

6th Term (March 31, 2021) Earnings Results Briefing

November 22, 2019
ARTERIA Networks Corporation

ARTERIA



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FY2020H1 Highlights

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- 1.6% YoY sales growth, operating profit -1.8% YoY; sales growth & profit decrease
- H1 COVID-19 impact on sales was -0.3 billion yen and -0.27 billion yen on operating profit. (negative impact on sales was 0.14 billion yen)
- Excluding COVID-19 impact sales grew by 2.8% and operating profit grew by 4.6% (operating margin also improved)

(Billions of yen)

	FY19H1 Actual	FY20H1 Actual	FY20H1 Incl. COVID-19 impact	FY20H1 Excl. COVID-19 impact	FY20 Forecast Incl. COVID-19 impact
Net sales YoY	25.5	25.9 +1.6%	0.3	26.2 +2.8%	1.0
Operating profit YoY	4.2	4.2 -1.8%	0.27	4.5 +4.6%	0.2
Operating profit margin	16.9%	16.4%		17.2%	

**FY2020 Forecast
COVID-19 impact**

- Downward pressure on sales will continue in H2, expected to stay within initial forecast
 - Congestion countermeasure-related costs in H1 exceeded forecast but will decrease in H2
- ➔ Excess impact on operating profit can be offset by other services

Steady growth

- FTTx
- ISP

Demand for high-quality services is expanding driven by traffic increase.

Slower growth

- LC (COVID-19 -0.1bn)
- VPN (COVID-19 -0.1bn)

Sluggish corporate activities
Project delays, reduction requests, etc.

Significant impact

- IP phone (COVID-19 -0.1bn)
- Data center

Reduced call volume in offices
Customers reexamining costs

Financial Highlights

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- YoY revenue growth, profits decrease.

(Billions of yen)

	FY2019H1	FY2020H1	Change	Ratio
Net sales	25.5	25.9	+0.41	+1.6%
Operating profit	4.2	4.2	-0.07	-1.8%
Profit before tax	4.0	4.0	-0.05	-1.1%
Profit	2.8	2.8	-0.04	-1.3%
Profit attributable to owners*	2.6	2.6	-0.03	-1.3%

*Profit attributable to owners of the parent

Forecasts

- Net sales & all profit levels showing approx. 47-50% progress.
- No change in FY2020 forecast.

(Billions of yen)

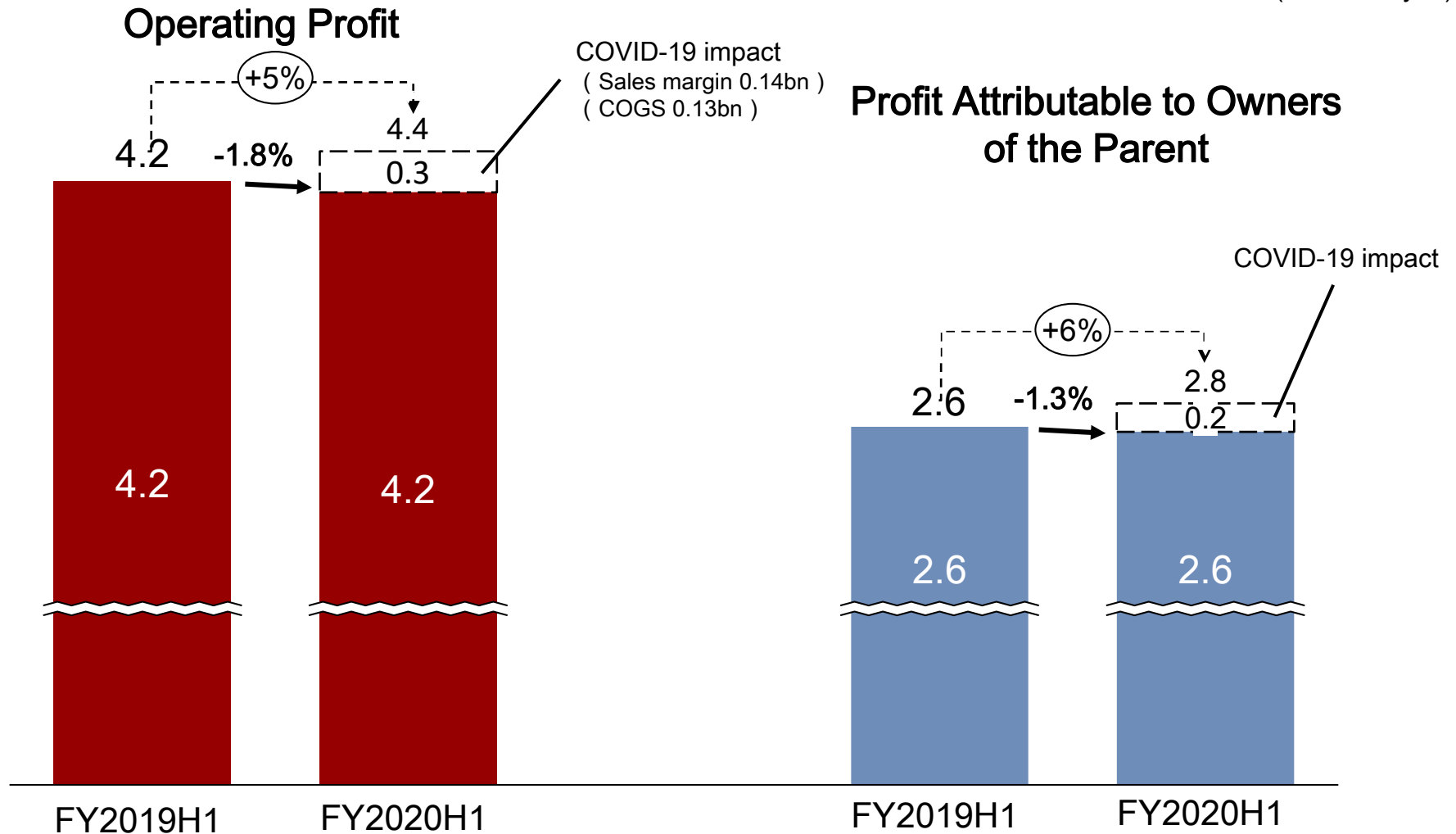
	FY2020 (forecast)	FY2020H1	Progress
Net sales	52.2	25.9	49.5%
Operating profit	8.9	4.2	47.0%
Profit before tax	8.4	4.0	47.5%
Profit	5.8	2.8	47.8%
Profit attributable to owners *	5.4	2.6	47.8%

*Profit attributable to owners of the parent

Impact of COVID-19

- COVID-19 related impact during FY2020H1 was 0.3bn.

(Billions of yen)

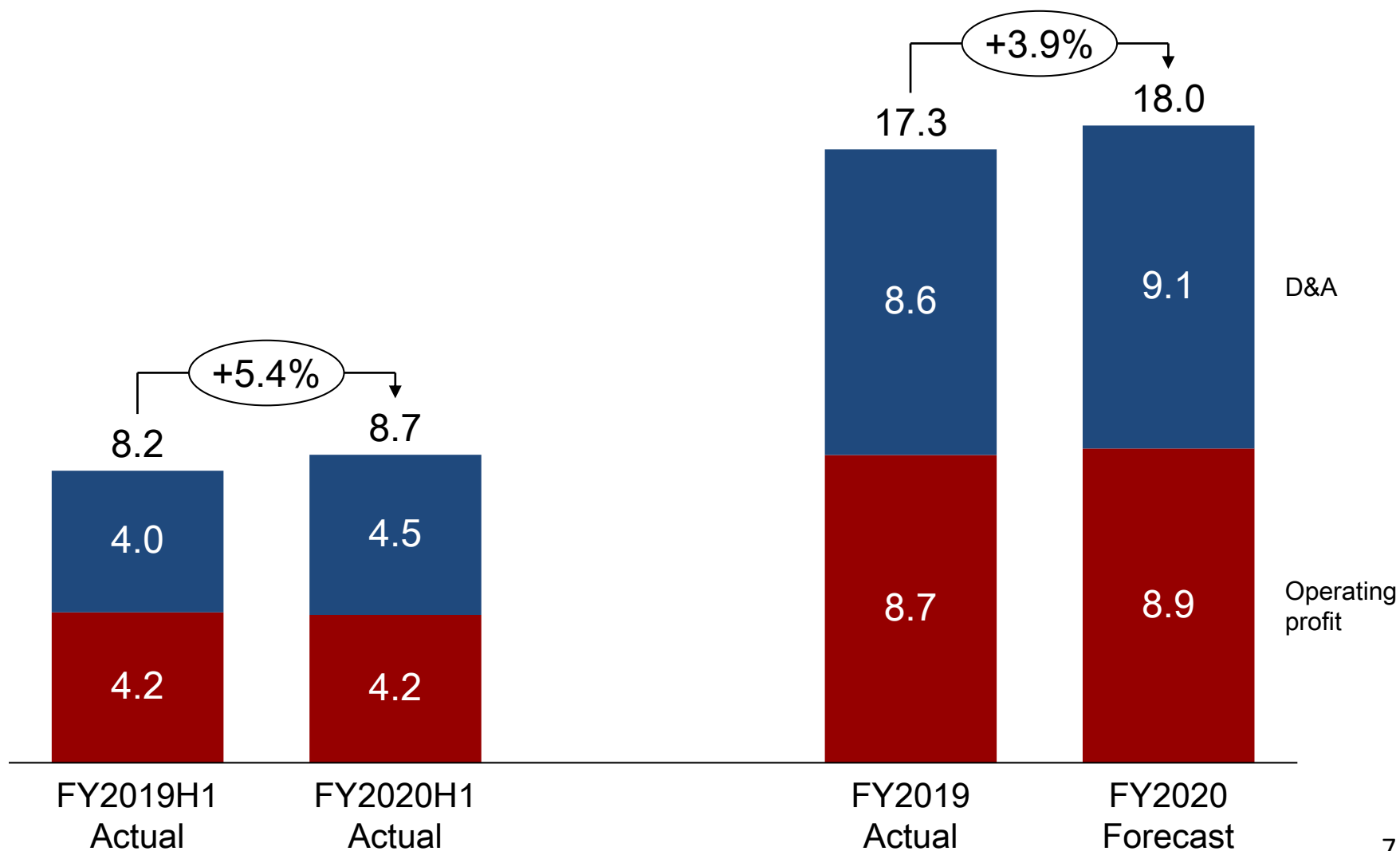


EBITDA

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- EBITDA improved by 5.4%, to 8.7bn during FY2020H1.

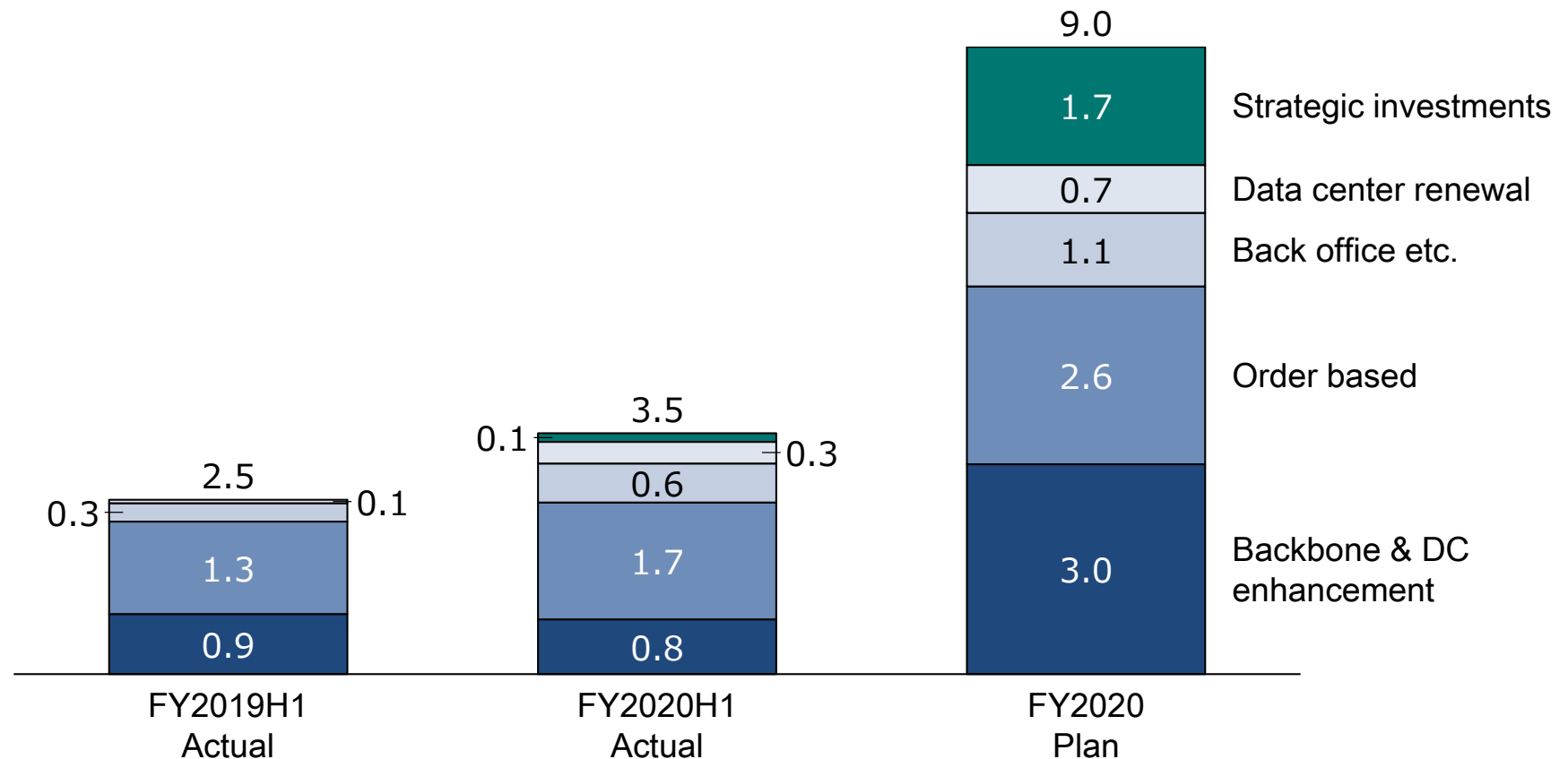
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CAPEX

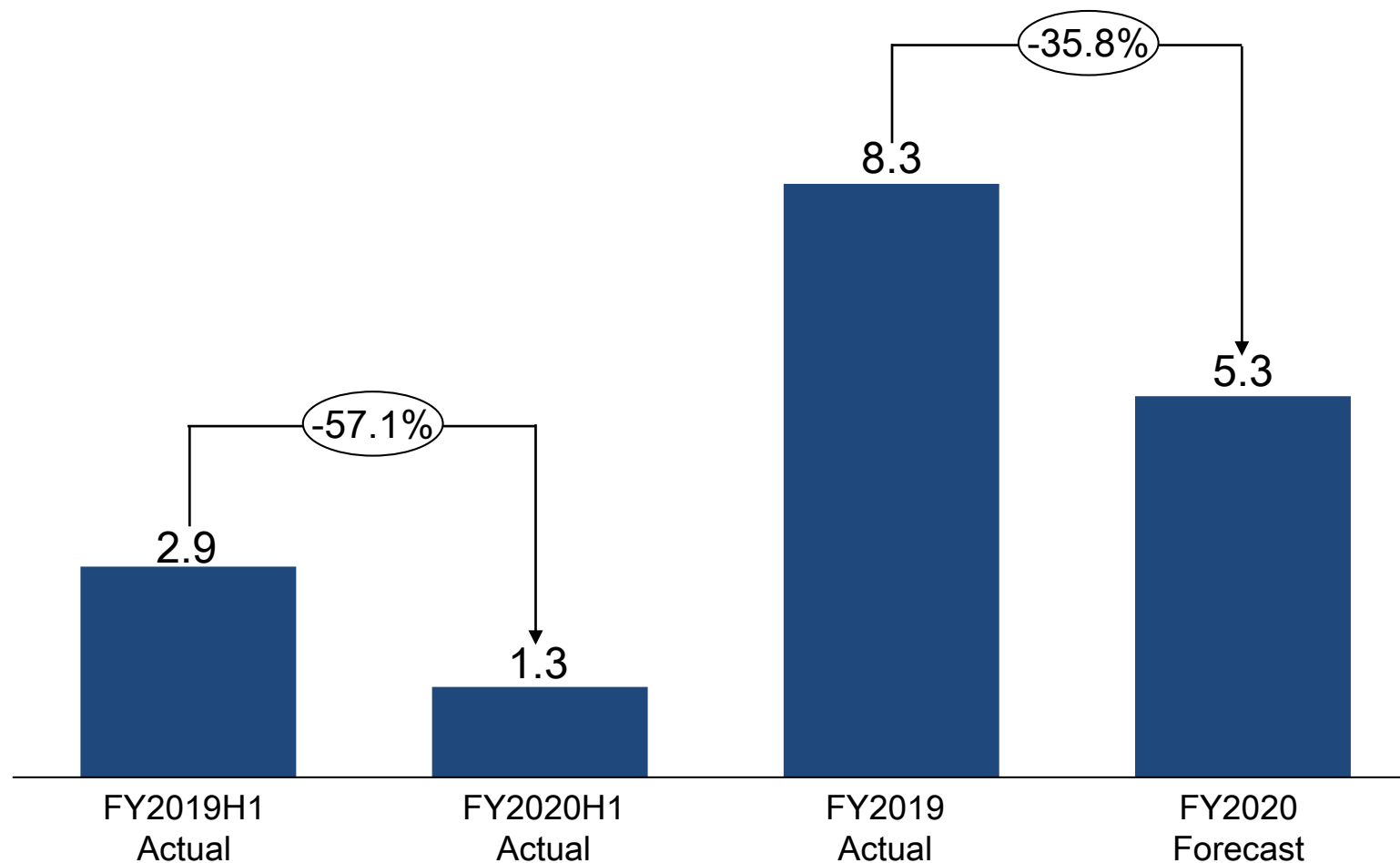
- FY2020H1 CAPEX at 3.5bn yen (1.0bn increase YoY), including impact of COVID-19 such as delays in procurement and completion of construction.
- Plan to execute CAPEX on a priority basis during H2 while catching up on incurred delay.

(Billions of yen)



*Increases in assets due to the adoption of IFRS 16 and reclassification of inventory to fixed assets according to IFRS are excluded.

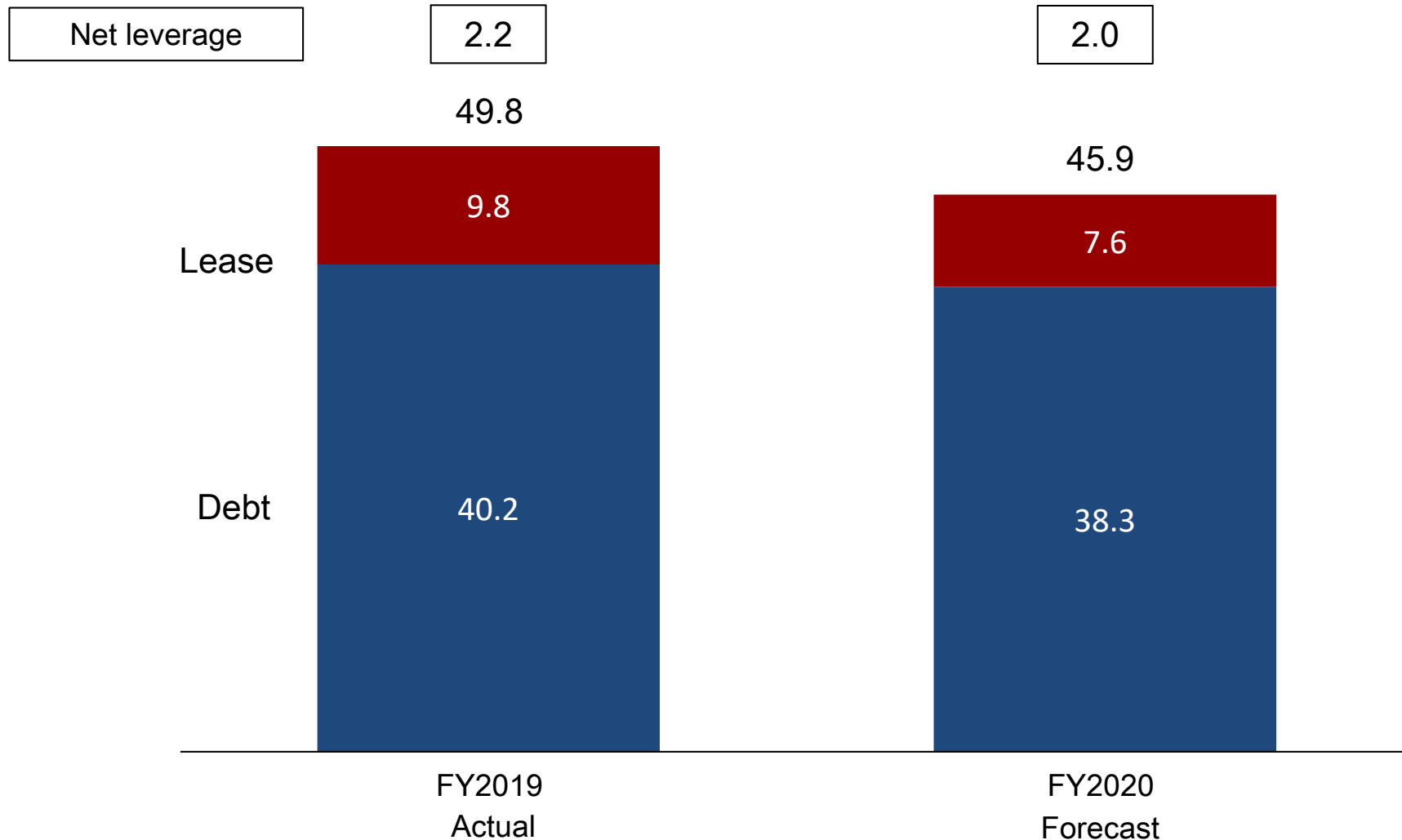
- 57% decrease YoY: due to payment for fixed assets acquired in FY2019 carried over to FY2020 and irregularly low tax burden in FY2019. FCF for FY2020 on track to achieve forecast.
- (Billions of yen)



Capital Structure

- Leverage is expected to improve as result of scheduled repayments, decrease in leases and EBITDA improvement.

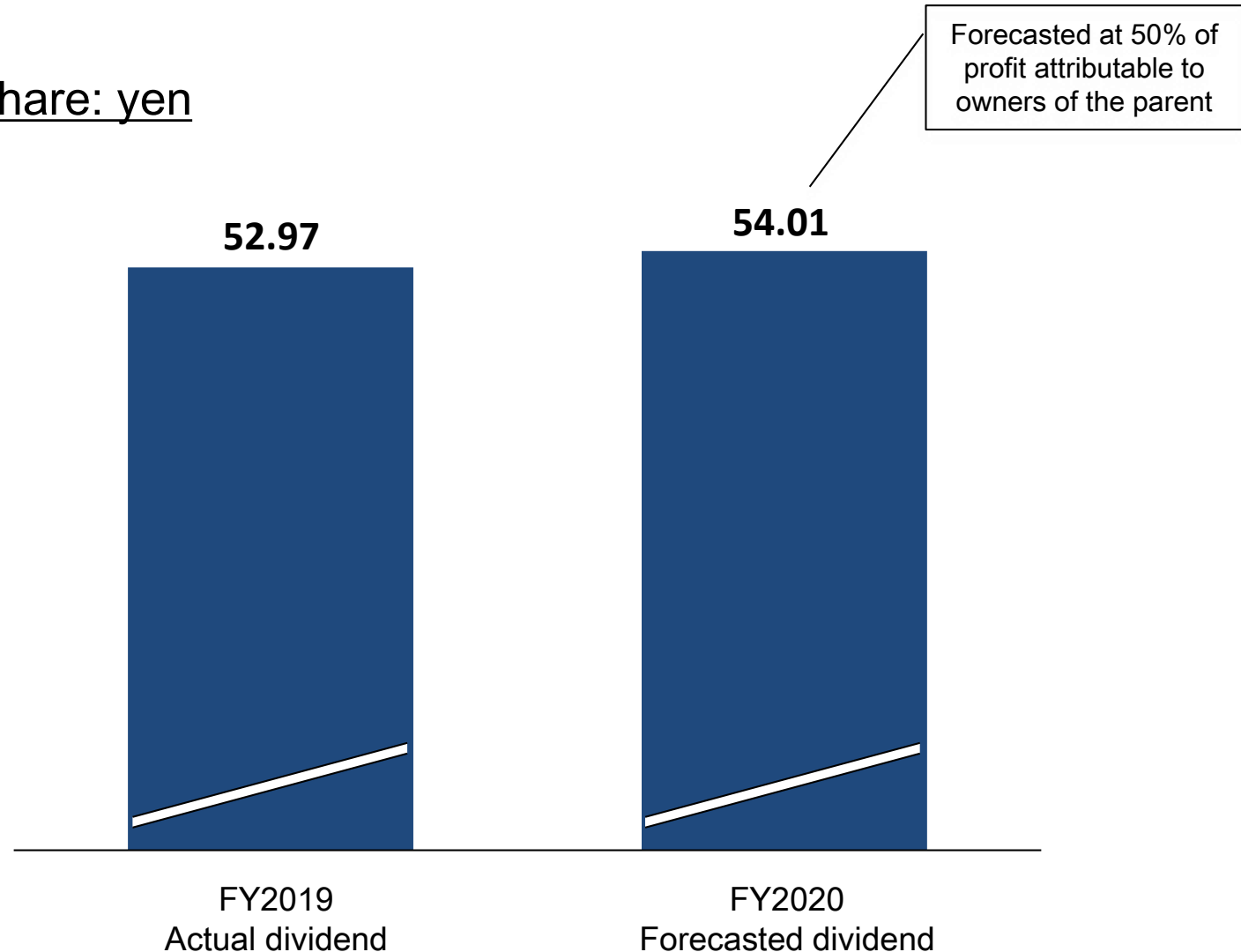
(Billions of yen)



Dividend Policy

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

Dividends per share: yen

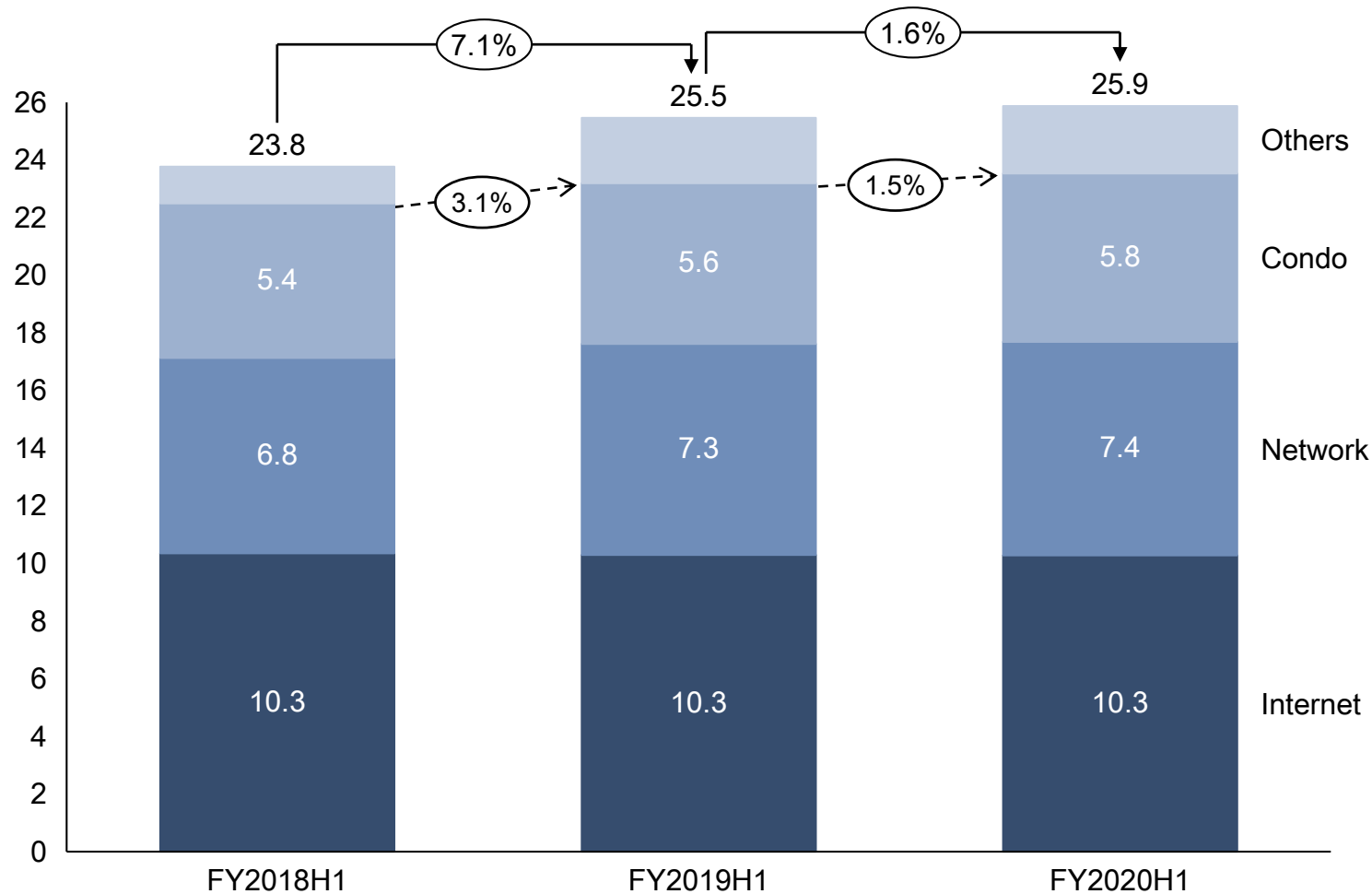


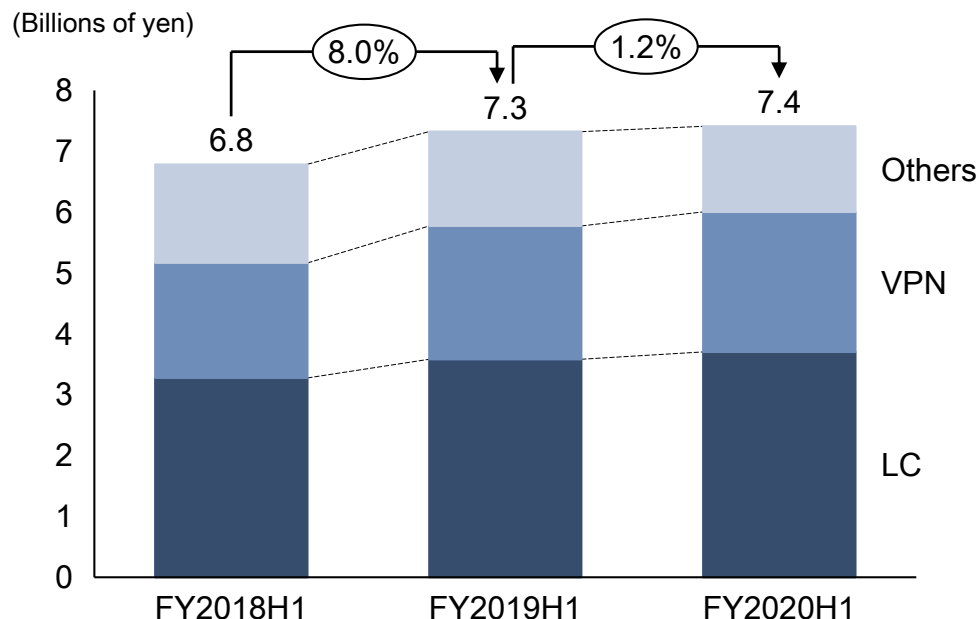
Core Services and Growth Strategy

Revenue by Service

- Total growth in core services was 1.5% YoY.
- Overall growth is stagnant due to COVID-19 impact in some services.

(Billions of yen)



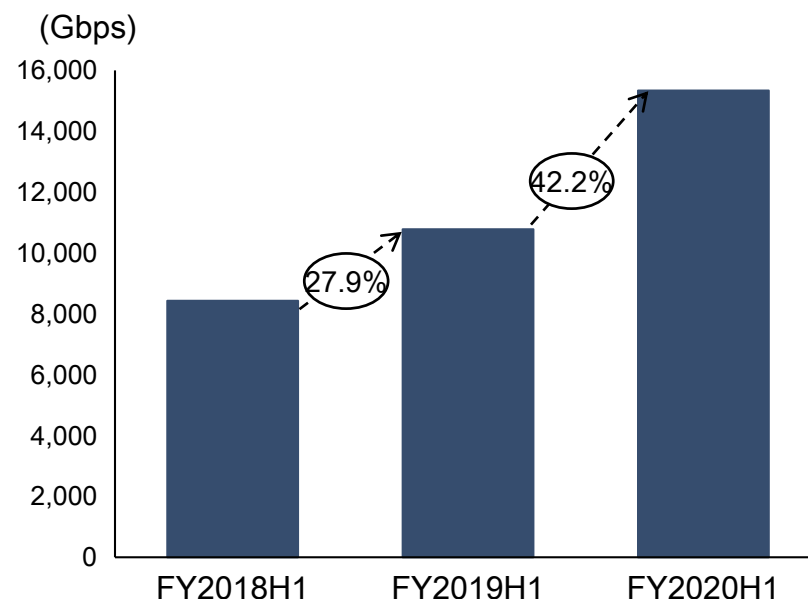


- Data center (Others) saw large-scale cancellation as a result of customers reviewing their costs. LC and VPN continued to grow, but overall growth rate declined.
- LC: growth driven by OTTs*1 and mobile operators remains strong. Overall market activities are lower resulting in lower growth rates. COVID-19 related impact is lower than original forecast.
- VPN: growth rate stagnated YoY due to one-time sales in FY2019H1.



- Corporate activities, orders and inquiries are recovering.
- Target future growth by proactive expansion of LC nodes to areas where demand is expected (Inzai area, etc.), and strengthening the backbone to cater to increased demand for VPN connections to the cloud driven by more telecommuting.

Total Bandwidth of Ethernet Lines



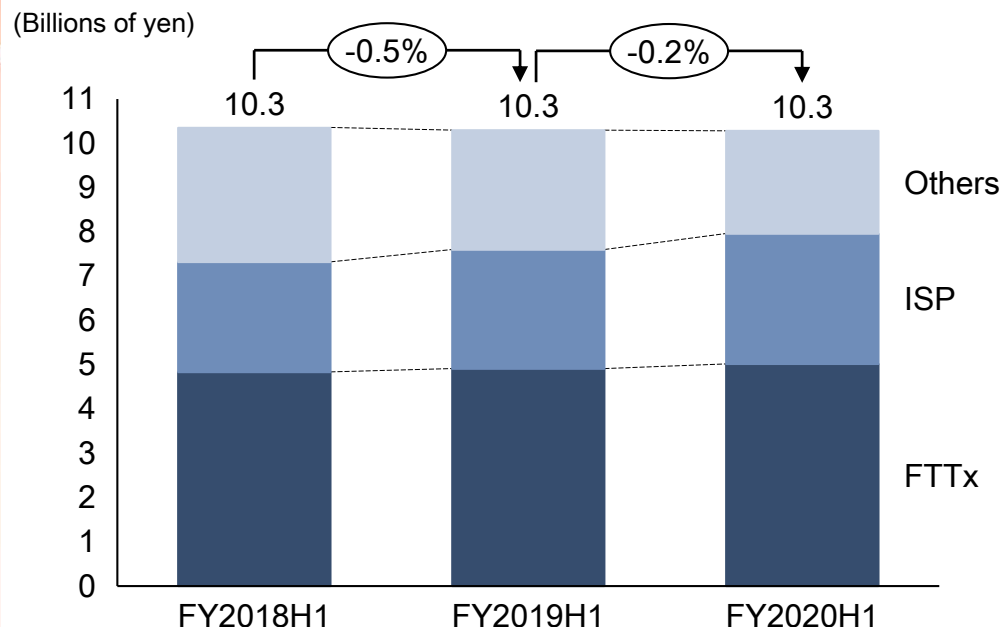
	FY2018H1	FY2019H1	FY2020H1
Total bandwidth*2 (Gbps)	6,386	8,429	10,780

From 2017 to 2019 total download traffic in Japan increased at an average growth rate of 22.7%*3. Our total bandwidth sustained 42.2% growth, exceeding market growth.

*1 OTT : Over The Top

*2 Total bandwidth = service bandwidth × number of lines

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

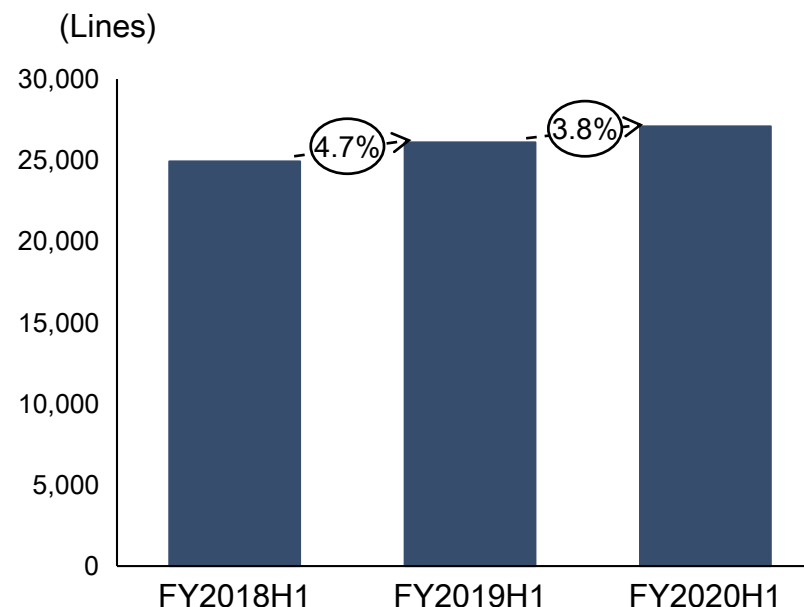


- IP phones (Others): sales decreased by about 10% due to lower call volumes from offices. Negative growth but growth rate has improved driven by steady growth of core products.
- FTTx: demand for of high-quality services up to 10 Gbps is expanding, as a result of more telecommuting, COVID-19 impact is minor.
- ISP: newly introduced VNE^{*1} service is growing steadily driven by increased demand for high-quality congestion free services.
- Others: decrease in sales of B2C business (for which the business rights were transferred) in line within forecast .



- Area expansion of FTTx (FY2020: Nagoya, FY2021: Fukuoka/ Kanagawa), aim at further growth in VNE services by expanding the service menu to fixed IP and v4 over v6.
- Decrease in IP phone usage has started to improve, but do not expect this to recover to previous levels in the near future.

Total Number of FTTx Lines

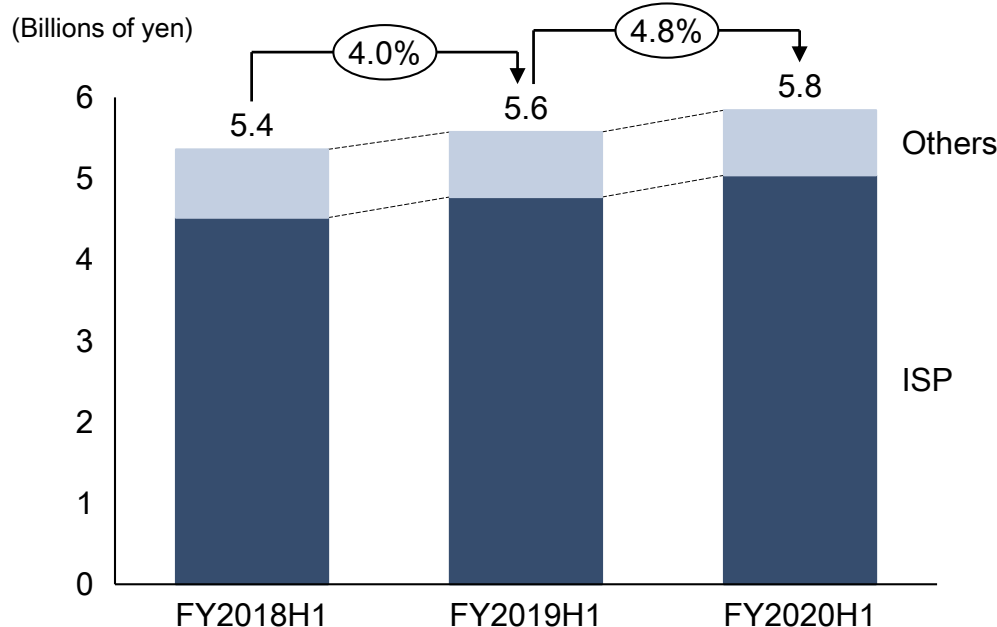


	FY2018H1	FY2019H1	FY2020H1
Total number of lines	24,920	26,096	27,084

While the expected growth rate of fixed broadband services in the Japanese market is forecasted around 1%*², our growth rate was 3.8%.

*1 Virtual Network Enabler: service provider that offers network facilities and systems required for IPoE connection to internet service providers.

*2 Source: IDC Japan, Japan Telecommunications Services Forecast, 2020-2024 (JPJ45132720)

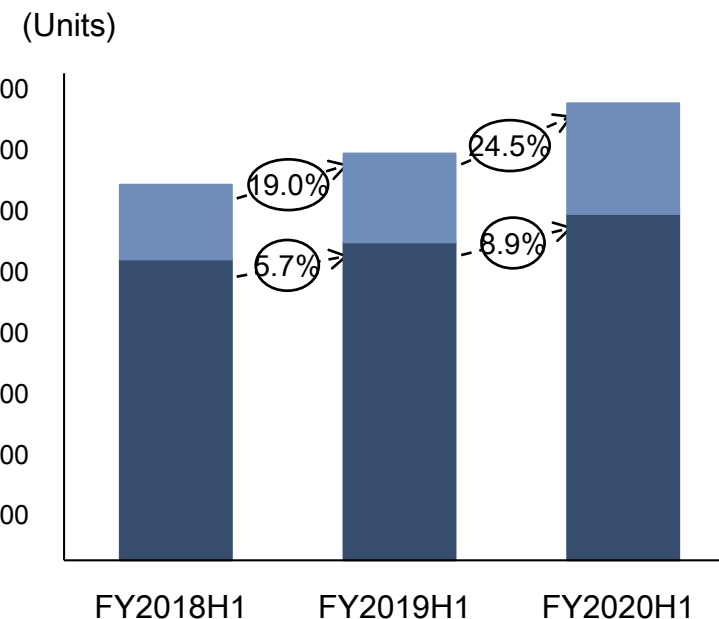


- Achieved record high orders at 95k units in the previous fiscal year. Steady sales growth, possibility of COVID-19 related construction delays did not materialize.
- Orders for Five.A^{*1}, which is a service targeting small and medium sized condos, are trending strong.
- Although counter-measure related costs increased as a result of higher traffic volumes, inquiries for high-quality services such as our 10Gbps connection are increasing.



- Capture the needs for high-quality services by promoting quality maintenance and improvement measures in line with increased traffic volumes.
- The renewed Mcloud^{*2} will contribute to the efficiency of management association operations, aiming to improve the convenience of condominium life and further market expansion.

Building-wide ISP for Condominiums



Paying units	FY2018H1	FY2019H1	FY2020H1
Owned	494,348	522,356	568,963
Rental	122,455	145,717	181,509

The number of condos serviced by a building-wide ISP service grew by 15.5%^{*3} in FY2019. In the expanding rental market our growth exceeded market trends. While the number of new owned condos are decreasing in the market, we accelerated our growth here too.

^{*1} Five.A: An internet service for small and medium sized condos with strengths in high quality and low cost.

^{*2} Mcloud: Groupware for the management of apartment management associations.

^{*3} Source: MM Research Institute, whole building package type ISP for condominiums in Japan (March 2020)

1. Grow existing businesses and operational efficiency

- Plan to invest 1.5 billion yen to build service infrastructure using SD-WAN technology. Aim to introduce new services using this technology in FY21.
- Continue expansion of the ARTERIA Hikari area, (FY21: Fukuoka and Kanagawa).
- Improve operational efficiency through ERP from FY21H2 onwards

2. Wireless related business such as Local 5G

- Obtained provisional license to launch local 5G experiments in condos. Start from Dec. 2020 in cooperation with Mitsubishi Estate Co.; Ltd. and Tokyo Tatemono Co., Ltd.
- Consider expansion of MVNO services to cater to telecommuting needs.
- Verification of wireless services such as Wi-Fi6 / mesh Wi-Fi

3. Business aimed at condo residents (D2C)

- Increase Mcloud subscribers and expand supplementary services such as smart locks to launch D2C business.
- Consider new service using SD-WAN technology.

4. Security-related Services

- Collaborate with partners and consider promotion of security-related services.

Appendix

Costs Breakdown

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(Millions of yen)

	FY2019H1	FY2020H1
COGS	16,934	17,674
Communication costs	5,387	5,635
Outsourcing	2,356	2,595
Personnel expenses	1,184	1,290
D&A	3,249	3,675
Other	4,758	4,480
SG&A	4,229	3,952
Personnel expenses	1,958	1,881
D&A	644	726
Commissions and other fees	642	400
Outsourcing	316	364
Agent fee and promotion	186	194
Other	483	387



Platforms for Tomorrow

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