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Company name: Internet Initiative Japan Inc.
 Company representative: Eijiro Katsu, President and Representative Director
 (Stock Code Number: 3774, The First Section of the Tokyo Stock Exchange)
 Contact: Akihisa Watai, Senior Managing Director and CFO
 TEL: 81-3-5205-6500

IIJ Announces “IIJ Group Mid-term Plan (FY2021-FY2023)”

TOKYO, May 12, 2021 - Internet Initiative Japan Inc. (“IIJ”, TSE1: 3774) today announced “IIJ Group Mid-term Plan (FY2021-FY2023)” (“New Mid-term Plan”) as described below.

1. Review of the previous Mid-term Plan

For the previous five-year (FY2016-FY2020) Mid-term Plan (“Previous Mid-term Plan”), we set quantitative targets of total revenue of JPY220 billion and operating profit of over JPY10 billion. The actual results in financial performance are as follows.

Quantitative targets, etc. (consolidated)	FY2015 (US GAAP)	FY2020 (IFRS) (Last fiscal year of Previous Medium-term Plan period)
Total revenue	JPY140.6 billion	JPY213.0 billion
Operating profit	JPY6.1 billion	JPY14.2 billion
Operating profit margin	4.4%	6.7%
Number of employees	2,980	3,805

While the total revenue fell short of the target mainly due to factors such as changes in the competitive environment of consumer mobile services, etc., operating profit significantly exceeded the target by mainly enjoying scale-merit of monthly recurring revenue accumulation of enterprise network services.

In addition to the financial results, we achieved the following major business progresses during Previous Medium-term Plan period.

- Enhancement of functions and services line-up through continuous development of enterprise network services such as Omnibus^(*1) and security, and improved appeal to customers.
- Establishment of a competitive advantage by implementing full-MVNO^(*2) functions and development of services that utilize them, and also captured initial demand for enterprise IoT.^(*3)
- Continuous enhancement of network infrastructure and expansion into global network operation including Asia.
- A prospect to secure server rack space to be needed in the future, with the sequential construction of the Shiroi data center.
- Continuous improvement of systems integration gross margin through SE^(*4) operation management, and provision of service integration that combines systems integration and various network services.
- Efforts to establish a future social infrastructure to exchange and settle digital currency and asset value through our equity method investee, DeCurret Inc. as a new business field, and to diversify business areas.

*1 Omnibus: Omnibus is a service which IIJ provides. Omnibus, utilizing SDN (Software Defined Network) and NFV (Network Function Virtualization) technologies, is a cloud-based network service, which provides enterprise customers wide-range and various functions.

*2 Full-MVNO: Compared to conventional MVNO (light-MVNO), which is highly dependent upon MNO equipment or facilities, full-MVNO services are operated using an in-house HLR/HSS (databases for managing SIM cards), thereby making it possible for such providers to procure and issue their own SIM cards and design their services with more freedom. For example, in the IoT field, where future developments are expected, IIJ expects to be able to offer embedded SIMs as well as develop services that it can freely control in terms of the management of charges and activation, thereby creating a new MVNO business model.

*3 IoT: Internet of Things (IoT) enables not only physical objects but also “things” connected to a network to exchange information automatically.

*4 SE: Systems Engineer (SE) is, generally, a person mainly engaged in design and construction of network systems.

2. New Medium-term Plan

(Financial targets)

	Target (consolidated)	FY2023
Business expansion	Total revenue	JPY270 billion
Profitability	Operating margin	Over 9%

(1) Business philosophy

IIJ Group's business philosophy (raison d'etre or purpose) is as follows.

As the company name "Internet Initiative Japan Inc." suggests, we are committed to the ongoing pursuit of initiatives in the field of Internet technology, which is one of those technological innovations that might occur once in a century, and contributing to the development of the networked society by providing groundbreaking services and platforms that propose new uses for the network.

- To develop network infrastructure through technological innovation
We are committed to the ongoing pursuit of initiatives in the field of Internet technology to open up the future of the digital society through new value created by ever faster networks and computing.
- To provide solutions (IT services) that supports a networked society
We continuously develop and introduce highly reliable and value-added IT services that anticipate changes taking place around the world, to support the use of networks by society and individuals.
- To provide meaningful opportunities for growth to our employees (a place where human resources with diversified talents and values can play an active role)
We aim to offer meaningful working opportunities for growth through business, in which our staff can take a proactive approach to technical innovation and social contribution, and actively demonstrate their abilities with pride and a sense of satisfaction. We aspire to be a company where employees are never satisfied with the status quo, and are always thinking about the future world, contributing to social development, and achieving personal growth through work that has value for society.

(2) Positioning of New Mid-term Plan

We understand that the utilization of IT services by Japanese enterprises has just begun, and the market is expected to continue expanding over the mid-to-long term. We recognize that our business is in growing phase and we have to play an important role to support and take initiatives in the utilization of IT services by operating and strengthening the Internet and related systems as a social infrastructure, and continuously developing highly reliable and value-added network services.

Under such recognition, we position this New Mid-term Plan as a step period (the second stage of the hop, step and jump) toward large-scale business expansion over the long term. While our operating profit margin formerly remained at a low level due to in-front-cost burden of preceding business and service development, etc., it gradually improved in line with the increasing trend of enterprise recurring revenue^(*5) accumulation in FY2019 and FY2020. During the New Mid-term Plan period, we shall continue to pursue revenue growth and improve operating margin furthermore by continuously carrying out and strengthening our conventional strategy, platform deployment.

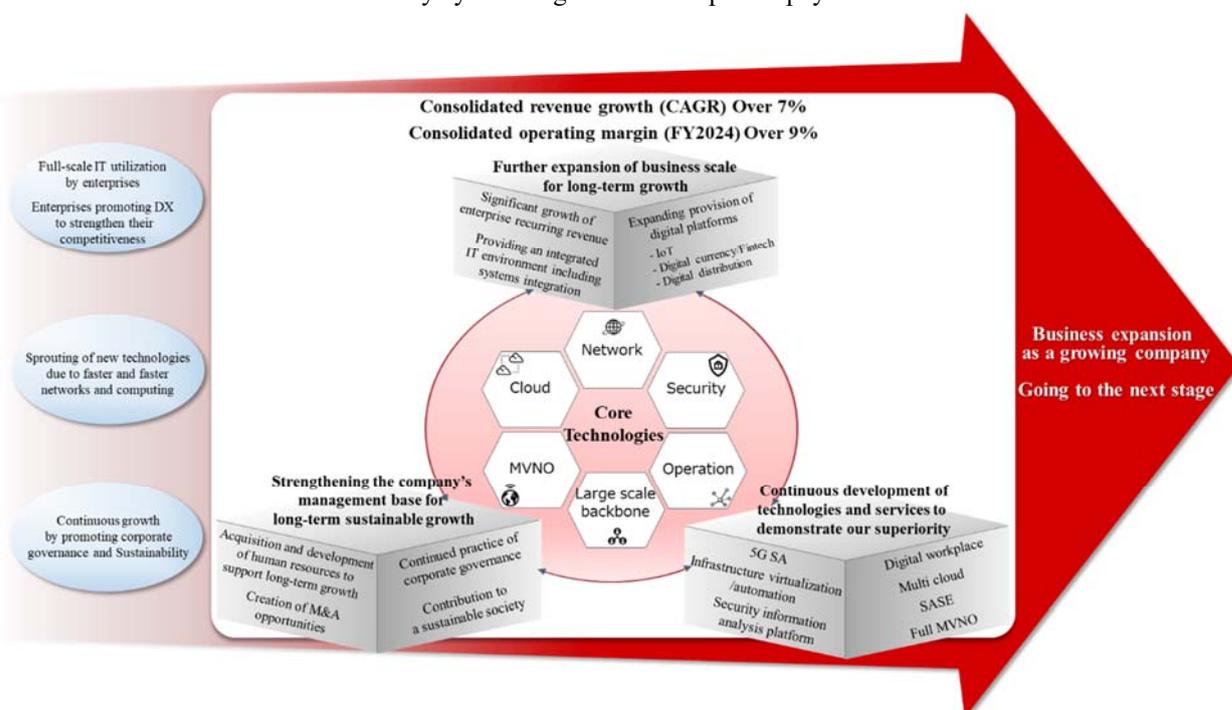
By realizing these, we expect that our market value would be largely increased, and based on this, we understand that we should be able to carry out significant business expansion over the long term, including further business investment and acquisition of M&A opportunities, and achieve sustainable fulfillment of our business philosophy.

^{*5} Enterprise recurring revenue: Enterprise recurring revenue is our recurring revenue which excludes Internet connectivity services revenue for consumer and MVNE revenue. Recurring revenue is revenue that businesses can count on receiving every single month through continuous provision of services to customers.

(3) New Mid-term Plan

Our basic policy is to continuously grow our business by advancing further technological innovation and providing new technology models and best practices as IT services, based on the core technologies of network, security and cloud, and the technical skills to operate them with high quality. Specifically, as follows.

- Under the increasing trend of Zero Trust ^(*6), SASE ^(*7), Digital Workplace ^(*8) and etc., to continuously develop services and solutions such as network, security, and cloud, for enterprise cloud market (Demand for IT environment needed by enterprises), business cloud market (Demand for further IT utilization, including IoT, DX ^(*9), AI, etc., needed by enterprises where digitalization is the core of their business) and industry-specific cloud market (Demand for network systems and solutions needed by fintech, central and local governments, xSP ^(*10) including contents distribution, etc.) respectively, to further improve service operation and control, and together with these to increase enterprise recurring revenue significantly and enjoy profit increase by realizing scale-merit furthermore.
- In MVNO business, to improve gross margin by continuously strengthening the mobile infrastructure and gathering various mobile traffic of enterprise and consumer to achieve higher utilization of the infrastructure, with completely capturing rising enterprise IoT market by continuing full MVNO differentiation and developing competitive service and solutions with 5G SA ^(*11) and increasing market share by differentiating our consumer services which are suitable to MVNO customers.
- To pursue crypto asset exchange business of our equity method investee, DeCurret Inc., becoming profitable early, and to realize implementation for social infrastructure of digital currency settlement business in line with various policy trends and partner actions. Including those, to challenge and establish new areas of digital platform business that we can demonstrate our competitive advantages.
- To focus on acquiring and developing human resources, strengthening organizational power, and improving business operation efficiency more than ever to support our long-term growth.
- To continuously practice appropriate corporate governance that supports our sustainable growth, and to play our role and contribute to realize a sustainable society by fulfilling our business philosophy.



*6 Zero Trust: Zero Trust is a concept of network security that never trusts all communication traffic and always verifies it.
 *7 SASE: SASE (Secure Access Service Edge) is a concept, providing comprehensive service by combining network functions and network security functions on the cloud.
 *8 Digital Workplace: A comfortable and productive digital work space that is realized by using digital tools, etc.
 *9 DX: DX (Digital Transformation) is the adoption of digital technology to transform products, services or business models, etc., through replacing incumbent processes with digital processes, in response to drastic changes in the business environment.
 *10 xSP: xSP is a general term for various service providers that provide services via networks, such as ASP (Application Service Provider), ISP (Internet Service Provider), MSP (Managed Service Provider), etc.
 *11 5G SA: 5G (fifth generation mobile communication system) Stand Alone system. A communication system in which the core network, data communication function, control function, etc. are all constructed using 5G technology.