5th Term
(March 31, 2020)
Earnings Results Briefing

May 22, 2020

ARTERIA Networks Corporation

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Financial Highlights

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➢ Sustained YoY revenue and profit growth

(Billions of yen)

	FY2018	FY2019	Change	Ratio
Net sales	49.2	51.5	+2.3	+4.6%
Operating profit	7.5	8.7	+1.2	+16.1%
Profit attributable to owners of parent	4.6	5.3	+0.7	+14.1%
Adjusted operating profit	8.0	8.7	+0.6	+8.0%
Adjusted profit attributable to owners*	5.0	5.3	+0.3	+5.3%

*Adjusted profit attributable to owners of the parent

Forecasts

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➢ Revenue and profit growth to be sustained
(Impact of COVID-19 for FY2020H1 has been calculated in)

(Billions of yen)

	FY2019 (actual)	FY2020 (forecast)	Change	Ratio
Net sales	51.5	52.2	+0.7	+1.4%
Operating profit	8.7	8.9	+0.2	+2.1%
Profit before tax	8.2	8.4	+0.2	+2.0%
Profit	5.7	5.8	+0.1	+1.9%
Profit attributable to owners *	5.3	5.4	+0.1	+2.0%

*Profit attributable to owners of the parent

P/L

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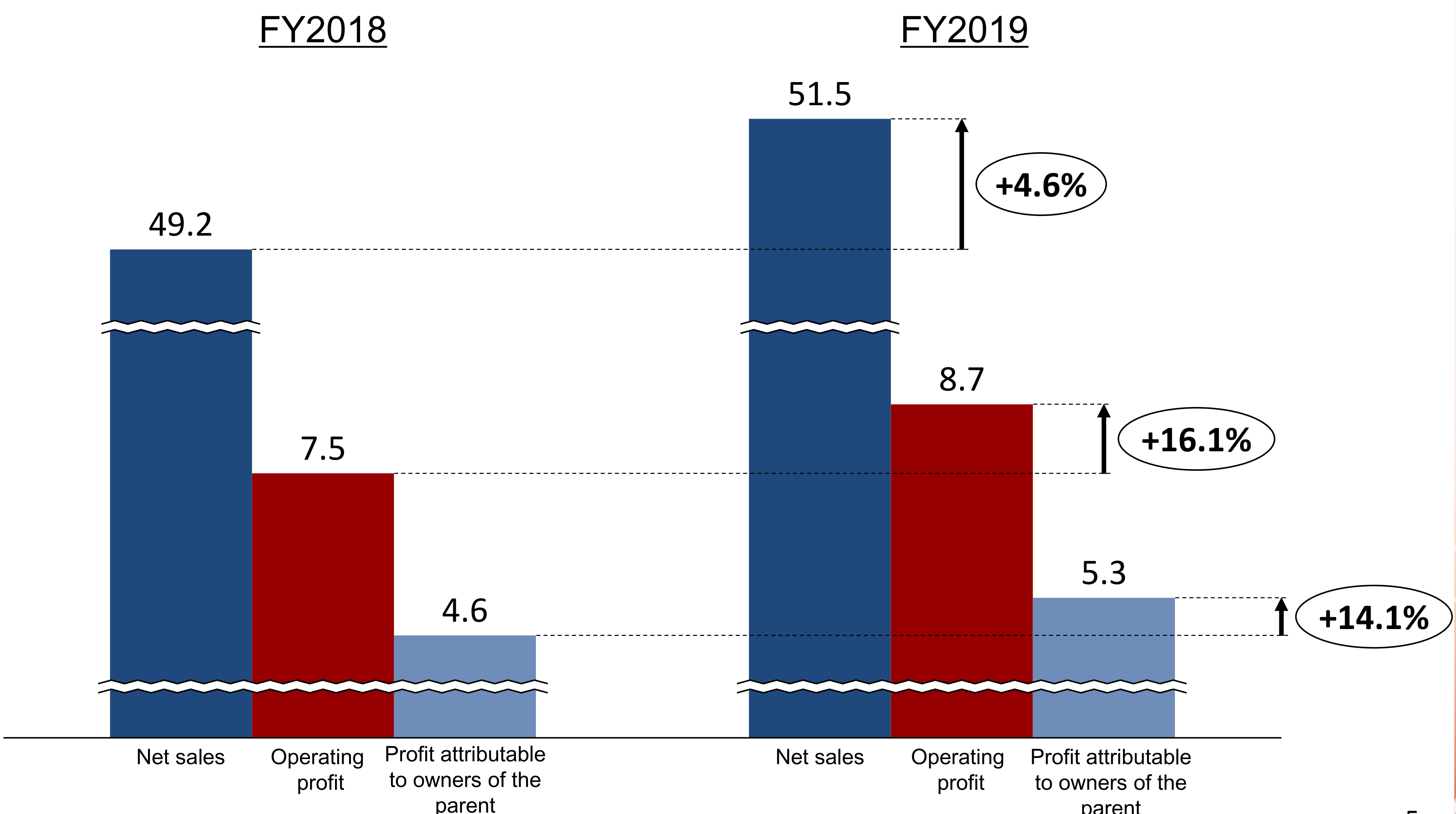
- Sales growth of core services in line with MTP
- Need to take FY2018 IPO costs into consideration on profit level

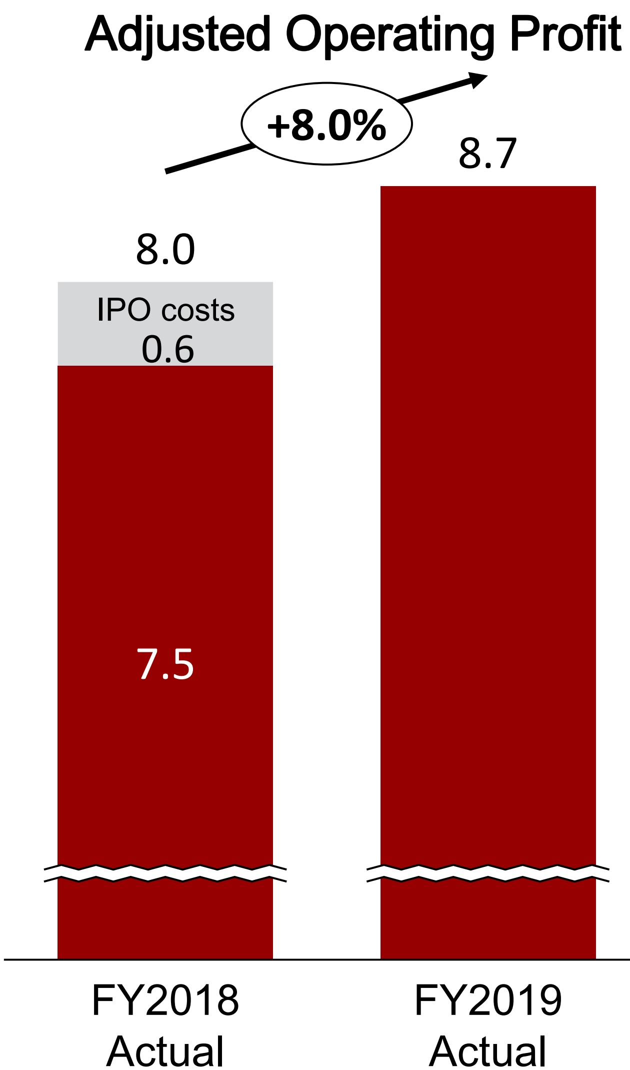
(Billions of yen)

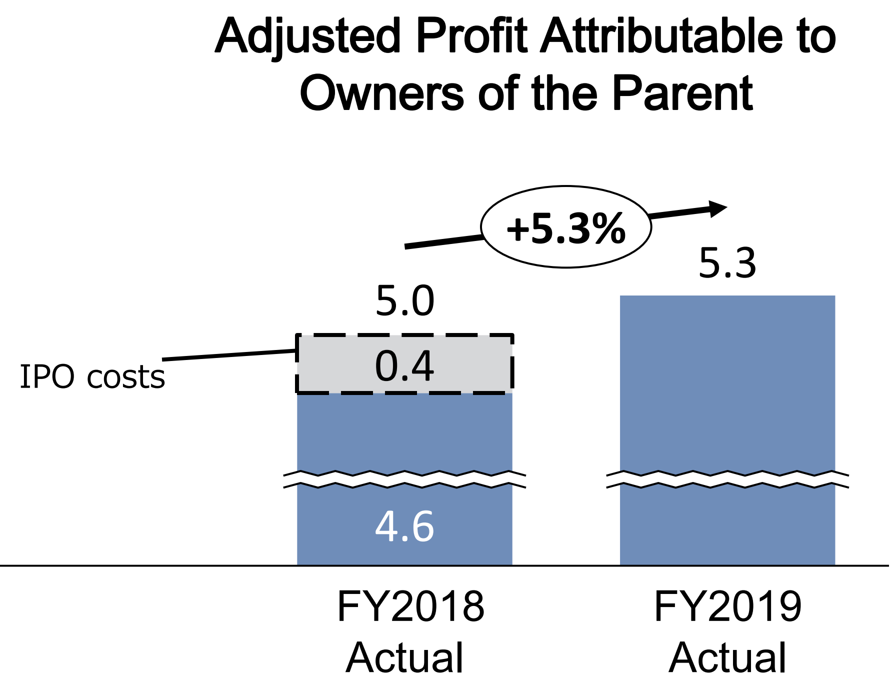


Profit Analysis

➢ Excluding impact of FY2018 IPO costs adjusted profit sustained YoY growth

(Billions of yen)





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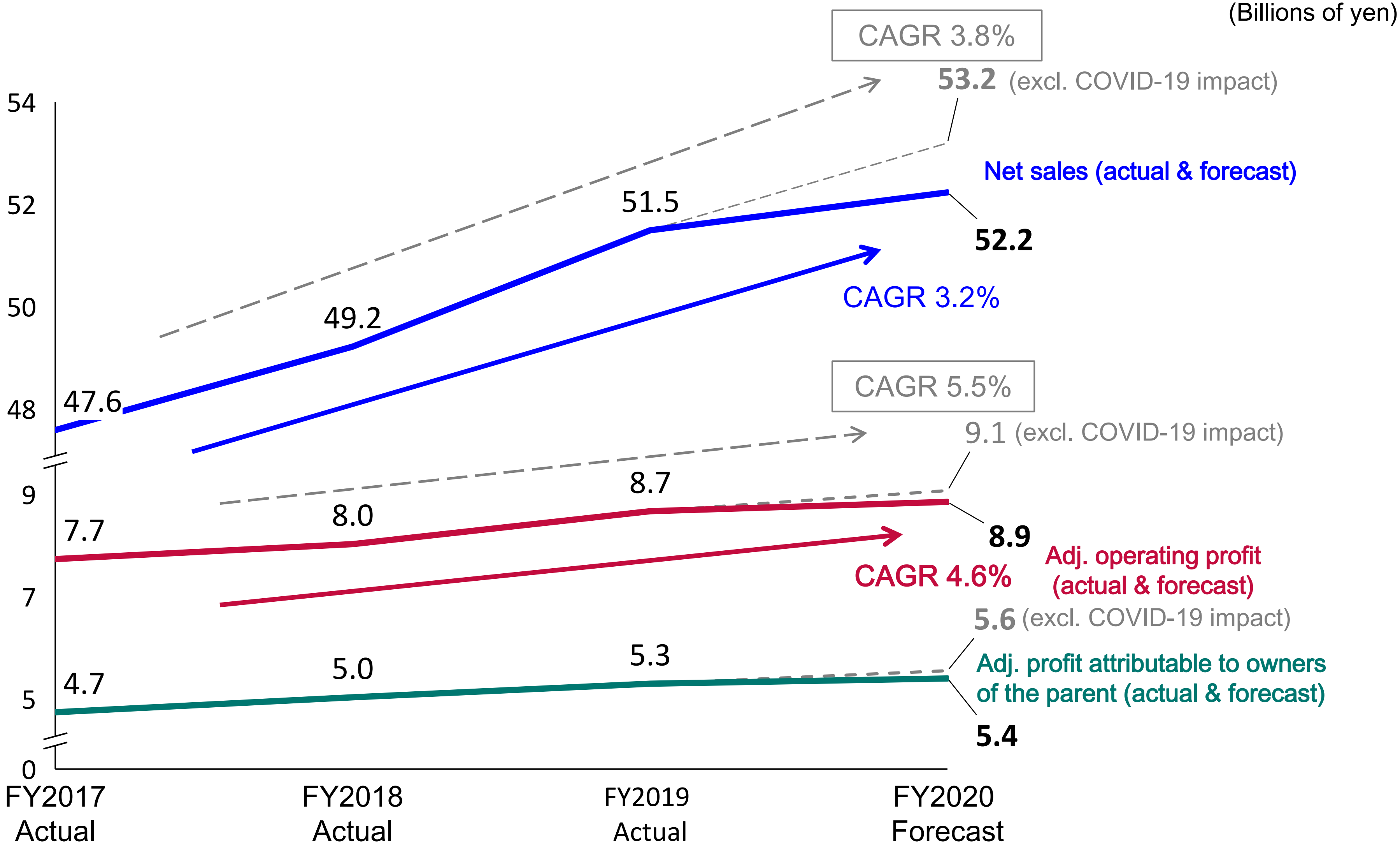
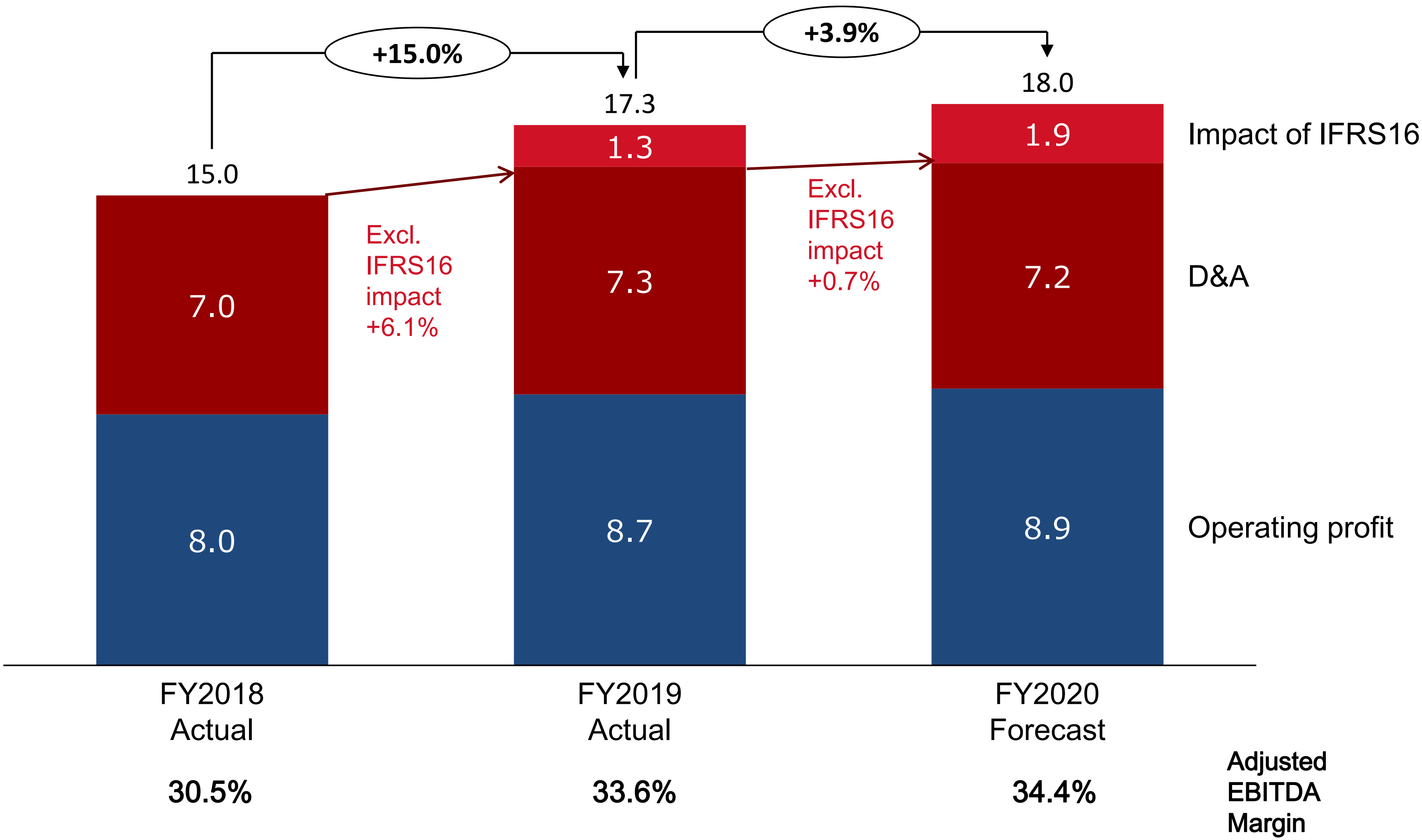
➢ Net sales, profit forecast to sustain growth, MTP net sales growth rate is 3.2% (CAGR), adjusted operating profit growth forecast at 4.6%



Adjusted EBITDA

- MTP target of sustaining 30% level EBITDA margin forecast to be achieved
- FY2020 EBITDA is forecast to increase YoY by 3.9% to 18bn yen

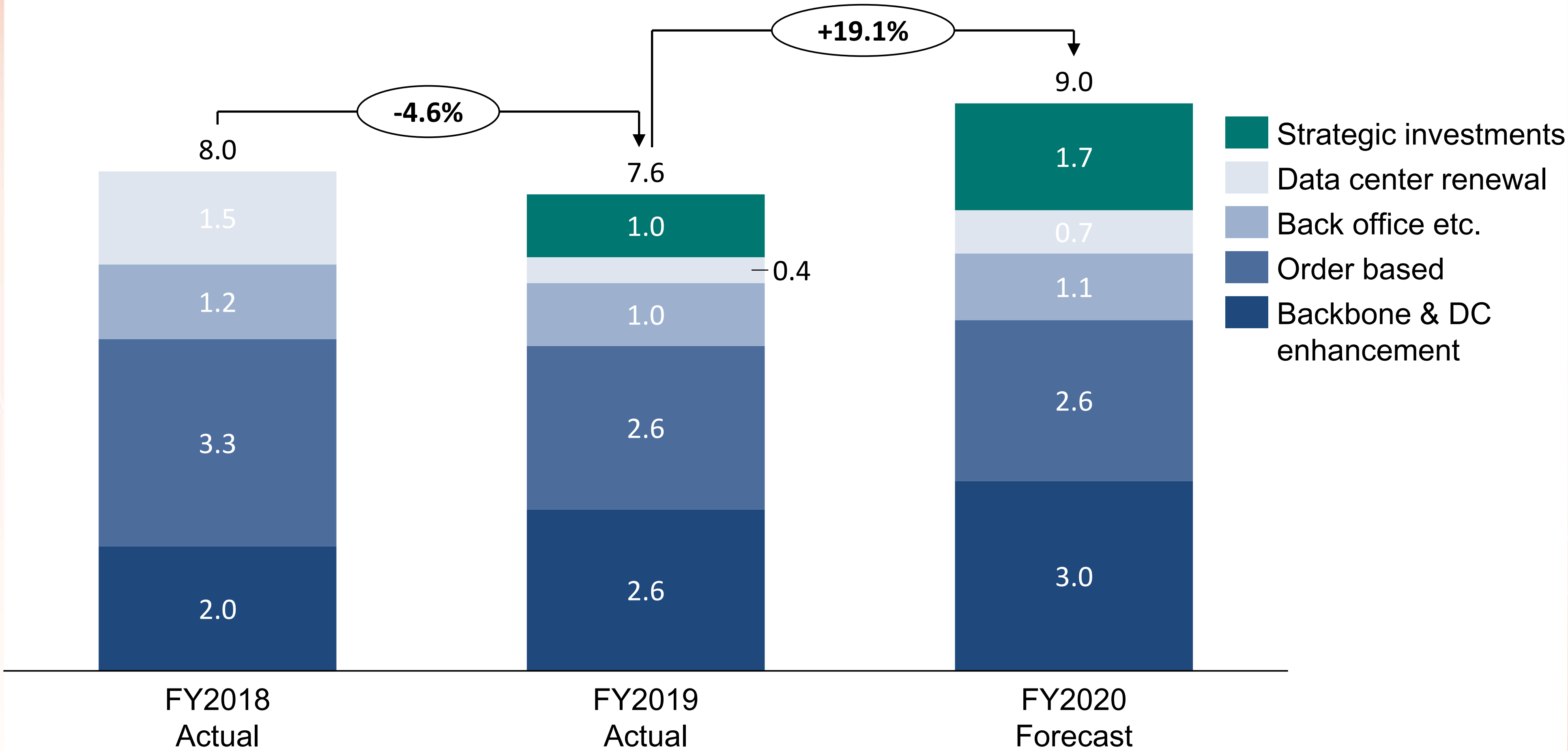
(Billions of yen)



CAPEX

- FY2019 CAPEX showed a 4.6% decrease YoY to 7.6bn yen
- FY2020 CAPEX forecasted to increase by 19.1% YoY to 9bn yen to execute backbone enhancements and facility renewals

(Billions of yen)



* Increases in assets due to the adoption of IFRS16 and reclassification of inventory to fixed assets according to IFRS are excluded.

FCF

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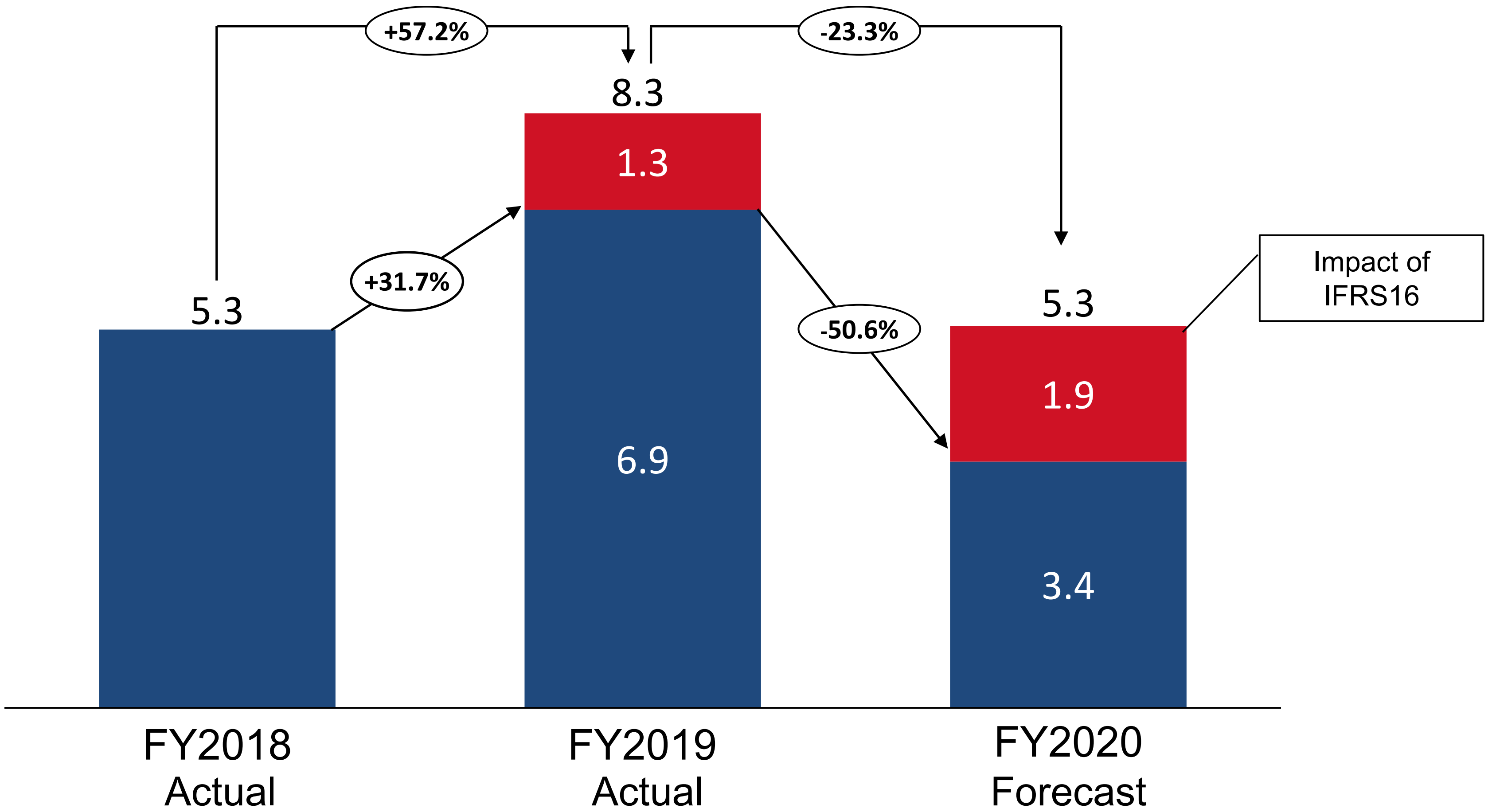
- Adoption of IFRS16 in FY2019, 57% FCF increase YoY due to partial CAPEX carry over to FY2020
- FCF to decrease due to increase in CAPEX and taxes

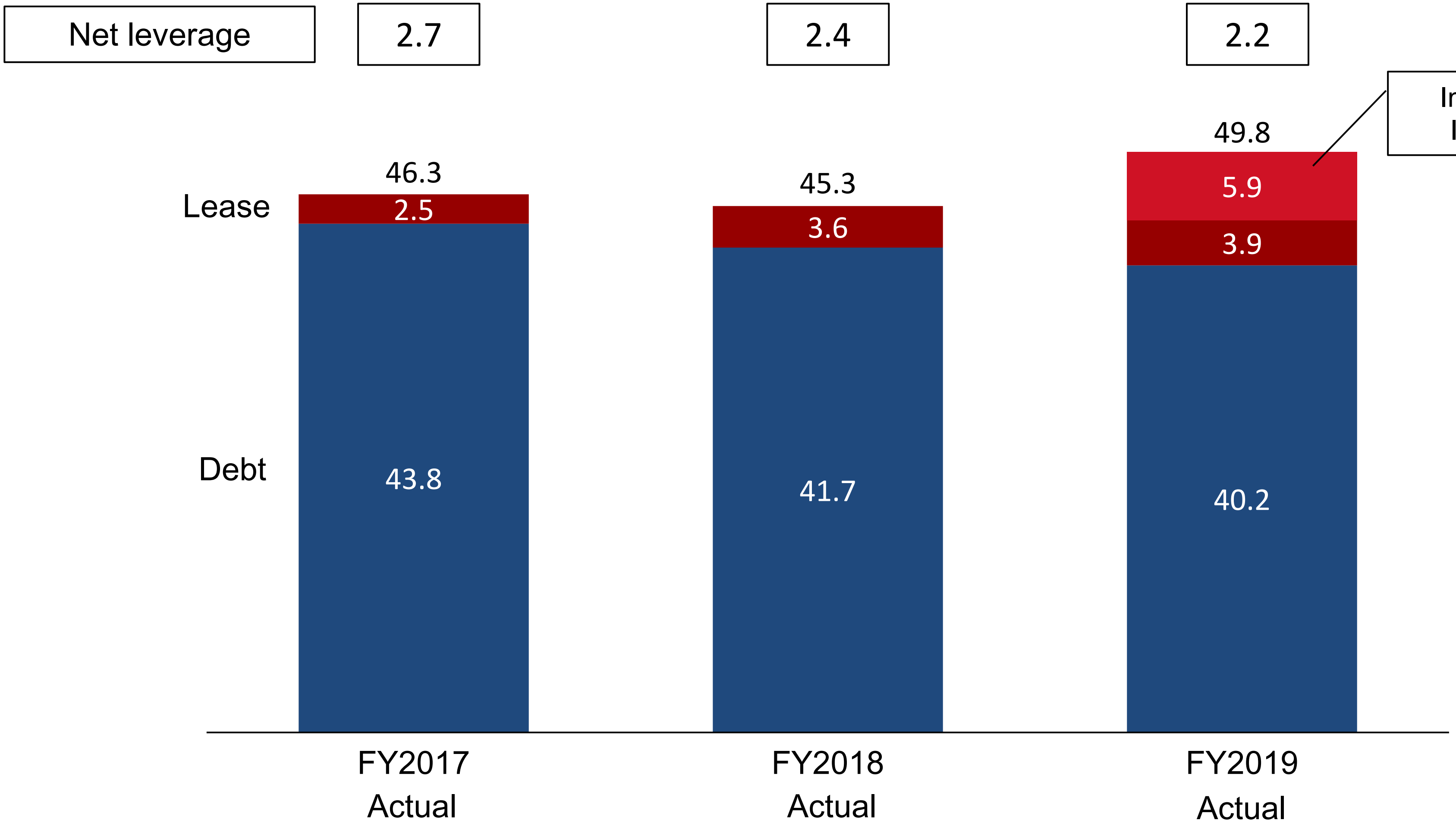
(Billions of yen)



Capital Structure

- As a result of IFRS16 adoption, 5.9bn yen lease obligations recorded on BS. Leverage improved as a result of scheduled debt repayment and increase in EBITDA and cash on hand.

(Billions of yen)



Dividend Policy

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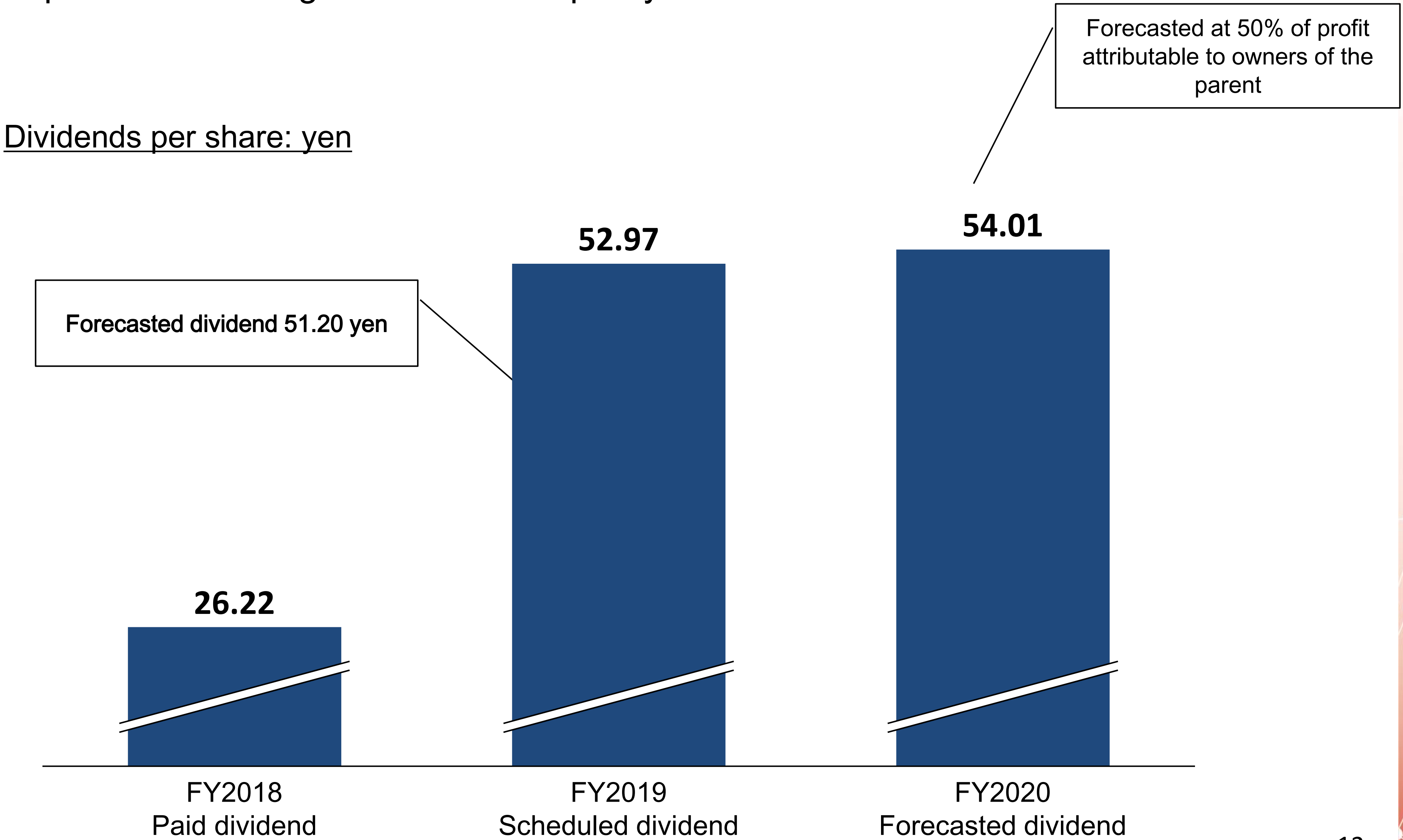
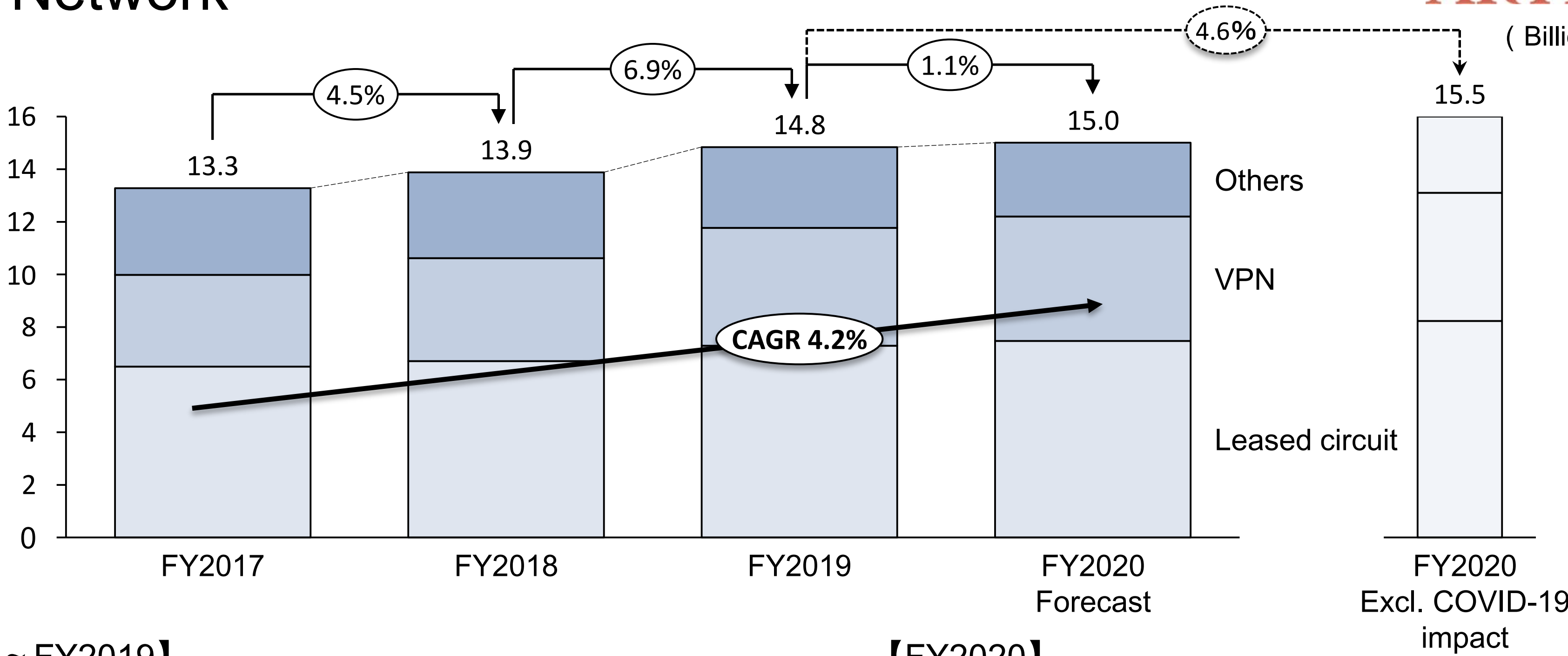
- Dividend for FY2020 is forecast at 50% of profit attributable to owners of the parent according to our dividend policy



Core Services
and
Growth Strategy

Network

(Billions of yen)



【～FY2019】

- Leased circuit orders and sales growing mainly from OTT *1 demand.
- ◆ Total bandwidth of leased circuits increased 150% YoY driven by traffic increase.
- VPN services continued growth in orders and sales of "Router Pack", which provides total support from the fiber lines to the router. Several large-scale projects in FY2019, significant growth due to upfront equipment sales.

*1 OTT：Over The Top

【FY2020】

- Expand leased circuit driven by traffic increased, including the release of Japan's first 400 Gbps leased circuit.
- VPN continues to be strong, YoY growth rate lower due to large-scale projects in FY2019.
- Sustain sales growth while growth % decreases. COVID-19 impact forecast at 500 million yen. This includes: postponed & lower investment trends by customers resulting in less orders, payment exemption requests and delayed billing commencement as a result of delays in delivery of network equipment.

Total Bandwidth of Ethernet Lines

	FY2017	FY2018	FY2019
Total bandwidth*2 (Gbps)	7,790	9,428	14,320

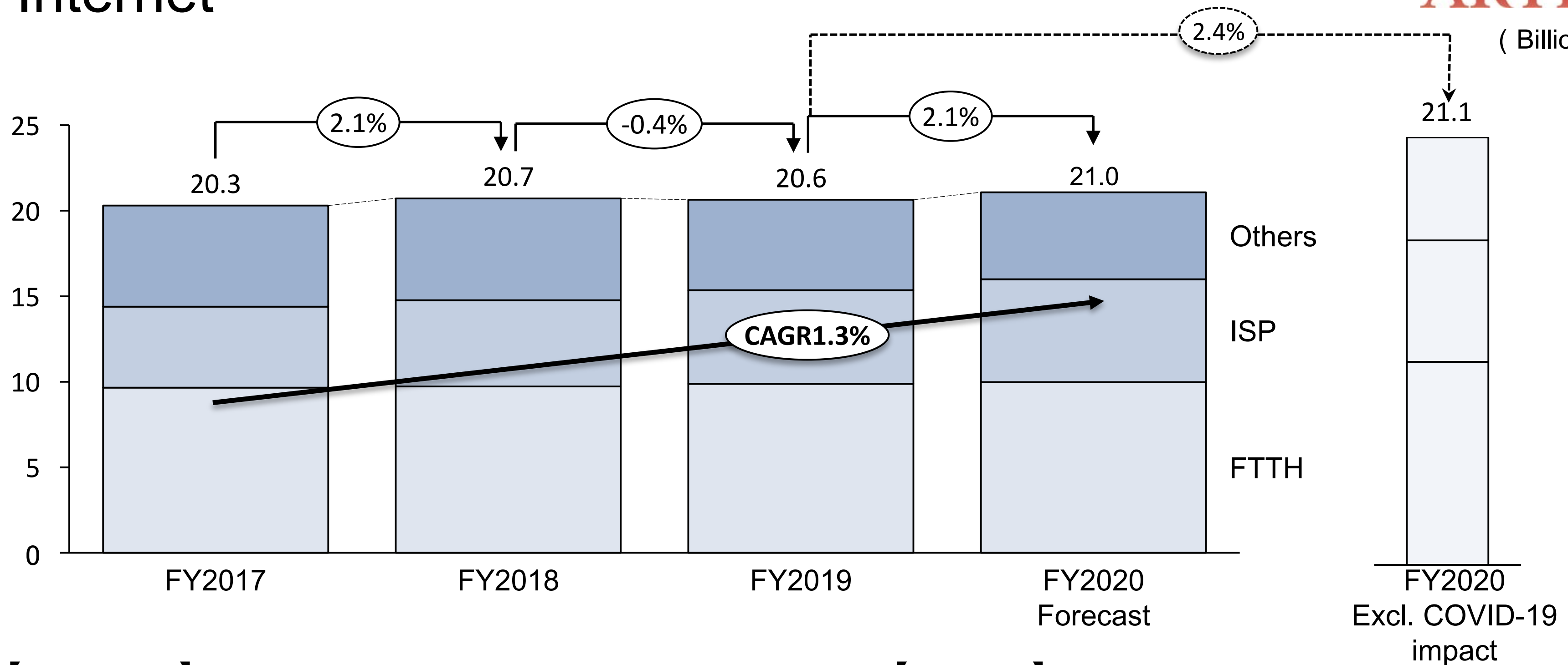
Total download traffic for 2017-2019 increased at an average growth rate of 19.2%*3 in Japan.
Our total bandwidth maintained about 36% growth (YoY 50%), exceeding market growth.

*3 Source : Ministry of Internal Affairs and Communications,. “Aggregation and Provisional Calculation of Internet Traffic in Japan” (May 2019).

*2 Total bandwidth = Service bandwidth × number of lines

Internet

(Billions of yen)



【~FY2019】

- FTTx achieved double YoY due to demand for low congestion services, expansion of ARTERIA Hikari in Osaka area, and introduction of higher bandwidth (10G) service.
- ISP continued expansion of sales to OEM FLET'S partners.
- Overall decrease due to the sale of condo B2C business line (in Others), but FTTx and ISP continued to grow.

【FY2020】

- FTTx: sustain growth by further expansion of service area of ARTERIA Hikari and roll out of higher bandwidth services
- ISP: enter FLET'S IPv6 (VNE) business from FY2020, aim to expand growth by establishing a system to provide high-quality, high-value-added services.
- Higher growth driven by sales growth of main products. while growth % decreases. COVID-19 impact forecast at 100 million yen. This includes: postponed & lower investment trends by customers resulting in less orders, payment exemption requests.

Total Number of FTTx Lines

	FY2017	FY2018	FY2019
Total number of lines	24,370	25,767	26,624

While the expected growth rate of fixed broadband services in the Japanese market (2018-2019) is forecasted around 1.8%*, our growth rate was 3.3%.

* Source : IDC Japan, Japan Telecommunications Services Forecast, 2019-2023 (JPJ43995219)

Condo

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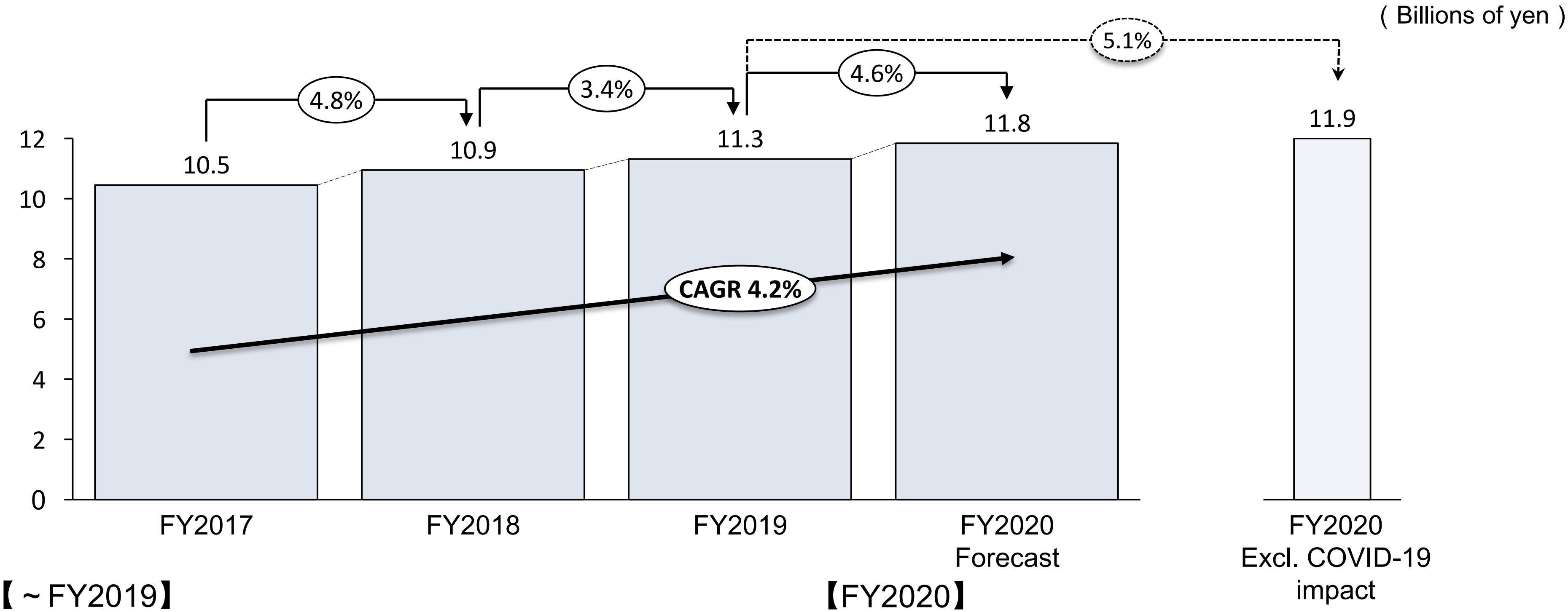

【～FY2019】

- Record number of annual orders received at 95,000 units. Large increase in orders for rental apartments amounting to the majority of the total, contributing to growth in orders.
- Sales activities in rental focused on comprehensive contracts with management companies. Roll out in student dormitories and company housing also continues.
- Inquiries and orders for high-value-added services such as All Hikari and 10G are strong.

【FY2020】

- Expand footprint in the rental market by releasing services for small-scale properties that utilize our own VNE business platform.
- Promote efficiency in implementation and operation/maintenance to enhance competitiveness.
- Accelerate growth supported by order inventory. COVID-19 impact forecast at 100 million yen. This includes: postponed & lower investment trends by customers resulting in less orders, billing postponement due to delay in completion of condos.

Building-wide ISP for Condominiums

Paying units	FY2017	FY2018	FY2019
Owned	482,497	509,529	549,849
Rental	112,085	136,940	165,737

In 2018, the number condos serviced by a building-wide ISP service grew by 21%*. In the expanding rental market we achieved similar growth.

*Source: MM Research Institute, whole building package type ISP for condominiums in Japan (Sep 2019).

Future Efforts (FY2020～)

Laying groundwork towards next medium-term management plan

1 Grow existing businesses and operational efficiency

- Continue strategic investment in network expansion (acceleration, area expansion) and new services (VNE/NFV)
- Accelerate operational efficiency of BSS/OSS and start building a competitive operation system

2 Wireless related business such as Local 5G

- Launch PoC experiments using local 5G (Sub 6GHz band)
- Consider in-condo use, plan roll out to the existing condominium market, etc.

3 Business aimed at condo residents (B2C)

- Provide cloud-based services to condo residents
- Leverage strengths as an operator, strengthen Mcloud capabilities
  (management union support portal, used across 60,000 units)

4 Security-related services

- Established next-generation operation promotion division: consider operation, maintenance and provision of security services

Appendix

Costs Breakdown

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(Millions of yen)

	FY2018	FY2019
COGS	33,375	34,394
Communication costs	11,178	10,765
Outsourcing	4,358	4,904
Personnel expenses	2,472	2,381
D&A	5,565	6,883
Other	9,802	9,461
SG&A	7,427	8,176
Personnel expenses	3,538	3,849
D&A	1,176	1,350
Commissions and other fees	599	956
Outsourcing	650	680
Agent fee and promotion	338	395
Other	1,127	947

Definition of Terms etc.

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(1) Adjusted operating profit =operating profit + IPO preparation expenses

(2) Adjusted profit before income taxes = profit before income taxes + IPO preparation expenses

(3) Adjusted profit for the year attributable to owners of the parent = profit for the year attributable to owners of the parent + IPO preparation expenses–income taxes adjustment

(4) Adjusted EBITDA = profit + income taxes –finance income + finance costs + depreciation and amortization + loss on disposal of supplies and equipment installed at customers' premises + IPO preparation expenses

(5) IPO preparation expenses consist of expenses incurred in preparing for our IPO that are not expected to recur. Such expenses include fees paid to accounting and other advisors in connection with preparation for our IPO and are included as part of IPO related costs.

(6) Income taxes adjustments consist of income taxes attributable to the increase in taxable income due to the adjustment for IPO preparation expenses

(7) Loss on disposal of supplies and equipment installed at customers' premises consist of such losses recorded as part of cost of sales and other expense in our consolidated statement of income.

(8) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent, adjusted EBITDA are not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and have not been audited or reviewed by the Company's independent auditors.

(9) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA reflect some expenses incurred in preparing for our IPO that are not expected to recur after the completion of our IPO and do not reflect the underlying performance of our business. These non-IFRS measures are supplemental financial measures that we believe are useful for investors to assess the operating performance and profitability of our business.

(10) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA exclude certain items which impact profit. These non-IFRS measures should not be considered in isolation or as a substitute for the most comparable financial measures presented in accordance with IFRS. These indices are meant to be illustrative only and are calculated based on assumptions which might differ from those used by other companies and should therefore not be used as a basis for comparison.

Platforms for Tomorrow

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