sustainable improvement in corporate value. We will promote health management with the aim of becoming a company where all employees are healthy.

We have also clarified our new promotion system with the aim of promoting healthcare management more than ever before. As President, I myself serve as CHO, or Chief Health Officer. The Human Resources Department, the Health Support Office, and industrial physicians all work together to discuss and implement a variety of measures related to health promotion.

	FY 2020 4Q (before)		FY 2020 4Q (after)		Change	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Sales	30,000	100.0	31,000	100.0	1,000	3.3
Cost of Goods Sold(COGS)	22,670	75.6	23,620	76.7	950	4.2
Gross profit	7,330	24.4	7,380	23.8	50	0.7
(SG&A)	4,880	16.3	4,880	15.7	0	—
Operating income	2,450	8.2	2,500	8.1	50	2.0
Ordinary Income	2,390	8.0	2,440	7.9	50	2.1
Profit attributable to owners of parent	1,590	5.3	1,630	5.3	40	2.5
Earnings per share(yen)	100.0	—	102.4	—	2.4	—

As corporate IT investment demand increases, we aim for further improvement in business performance this fiscal year.

Next, I would like to explain our full-year earnings forecasts. With corporate IT investment demand on an uptrend, the Group's key theme is to expand business scale and accelerate the pace of growth. Accordingly, we are aggressively pursuing top-line improvements.

As a result, orders for Information processing service and System development service have been steady, and we forecast that we will exceed the full-year earnings forecasts we disclosed at the beginning of the fiscal year, which had expected record highs in both net sales and profits. As a result, we have revised up our earnings forecasts. Please refer to the slide in front of you and material on hand for each value. Taking this opportunity as a good chance, we intend to aggressively promote our businesses so that we can exceed our revised earnings forecasts even further.

FY2020 Results Forecast (Consolidated)

inet

(Units: millions of yen・%)

	FY 2019 4Q		FY 2020 4Q (New)		Year-on-Year(YoY)	
	Amount	Ratio	金額	比率	Change of amount	Change of ratio
Sales	27,591	100.0	31,000	100.0	3,408	12.4
Cost of Goods Sold(COGS)	21,005	76.1	23,620	76.1	2,614	12.4
Gross profit	6,586	23.9	7,380	23.8	793	12.0
Selling, General and Administrative Expenses(SG&A)	4,240	15.4	4,880	15.7	639	15.1
Operating income	2,345	8.5	2,500	8.1	154	6.6
Ordinary Income	2,347	8.5	2,440	7.9	92	3.9
Profit attributable to owners of parent	1,521	5.5	1,630	5.3	108	7.1
Earnings per share(yen)	95.7	—	102.4	—	6.7	7.0

Record high   Record high

Page 41 compares the revised forecasts with the results in the previous fiscal year. As you can see, we exceed the previous year's results in all stages. Both sales and profits will post new all-time highs.

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By service category: Sales・Operating profit forecast (Consolidated)

(Units: millions of yen・%)

| | | | FY 2019 4Q | FY 2020 4Q (New) | Year-on-Year(YoY) | |
					Change of amount	Change of ratio
Information processing service	①	Sales	10,091	11,000	908	9.0
		Operating income	1,027	1,067	39	3.8
		Operating margin	10.2	9.7	△0.5	-
System development service	②	Sales	16,395	18,700	2,304	14.1
		Operating income	1,256	1,373	116	9.3
		Operating margin	7.7	7.3	△0.4	-
System products sale		Sales	1,104	1,300	195	17.7
		Operating income	61	60	△1	△2.5
		Operating margin	5.6	4.6	△1.0	-
Total		Sales	27,591	31,000	3,408	12.4
		Operating income	2,345	2,500	154	6.6
		Operating margin	8.5	8.1	△0.4	-

① The result of strong performance on datacenter business and cloud services increase sales and profit.
   It is including costs of up-front investment, license amortization, and R&D.
② System development demand will continually increase in 2019, and sales and profits are expected to increase.
   ※ Operating profit is created by our own simplified method. Also, the numerical value is a reference value.

Page 42 shows the revised earnings forecasts by service category.

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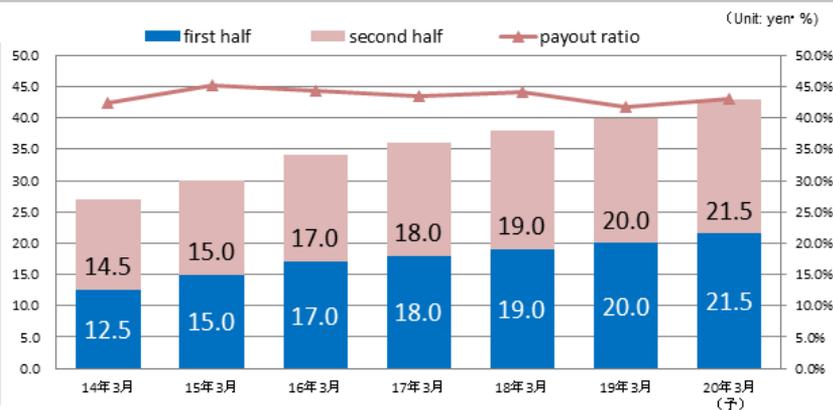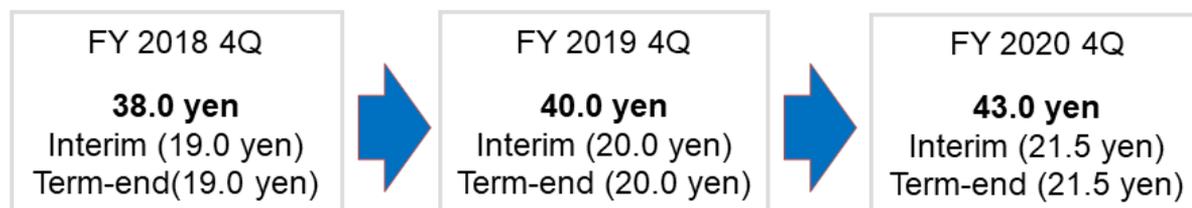
Page 43 shows our dividend policy. The dividend plan has not changed from the initial plan disclosed at the beginning of the current fiscal year. Our policy is to continue focusing on shareholder returns. At the Board of Directors meeting held in late October, the Company decided to pay an interim dividend of 21.50 yen per share. We also plan to pay 21.50 yen as a term-end dividend for total annual payment of 43 yen per share. This will be a dividend increase for the eighth consecutive year.

Finally, the entire Group will work together to achieve the figures we explained today, and we will make every effort to earn even stronger trust from all stakeholders. We look forward to your continued support. Thank you.

Moderator: Thank you.

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Question & Answer

Moderator: We would like to receive your questions.

Participant: Thank you for your detailed explanation. I have three questions. The first is about the results for the first half of the current fiscal year. On page 13 of the slide, sales and operating income are delightfully robust. However, gross profit margin was slightly worse by about 0.6 points. I would like to ask you to explain the reasons behind this.

In addition, please show the factors or prerequisites for the improvement of full-year gross profit to 23.8 yen.

Second, in your industry, SCSK Corporation recently announced a plan to acquire Minori Solutions Co., Ltd. I would like to ask your Company's, or President Sakai's view on M&A or the reorganization of the industry.

Third, the consumption tax rate rose to 10% in October. Is there any change or no change in your order receiving environment from late September to October?

Wanibuchi: I, Wanibuchi, would like to answer your questions. First, you mentioned that gross profit margin is slightly lower in the first half of the fiscal year, but it in the second half. As Sakai explained earlier, we have the three major business segments of System development service, Information processing service, and Sales of system products. Particularly, in our SS business, we sell value-added POS equipment. In the face of various changes in the business environment, sales of the equipment used to show low profitability. However, the profitability turned better in the current fiscal year, partly supported by the government and the industry and partly as we were in a replacement period for POS devices. Its weight was somewhat heavier in our sales this year.

However, this is a one-time event, and if the replacement is over, there will be no specific change and the conventional situation will be back in the second half. In terms of gross profit margin, we will recover to the conventional level as we will return to our structure focusing on the System development and Information processing service.

As for the third question on the consumption tax, we received a variety of orders for both system development and information processing within the industry in October, and so far, we have been working without any problems. There is no major problem. Both information processing and system are smoothly underway.

Sakai: Let me add something. I believe that one of your questions is about demand before the consumption tax hike surpassing its peak and situation thereafter. However, we have suffered from a labor shortage since October, so I don't think there will be a decline in our performance. As for the market, I believe that the shortage of people will continue in the second half and the next fiscal year.

Therefore, I do not believe there will be a fall in the second half. There was also a question about M&A. We are in the 49th fiscal year and will have the 50th anniversary next year, and there are many such companies in the industry.

Companies that are not so large tend to hope for becoming bigger through the integration of some of them or such companies tend to increase their volumes not to depend on the scope of businesses or trends of operations. I believe that if we enter a business alliance and generate synergies, we may be able to form a capital alliance. I feel that this is exactly what our space business is all about. In order to accomplish the medium-term plan, I mentioned earlier, only organic growth would be difficult to achieve the sales growth from 33 billion yen to 50 billion yen. In this sense, I would like to challenge a variety of possibilities.

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Moderator: Thank you. How about other questions?

Wakita: My name is Wakita from Shinwa Consulting. I am engaged in investment advisory business in the Kansai region. As a standard for investing in a software development company, I would like to see a profit of 10%. I thought 10% would be difficult for your Company as you have to invest in data centers and others. However, ROE of 11% is extremely high while you conduct capital expenditures. I would like to ask the President about this point.

Sakai: We have worked hard on ROE and will continue to do our best. As you said, our target is 10% for the time being. As there are multiple segments, some may be good and some may be bad sometimes, but we would like to implement management that aims for a total result of 10%. It may still take some time.

Wakita: It has been said that data centers require various investments related to 5G. What do you think about your future facilities for 5G?

Sakai: I think that data centers are not related to 5G directly, what is important is how to take in outside networks. As the volume of data is very large in 5G, customers that handle the data will lead to big business opportunities for us. We are currently working on various challenges and conducting surveys in order to create a framework for a platform that connects the mechanism from our front line with 5G as a cloud-based service.

Wakita: I see. I thought that data centers need to upgrade their facilities in order to cope with 5G. What do you feel about this?

Sakai: We need new facilities at the entrance of a network, but we have not made any specific progress so far.

Wakita: This is a topic about the future, right?

Sakai: Yes, this is about the future.

Wakita: I see. I also have a question about drones. I think it is difficult to monetize or generate sales by using drones. What do you think about the situation of your Company and what do you plan to do in the future?

Sakai: As you mentioned, we do not aim for earnings from the drone business itself, and we position drones as one of IoT sensors. There is a huge volume of imaging data from 4K cameras attached to drones and 5K cameras are becoming increasingly popular in the future. There is also an enormous volume of data on space from satellites. AI-related data are also enormous.

I intend to expand the data center business by incorporating the enormous data into our system, so I think that that drones are points for data entry. However, the business is still far from being commercialized. We established a drone airfield called Dream Drone Flying Field in Kimitsu.

If there are visitors from companies and they use drones there and we can create a mechanism of how to use them for some purposes, we will operate a business of storing the data on the back side, analyze and return the data to the companies. I believe this will be our main battlefield.

Many drones costs less than 100,000 yen a unit and you can buy a cheap one with 10,000 yen. Sales from a promotion video clip is only around 1 million yen, so profit of 10% is only 100,000 yen. Rather than such business, we intend to focus on the backside data center business.

Wakita: There will be various natural disasters like typhoons, and there will be much value to use drones for disaster prevention. I think there will be a rise in work related to governments. Are you directly related to such moves?

Sakai: I think you are right. Yes.

Wakita: I see.

Sakai: We intend to expand that area as well.

Wakita: Thank you.

Sakai: Thank you.

Moderator: Would you like to ask other questions? So, we are ending I-NET Corp's business results briefing. Thank you very much for the explanation.

Sakai: Thank you.

[END]

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Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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