ARTERIA

6th Term
Earnings Results Briefing
March 31, 2021

May 21, 2021
ARTERIA Networks Corporation

6th Term
Earnings Results Briefing

Date

May 21, 2021

Meeting Participants

Koji Kabumoto	Representative Director, President & CEO
Seiichi Tateishi	Managing Executive Officer & CFO
Kazunori Ohashi	Managing Executive Officer & CDO
Takahiro Nakamura	Executive Officer & CAO

Financial Highlights

➢ Sustained YoY revenue and profit growth

(Billions of yen)

	FY2019	FY2020	Change	Ratio
Net sales	51.5	53.3	+1.83	+3.6%
Operating profit	8.7	8.9	+0.20	+2.3%
Profit before tax	8.2	8.5	+0.25	+3.1%
Profit	5.7	5.9	+0.23	+4.0%
Profit attributable to owners*	5.3	5.5	+0.24	+4.5%

*Profit attributable to owners of the parent

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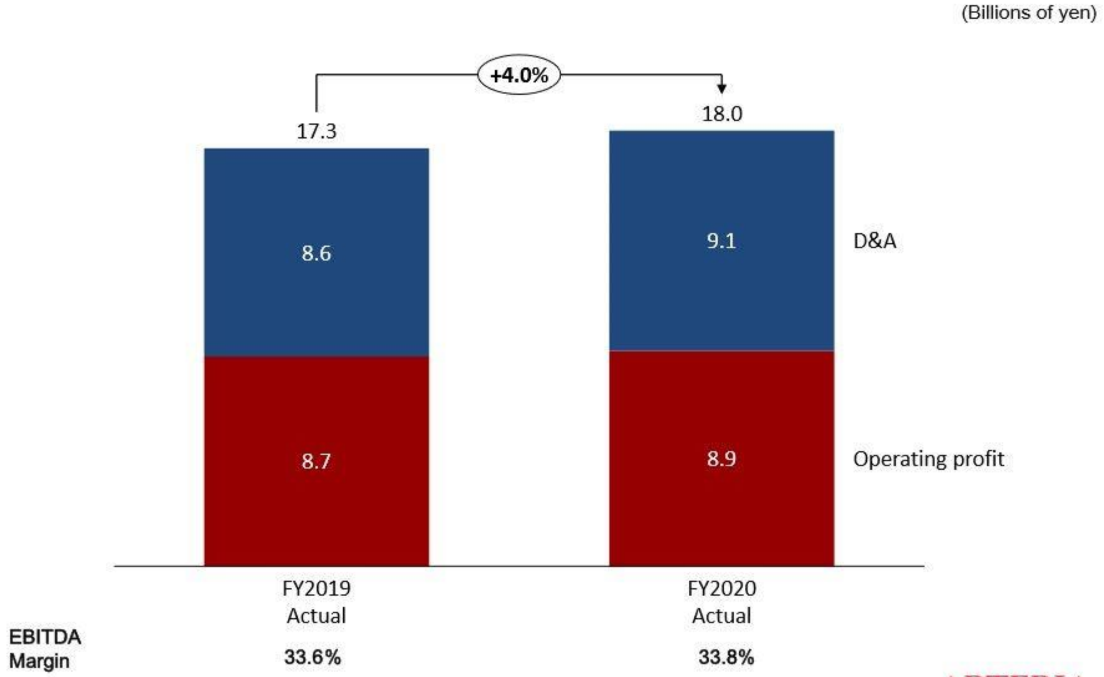
I would now like to explain the results of the financial results in the previous fiscal year.

On page 4, we included the financial highlights and P&L summary.

As explained before, the COVID-19 pandemic caused costs to rise and communications costs to deteriorate, resulting in a phase where profits were squeezed. However, we worked on improving costs and booked some gains on the sale of non-core businesses. As a result, net sales and profits exceeded the YoY forecasts and targets.

EBITDA

➢ MTP target of sustaining 30% level EBITDA margin achieved



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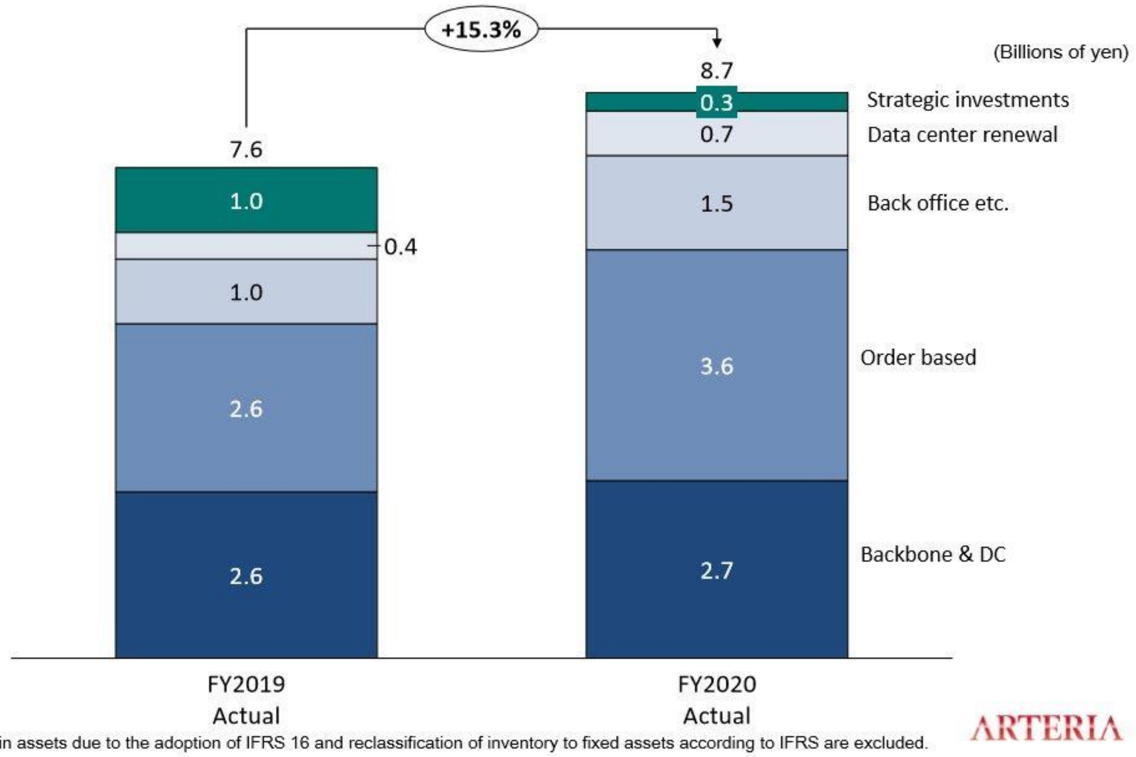
Next, I will explain the status of EBITDA on page 5.

In the fiscal year ended March 2021, EBITDA was JPY18 billion. EBITDA rose by 4% YoY due to increases in both operating profit and depreciation.

CAPEX

- FY2020 CAPEX showed a 15.3% increase YoY to 8.7bn yen



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

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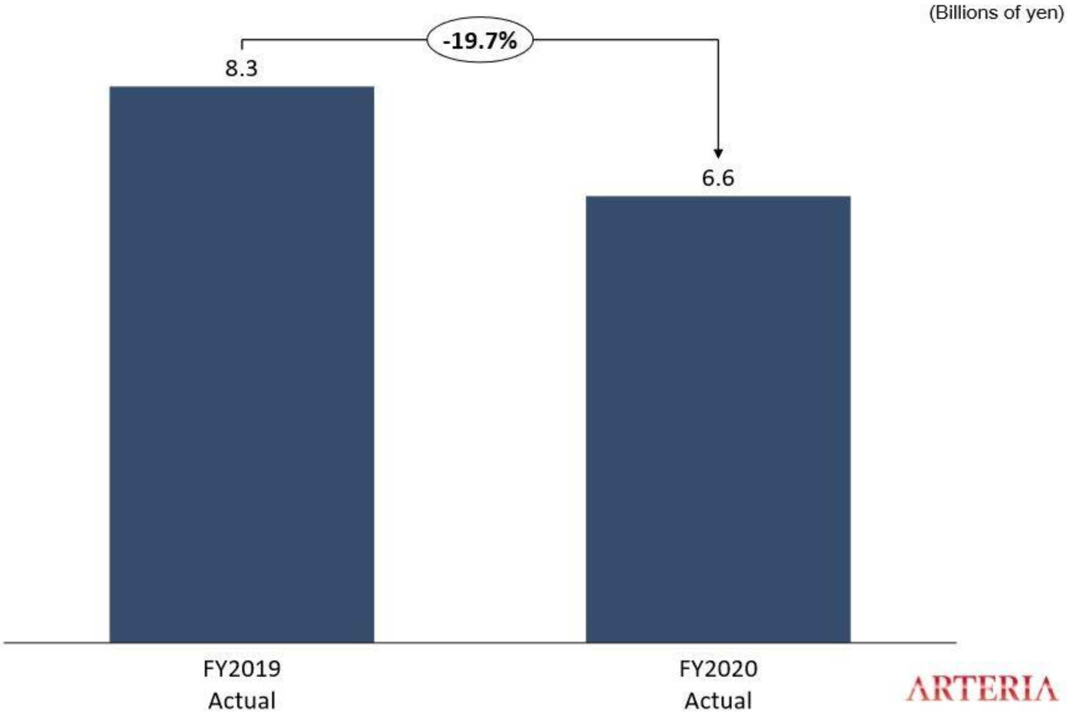
Next, please see page 6 for the status of CapEx.

In the fiscal year ended March 2021, CapEx expanded by 15% YoY to JPY8.7 billion, mainly attributable to a rise in equipment construction due to increased orders. We forecast CapEx of JPY9 billion, so results were largely in line with the plan.

FCF

- FCF decreased by 20% due to increase in CAPEX



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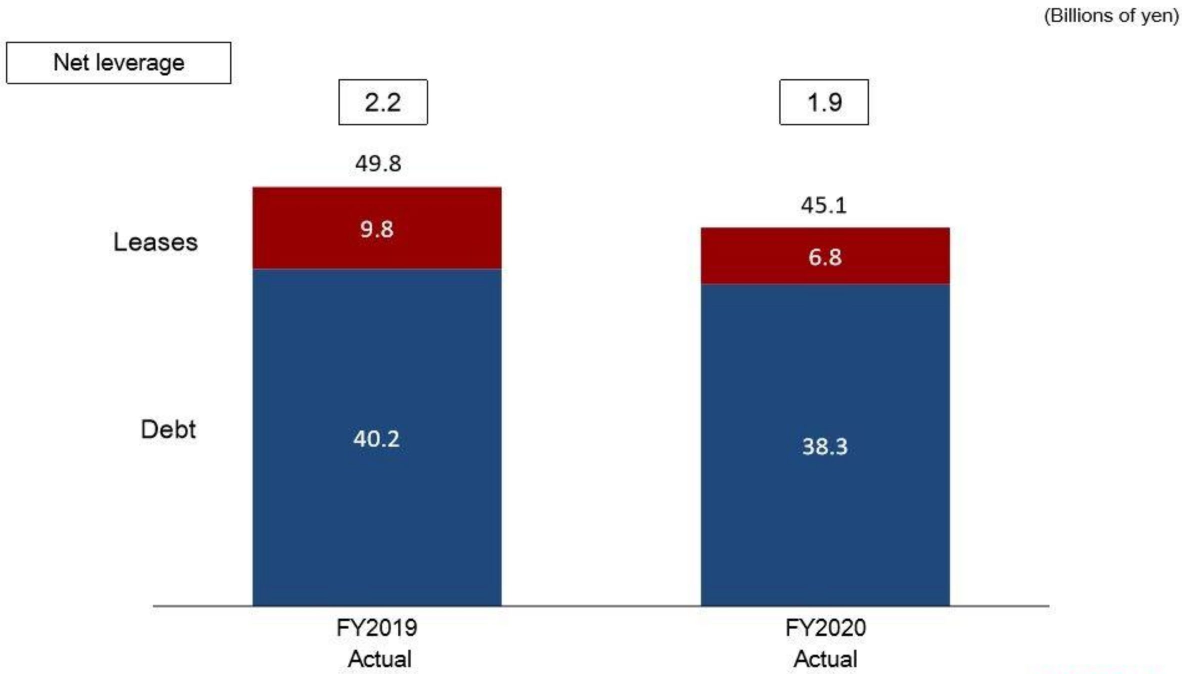
Next, please see page 7 for the FCF trends.

In the fiscal year ended March 2021, FCF was JPY6.6 billion. FCF declined by about 20% YoY due to increases in CapEx and tax burden, despite a deposit due to the sale of the DC business.

Capital Structure

➢ Leverage improved as a result of scheduled debt repayment, decrease in leases and an increase in EBITDA.



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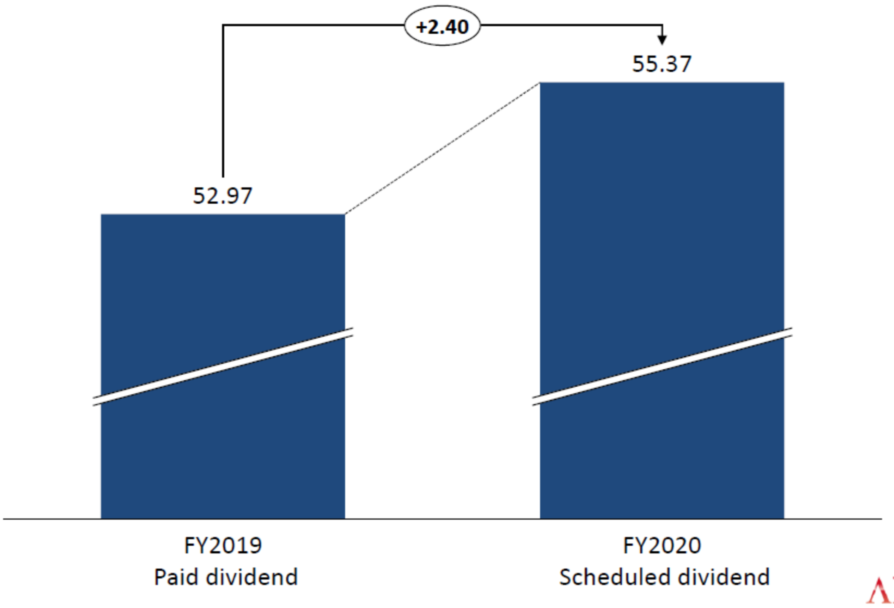
Let’s move on to page 8. Here, I will explain the status of our capital structure and debt.

Due to the stable cash flows of our business, we have not needed to make any additional borrowings. Our most recent net leverage was 1.9 times, showing an ongoing improvement.

Dividend Policy

- Dividend for FY2020 is scheduled to be 55.37 yen
- 50% payout ratio

Dividends per share: yen



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The next page is the last part of our earnings report. I will explain the status of dividends.

In the fiscal year ended March 2021, we initially forecast a dividend of JPY54.1 per share. However, due to earnings exceeding our forecast, we are scheduled to pay JPY55.37 per share. We plan to increase the dividend by JPY2.40 from the previous fiscal year and JPY1.36 versus the forecast.

FY2018-2020 Mid-Term Plan Review

Business Results

All core services grew as planned, and the mid-term plan was broadly achieved

- Used network assets and specialized in growth markets to achieve growth outpacing the market overall
- Released highspeed broadband services ahead of other companies
- Won major projects by responding flexibly to customer needs
- Full-scale entry into the rental market for condominium internet services
- Carried out structural reform of non-core businesses

KPI	Target (FY17-20 CAGR)	Results (FY17-20 CAGR)
Sales growth	Circa 2.5-3.0%	3.9%
EBIT growth	Circa 5.5-6.0%	4.7%
EBITDA margin	Maintain 30% level	30.5% (FY18) 33.6% (FY19) 33.8% (FY20)

Targets

Used network assets and specialized in growth markets to achieve growth outpacing the market

- In expected growth markets (central cities and B2B), concentration of management resources achieved sales growth of 2.5%-3.0%, equivalent to three times the growth of the fixed-line telecommunications market.
- Use of network assets and application of operating leverage achieved growth in operating profit of 5.5%-6.0-%, double the growth in sales.

Results

Mid-term plan targets achieved

- Achieved sales targets through significant growth in each business field
- Offered high-speed broadband services (400 Gbps leased circuit, 10 Gbps internet, IPoE(note), 10 Gbps condo internet) ahead of other companies in response to the continuing increase in data traffic
- Won major orders for OTTs(note) and MNOs(note) by responding flexibly to customer needs
- Maintained growth in the owned-condo internet service market while making full-scale entry into the rental market
- Restructured non-core (data center) business and paved the way to carbon neutral operations

Issues

Further market expansion driven by the spread of cloud computing and telecommuting

- Capture further customer demand driven by the spread of cloud computing and telecommuting
- Attempt to enter new markets and domains by catering to needs for high quality and increased security awareness

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Next, I will quickly review the previous mid-term plan that lasted from the fiscal year ended March 2019 to the fiscal year ended March 2021.

In the previous mid-term plan, all core services grew as planned, and the targets were broadly achieved. We are specialized in markets that are expected to grow, and we leverage our network assets to the greatest extent possible. As I will explain again later, we have maintained sales growth of 3.9%, EBIT growth of 4.7%, and EBITDA margin in the 30% range by utilizing operating leverage.

In core services, we offered high-speed broadband services, such as 400 Gbps leased line, 10 Gbps internet, self-managed VNE business, and 10 Gbps building-wide condo internet, ahead of other companies in light of increased traffic. We maintained robust growth in the building-wide owned condo internet service market while making a full-scale entry into the rental market, which has seen growing demand for building-wide internet.

Meanwhile, we restructured our non-core Data Center business. Specifically, we transferred some assets of our data center business to a specialized data center operator. We will allocate the resulting gain on sale and cash to investments for further growth of our core businesses.

In the information and communication market where we are developing our business, we expect further expansion of cloud computing and telecommuting. As I will explain in the next section, we intend to capture this demand and take on challenges in new market domains.

ARTERIA Group New Tag Line

Connecting New Abilities

ARTERIA Group Manifesto

We have reached a turning point in workstyles and lifestyles.

Today's world relies on the availability of safe, reliable communications at all times and in every situation.

Networks are becoming ever more important as the infrastructure supporting 5G, IoT, and society.

The world is moving into a new era.

ARTERIA is taking the first step towards opening up the networks and services it has developed and refined to all people.

For business, for life. For companies, and for individuals.

By expanding our networks beyond our current domains, making these vital arteries of the world even bigger and faster, and extending them to even further extremities, we will excite the world with a new heartbeat.

ARTERIA will pursue a sustainable world through networks.

The future where everything is connected as one starts today.

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Next, I will explain the mid-term plan of ARTERIA Group for the period from the fiscal year ending March 2022 to the fiscal year ending March 2026.

Last week, we only provided a summary through timely disclosure. However, in today's briefing, along with the financial results summary, we would also like to give details of the 5-year plan that we will be executing.

First, along with the new mid-term plan, we renewed ARTERIA Group's tag line. We have been developing services that support the foundation of activities by many companies and individuals according to the Group's management philosophy. We will continue to provide services that support the foundation of customer activities. At the same time, we aim to further engage in solving social issues. With connecting new abilities as our key message, we aim to lead social changes centered on communication services and become a company that creates a world that is connected with new abilities.

ARTERIA Networks Group FY21-FY25 Mid-Term Plan

Main measures for FY21-25 and earnings targets for FY25 (excl. M&A)

Aim for market capitalization of over 200bn yen through continued investments towards sustainable growth

	FY21	FY23	FY25
Net sales	54.5bn yen	65.0bn yen +	80.0bn yen +(*)
Operating profit	9.3bn yen	11.5bn yen +	15.0bn yen +
EBITDA margin	30.0% or higher		
Dividend payout ratio	Target 50% (biannual dividends)		

*Targeting sales of 100.0bn yen including M&A

FY21-FY25 management strategy framework

Measures for growing the core business

- Gain further demand by optimizing and updating FTTx network
- Enhance customization capabilities to generate added value and aim to capture more network demand from OTTs
- Accelerate growth in the rental market in addition to the owned condo market and further consolidate leading position

Measures for incorporating a new growth portfolio

- Respond to soaring demand for telecommuting by building a D2C(note) service platform for condominium residents
- Use the D2C service platform to expand the range of customers to SOHOs, and corporations
- Capture growth domains through M&A or business alliances, accelerate expansion of the non-telecommunications business

Pursue planet-friendly management by addressing workstyle reform (Hatarakikata Kaikaku) and SDGs

- Use clean energy in provisioning to condos and contribute to a decarbonized society through the provision of telecommuting solutions etc.
- Upgrade to highly energy-efficient internal system and strengthen security by implementing zero trust (note) security
- Enhance development of human resources, implement diversity and reform workstyles through roll out of satellite offices etc.

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The next page shows an overview of the mid-term plan.

The details shown here were already published the other day through timely disclosure. We already realized a growth rate 3 times the fixed-line telecommunications market by specializing in markets that are expected to grow and concentrating our management resources. We will continue to invest in this growth to further raise our corporate value. We aim to achieve a market capitalization of JPY200 billion by FY2025.

We aim for net sales of JPY80 billion through organic growth that does not include M&A. We target operating profit of JPY15 billion, which is about 1.7 times the amount in the fiscal year ended March 2021. I believe you already know this from our earnings report, but starting from this fiscal year, we will be paying dividends twice a year due to receiving many requests, especially from individual investors.

Next, the framework of our 5-year management strategy mainly consists of the following 3 points, which I will explain in detail from the next slide onward.

In our core businesses such as Internet, Network, and Building-wide Condo Internet, we will optimize and update our owned assets and expand our lineup to steadily capture demand.

The second point is to incorporate a new growth portfolio through the launch of the DX market, M&A, and capital alliances. I will explain the details in the following pages. We will build a direct to consumer (D2C) platform to capture business opportunities arising from the increase in traffic due to telecommuting demand.

The third point is to further enhance in-house operational efficiencies by addressing workstyle reform and pursuing SDGs. In addition to increasing the efficiency of energy usage, which we are already working on, we will identify the materialities of ARTERIA Group and we will be implementing it.

I would like to explain a little more about this page. We understand that there are discussions about the propriety of setting a target for market capitalization of JPY200 billion. However, this partly reflects our sense of regret for having conducted insufficient communication with markets up to now. I believe that our valuation did not rise because of this lack of communication. Please understand that this target reflects our commitment to making efforts toward further spreading understanding about the Company. We will, of course, enhance our communication with markets while simultaneously delivering solid results.

Regarding the numerical targets, we didn't derive the growth rate simply by multiplying some numbers with percentages rates. We have made estimates based on sales plans for each service according to investment plans and costs for each item and month. Furthermore, as stated earlier, we aim to achieve these numerical targets without relying on M&A, and we have also incorporated the effects of DX conservatively. Amidst a dramatic expansion in the telecommunications business, we intend to further streamline operations, curtail the growth of fixed costs, and capture demand. We will conduct management while utilizing operating leverage.

Back when we were still UCOM and when a PE fund was involved after merger, we believe we cut back on investments too much. As a result, we had no choice but to use other companies' network in the previous fiscal year. In other words, the business was being operated in a way that fixed costs would increase in tandem with demand.

We already have a plan to curb the growth of fixed costs. As long as we can steadily capture demand, we think the numbers are achievable. We hope to exceed the plan through contributions from the DX business.

Milestones to Achieving Targets

	FY20	FY21	FY23	FY25
Sales	53.3bn yen	54.5bn yen (excl. M&A)	65.0bn yen or higher (excl. M&A)	80.0bn yen or higher (excl. M&A)
Operating profit	8.9bn yen	9.3bn yen	11.5bn yen or higher	15.0bn yen or higher
EBITDA margin	33.8%	+ 30% or higher		
Market capitalization	80.0bn yen	~ 200.0bn yen or higher		
Customers/sales	Develop broadband services	Capture network and condominium internet demand		Capture growth domains
Internet	Continue to provide high-speed broadband services	Optimize and update services		
KPI	27,561 lines	Cumulative number of FTTx(note) lines		
Network	Provide broadband services ahead of other companies	Securely capture network demand, expand and enhance comprehensive proposal capabilities		
KPI	17,794 Gbps	Total bandwidth of Ethernet lines		
Condo	Maintain position as leader	Strengthen position as leader/Start up DX business and expand services		
KPI	Owned: 590,250 units Rental: 199,556 units	Number of paying units in building-wide ISP for condominiums		
Investment	8.7bn yen	12.0bn yen(*)	9.0bn yen/year(*)	
Growth investment	5.0bn yen	8.0bn yen	5.0bn yen/year	
Streamlining investments	0.7bn yen	2.0bn yen	1.0bn yen/year	
Investment for enhancing and increasing installations	3.0bn yen	2.0bn yen	3.0bn yen/year	
M&A			Capture growth domains	
Sales scale			Around 20.0bn yen	

*Excluding investment in large business deals

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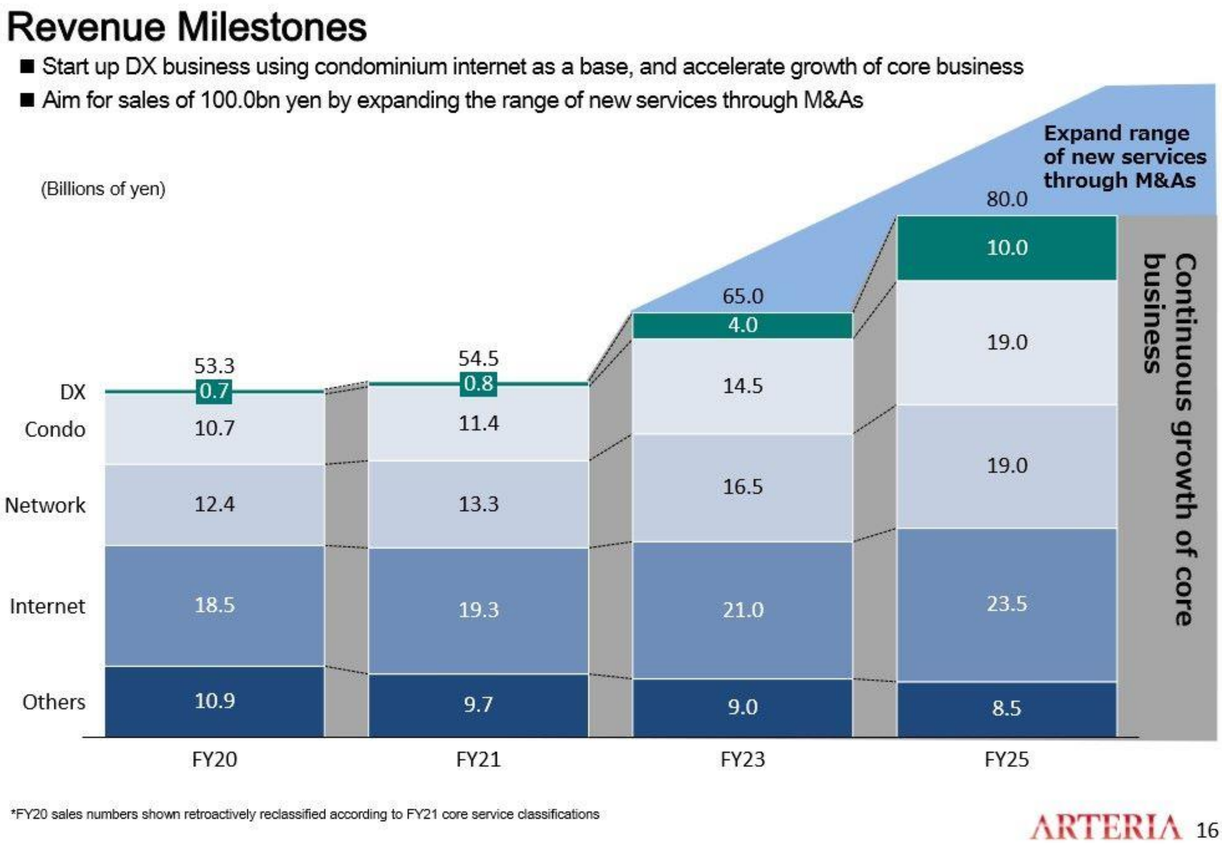
Next, I will go over the milestones toward achieving the mid-term plan, as shown on page 15.

As already explained on the previous page, we will use the same KPIs as before regarding core services. We will monitor and steadily grow these businesses.

I will first explain about investments. We intend to make significant progress on optimizing and updating our services, especially in the first year of the mid-term plan, and we target JPY12 billion in the current fiscal year FY2021.

We expect investments to trend around JPY9 billion thereafter due to the completion of restructuring in non-core businesses, partial sale of our data center, and the lack of events such as large-scale renovation. Note that the size of investment does not include investments arising from large-scale sales projects. We would like to separately manage investments if there are large-scale sales projects that require investments.

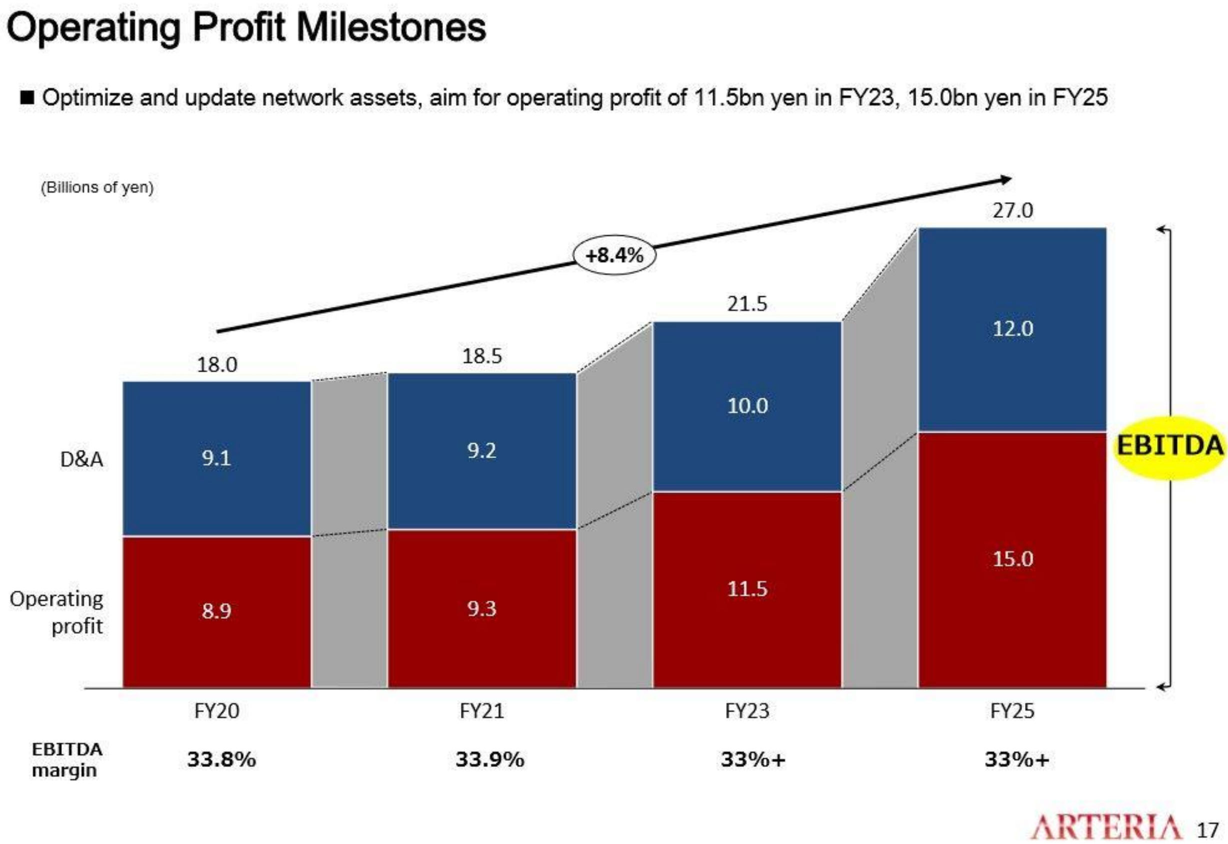
We expect the scale of M&A to be around JPY20 billion. As I will explain later, we will define our selection criteria and narrow our targets in M&A and capital alliances and promote these activities.



Let's move on to page 16. I will explain our sales plan for each business domain.

Starting from this fiscal year, we have reshuffled our service classification by business domain. Please refer to the Appendix for a comparison chart between the new and old classification.

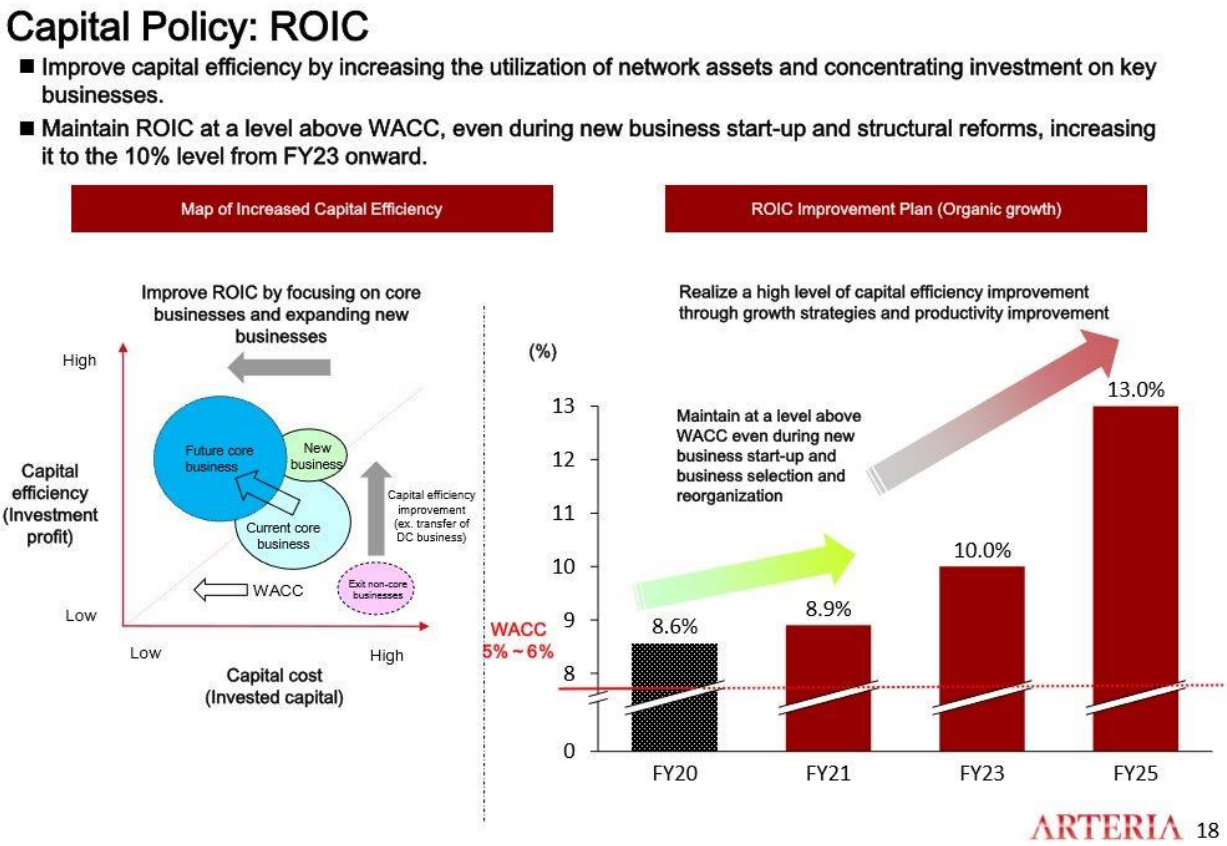
I will explain our measures in each domain from the next slide onward. We target sales of JPY80 billion, including the DX business. We aim for sales of JPY100 billion in the final fiscal year of the mid-term plan through M&A and capital alliances.



Next, I will explain our profit plan. Please see page 17.

We target operating profit of JPY15 billion, 1.7 times the level in FY2020, over the mid-term period. As stated earlier, we will utilize operating leverage. As such, profit will hinge on how much we can curb fixed costs and capture communication demand. As stated earlier, we already have a plan for controlling costs, so the key is to capture the growing demand for communication.

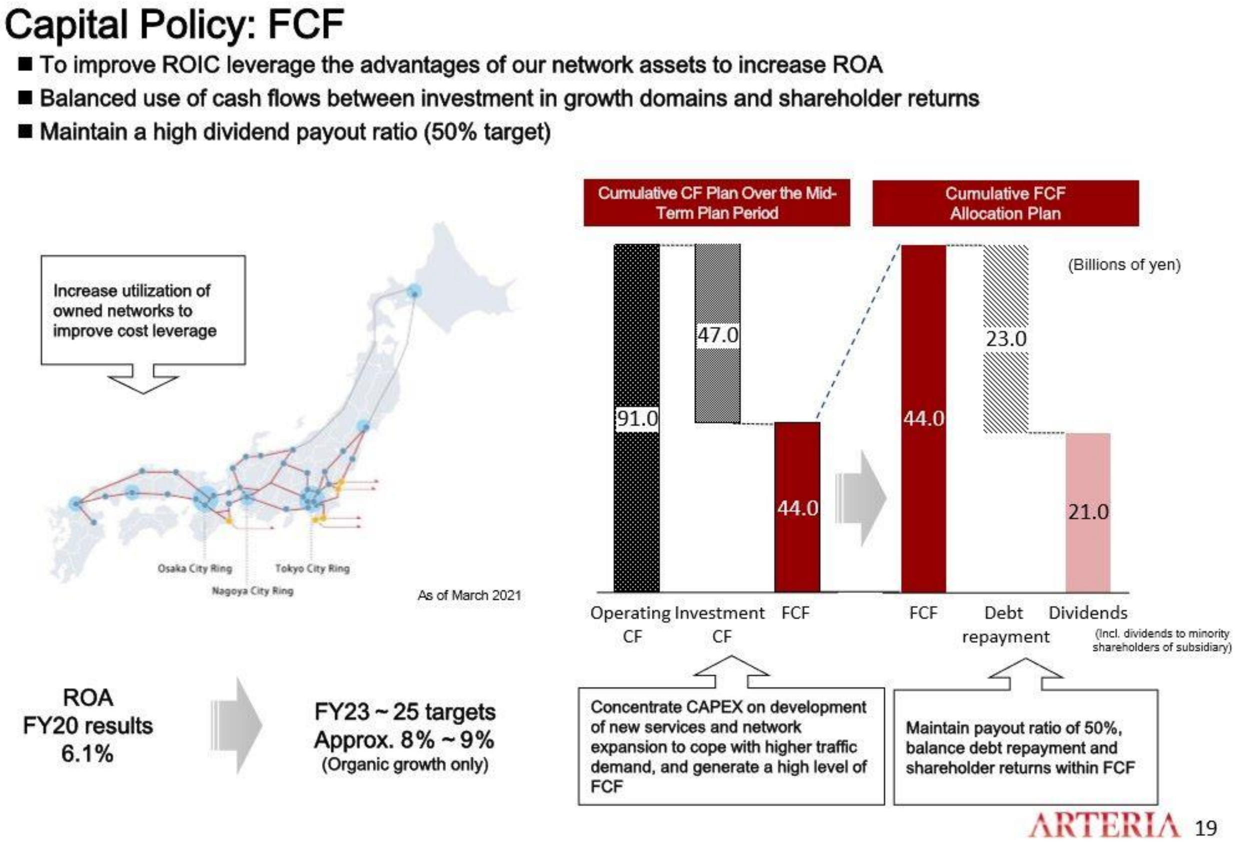
As written here, we aim to achieve profit of JPY15 billion through improvements in profit. As for depreciation, we plan for investments of JPY12 billion in FY2021, and we aim for investments of JPY9 billion each year. We intend to maintain the EBITDA margin in the 30% range. In FY2025, we plan for EBITDA of JPY27 billion.



As shown on page 18, we intend to measure capital efficiency with ROIC as our KPI, premised on the above-mentioned sales and profit plan.

We have announced our plan to invest JPY12 billion. To indicate how efficiently we are using this capital, we have decided to use ROIC as an indicator. By focusing on core businesses and launching new businesses, we will enhance the value of our network assets and improve ROIC. We aim for ROIC in the 10% range from FY2023 onward and plan for 13% in FY2025.

These indicators are based on organic growth only, and they do not include the impact of M&A.



Next, I will explain our capital structure and the level and use of FCF on page 19.

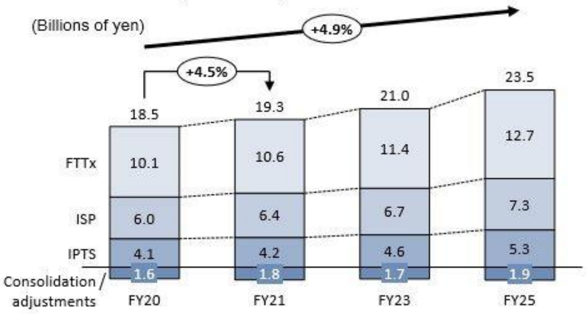
We do not plan on increasing debt as we will fund all the necessary CapEx during the mid-term period with operating cash flows. We will allocate FCF less CapEx to the repayment of debt, and we plan to return most of the surplus to shareholders through dividends. Our policy is to strike a balance between growth investments and shareholder returns. We will maintain a dividend payout ratio of around 50% in terms of shareholder returns.

Initiatives: Internet

Capture demand for high-quality internet driven by the adaptation of cloud and zero trust.

Sales

CAGR: 4.9% (FY20-25)



Macro and Customer Trends

- Demand for high quality without congestion(note) or lag, and secure internet environments tailored to purpose

Initiatives

FTTx

- Expand area of services exceeding 10Gbps
- Eyeing the spread of zero-trust security, propose comprehensive solutions combining cyber security, etc.

ISP

- Promote a shift from the PPPoE(note) protocol to our own operated IPoE protocol, and strengthen quality and cost control with a focus on wholesale ISP (note)

IPTS

- Examine alliances with unified communication (note) service provider

KPI

- Cumulative number of FTTx lines

*FY20 services shown retroactively reclassified according to FY21 classifications

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Next, from page 20 onward, we will explain our initiatives for each core business.

In the Internet business, we expect to grow sales at a 5-year CAGR of 4.9%.

As for FTTx, we will promote the migration from other companies' lines and expand the area of service exceeding 10 Gbps. Through these initiatives, we aim to increase ARPU and achieve JPY12.7 billion in sales.

As for ISP services, we will provide wholesale services to ISP operators and PPPoE services of IPv4 services based on wholesale. We will promote the migration to the IPoE services of IPv6 services, which is our own service that we have started providing from the previous fiscal year. By doing so, we will implement cost controls while realizing higher quality.

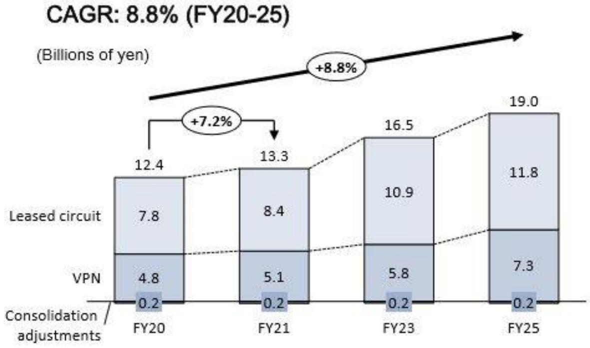
As for IPTS, we were affected heavily by COVID-19 in the previous fiscal year. In the IP phone service to corporate customers, the amount of office communication has fallen during COVID-19. However, by forming alliances with operators providing unified communication services as represented by video conferencing and strengthening those alliances, we aim to turn it into a growing service.

Initiatives: Network

Work to securely capture network demand against a background of telecommuting and digital transformation

Sales

CAGR: 8.8% (FY20-25)



Macro and Customer Trends

- Expanding network demand with an emphasis on security and resilience(note) against a background of telecommuting and digital transformation

Initiatives

Leased circuit

- Aim to expand business opportunities by renewing backbone network and aggressively expanding into new data center areas
- With geographical dispersion of data centers expected as part of the government's regional revitalization strategy, capture emergent demand for new lines
- Capture growth in demand arising from an expected move among overseas OTTs to relocate their domestic data centers against a background trend in data localization

VPN

- Propose comprehensive solutions with added services such as software-based virtualization technologies and cyber security

KPI

- Total bandwidth of Ethernet lines

*FY20 services shown retroactively reclassified according to FY21 classifications

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Please see page 21 for our initiatives in Network Services.

We expect sales to grow at a 5-year CAGR of 8.8%.

As for leased lines, data center operators are concentrated in the Inzai area, Chiba in eastern Japan and the Saito area, Osaka in western Japan. In these areas, demand is expected for broadband leased line services. We already possess equipment and infrastructure in these areas, so we will further strengthen these services to capture even more demand.

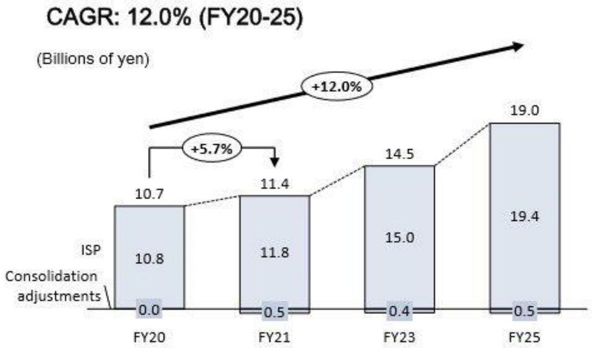
We also believe there will be increased opportunities to propose leased line services due to the decentralization of data centers as part of the regional revitalization measure promoted by the Japanese government. We also expect increased use of domestic data centers by foreign companies through data localization. Thus, we expect a growing number of opportunities to capture demand and orders. To that end, we will actively make investments in these services to steadily capture demand.

As for VPN, we think there will continue to be an increase in companies that review or strengthen virtualization technology in software and communication between bases. As with leased lines, we will update various services and enhance the lineup to steadily capture demand, and we will strengthen our comprehensive proposals to meet the requests of customers.

Initiatives: Condominium Internet

Enter the rental market in addition to the owned market and further consolidate position as leader in the condominium internet market

Sales



Initiatives

Customers/sales

- Leverage strength as a telecommunications provider with own lines and technological capabilities to provide services differentiated from other companies and capture more comprehensive service contracts
- In addition to the owned condominium market, where we have a high share, strive to maintain and expand leading market share in all directions by providing services to meet demand for services in small condominiums
- Expand optional services such as smart keys and portal services (Mcloud), to differentiate, prevent cancellations, and increase the unit price.

KPI

- Number of paying units in building-wide ISP for condominiums

Macro and Customer Trends

- With market entry by providers of dedicated services, CATV, and FTTH, competition with other companies is increasing. Winning projects that prioritize scale by cooperating with major developers and condominium operators is key.
- Against a backdrop of widespread telecommuting, high quality movie streaming, and the spread of eSports, demand for safe, secure, high-speed internet environments is growing.

*FY20 services shown retroactively reclassified according to FY21 classifications

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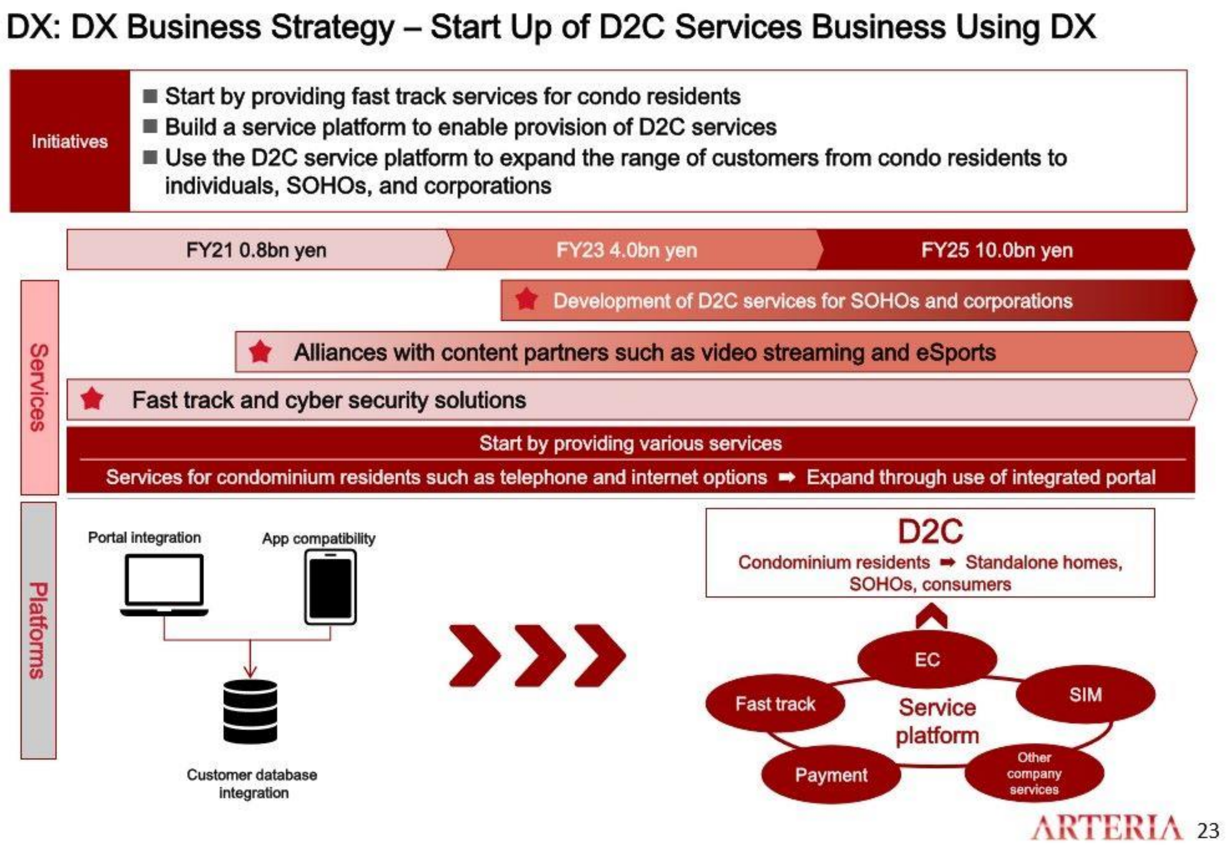
Please see page 22 for our initiatives in the Condo Internet business.

We aim to nearly double sales by growing sales at a 5-year CAGR above 10%. The spread of telecommuting of late has increased requests for quality in the Internet communication environment from home. Unlike other building-wide condo Internet operators, we have leveraged our strength of the Group's own lines to provide high-quality building-wide condo Internet and received high evaluation from users.

Originally, we had the overwhelming share of the newly constructed owned condo market, but we have also made a full-scale entry into the rental market, where the building-wide Internet market is growing significantly. We have steadily concluded comprehensive contracts with developers and management companies in this market. We aim to expand our presence as the No. 1 player in all directions by capturing demand going forward and increasing our share in the rental market.

As I will explain later, we will continue to roll out services that are differentiated from other companies, such as the new service announced yesterday and broadband. In addition, by strengthening our smart key services and ancillary services of portal services that are used by management associations and management companies, we aim to raise ARPU. By doing so, we believe this target can definitely be achieved.



I would like to explain about the DX Business, which is our new business field. Please see page 23.

In the current mid-term period, we will launch a DX business that will contribute to earnings alongside the 3 other businesses explained earlier. We aim to expand sales to a scale of JPY10 billion by FY2025. The DX business, which we target, aims to cultivate the direct to consumer D2C market, which we had not started yet by leveraging software technology. By making it possible to complete all processes on the Web or an app, ranging from service application to payment, we plan to provide direct services to condo residents and corporate customers such as small office home office SOHO.

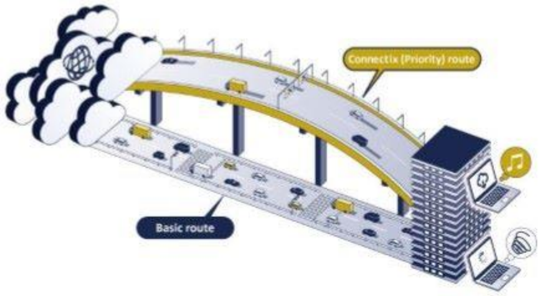
At the current stage, our services mainly consist of phone services for condo residents. However, during the first half of the fiscal year, we will release a fast track communication service, which I will explain later. Yesterday, we released Connectix, as stated earlier. After that, we plan to provide security-related services and services of other companies such as through content partners and subscription partners. We look to expand services to condo residents and corporate customers such as SOHO, and aim to achieve sales of JPY10 billion in 5 years.

DX: Overview of Connectix – Provision to Start in FY21 H1

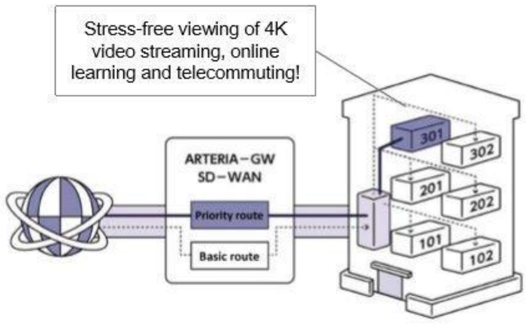
Outline

- Provide Connectix from August 2021: a service enabling priority telecommunications to residents at a condominium using ARTERIA's condominium ISP services (patent pending)
- Connectix uses SD-WAN (note) technology to control the quality of telecommunications in each condo via a virtual network. It is an option service instantly available to users upon online application at an additional charge.

Connectix Service Image



Subscribing to Connectix the route switches from the basic route to a priority route



Merit 1	Saves significantly on time and costs compared to a separate internet connection	Merit 2	One can subscribe to a higher quality connection during the required time interval

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Regarding new services, which I have mentioned a number of times already, we plan to start providing the Connectix service in August this year as the first step in launching the DX business. Please see page 24.

As issued in a press release yesterday, the Connectix service can be used as an optional service by residents who use our building-wide condo service.

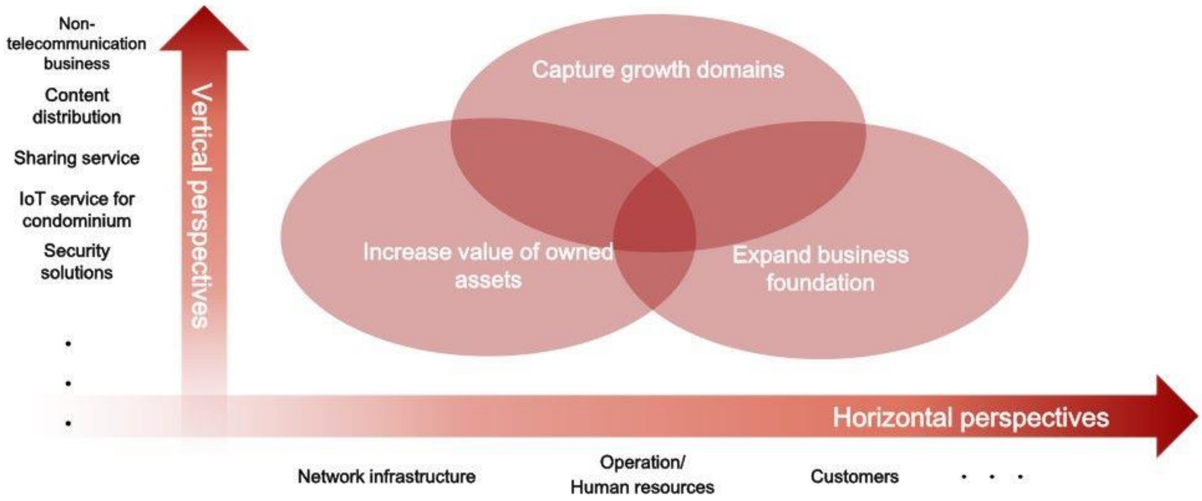
The COVID-19 pandemic has caused a surge in telecommuting usage and a spike in Internet usage from home such as condos. There were cases where important remote meetings were hindered due to congested internet connections. Perhaps some of you here have also experienced such cases. The Internet is used jointly by many users. To prevent such congestion, we install a separate internet line that is separate from the common building-wide service. Or, if we can get approval from all residents, then we have upgraded the internet equipment.

Connectix, which we have released this time, is a revolutionary service that solves such issues. Customers using our building-wide ISP can apply for this service from the Web. Just by applying, customers can immediately use a priority communication route.

We developed this patent-pending service by leveraging our technological capabilities and software technology called SD-WAN. This service will support the spread of telecommuting promoted by the government and companies. By forming comprehensive contracts with companies and partnering with video distribution operators, customers would be able to view high-resolution videos such as 4K without stress.

Criteria for Considerations of M&A/alliances

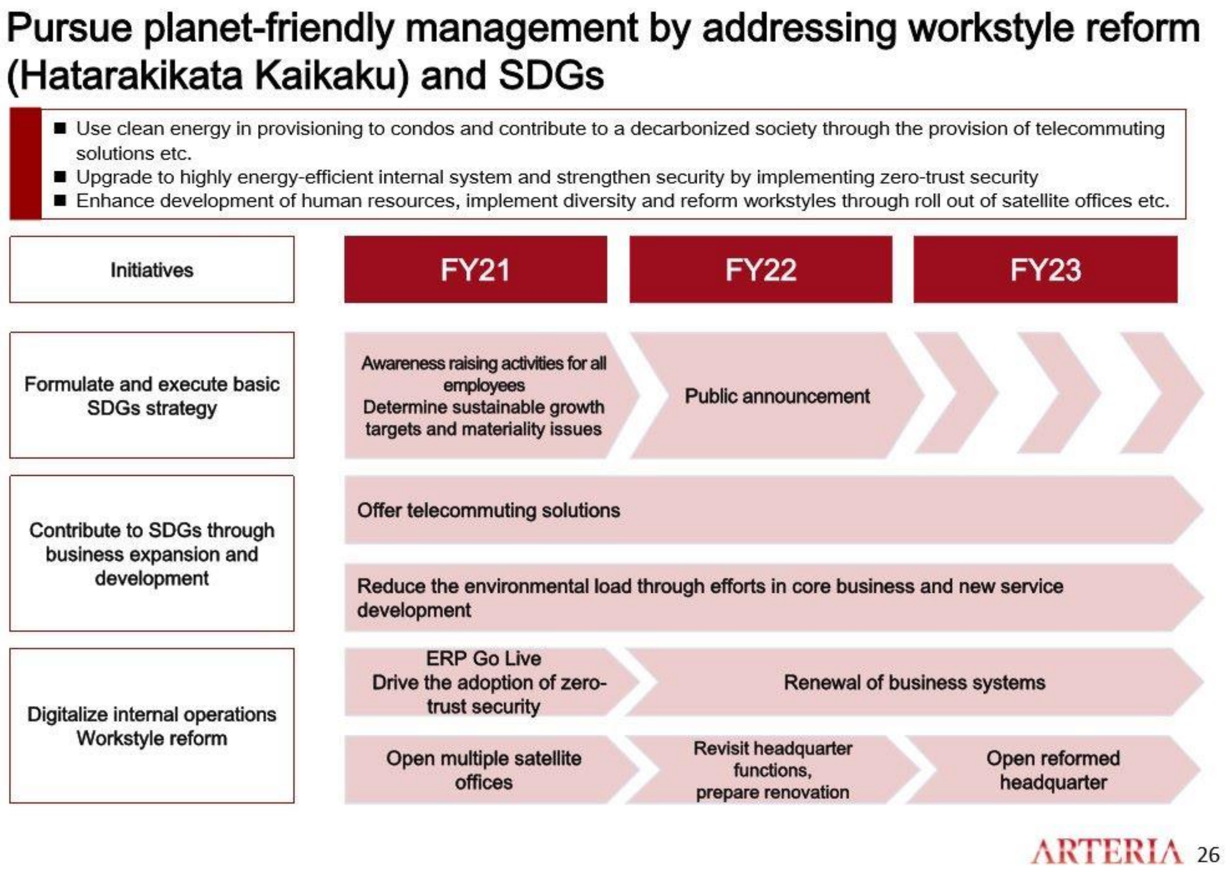
- Examine M&A and alliances from horizontal and vertical perspectives to increase value of network assets
- Narrow down from the perspectives of both portfolio growth potential and synergy effects
- In the short term, consider in areas which contribute to the start up of D2C Services Business



ARTERIA 25

Next, on page 25, I will explain our criteria for considerations of M&A and alliances.

What we are considering as a premise is a horizontal perspective to maximize our network infrastructure, human resources, and customer base, as well as a vertical perspective to examine non-telecommunication businesses. We will conduct M&A and capital alliances that are expected to increase the value of owned assets, expand business foundation, and capture growth domains.



I will explain about workstyle reforms and SDGs.

We are already carrying our environmentally-conscious activities such as the efficient use of energy and the provision of telecommuting solutions. In FY2021, ARTERIA Group will identify and implement its materiality and important issues. Internally, we are introducing ERP and driving the adoption of zero-trust security to strengthen our security as an infrastructure company. We are also reconsidering office functions. Through these measures, we aim to realize work style reform.

This concludes my explanation of the mid-term plan.

Forecasts

- Forecast sustained YoY revenue and profit growth

(Billions of yen)

	FY2020 (Actual)	FY2021 (Forecast)	Change	Ratio
Net sales	53.3	54.5	+1.19	+2.2%
Operating profit	8.9	9.3	+0.43	+4.9%
Profit before tax	8.5	8.9	+0.47	+5.5%
Profit	5.9	6.2	+0.27	+4.5%
Profit attributable to owners*	5.5	5.8	+0.27	+4.8%

*Profit attributable to owners of the parent

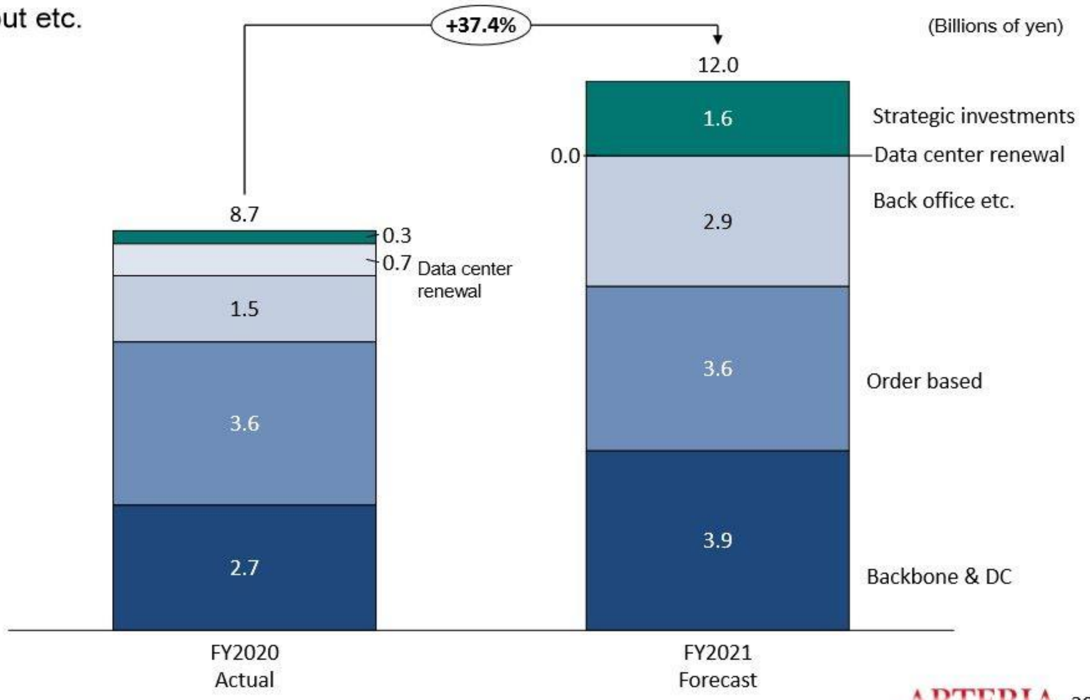
ARTERIA 28

Next, I will explain our earnings forecast for the current fiscal year. Please see page 28.

As described in our earnings report released on May 14, we continue to forecast increases in net sales and profits in the current fiscal year.

CAPEX

- FY2021 CAPEX forecast to increase 37.4% YoY, to 12.0bn yen, as a result of investments in new businesses such as SD-WAN, backbone enhancement, ERP roll out etc.



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

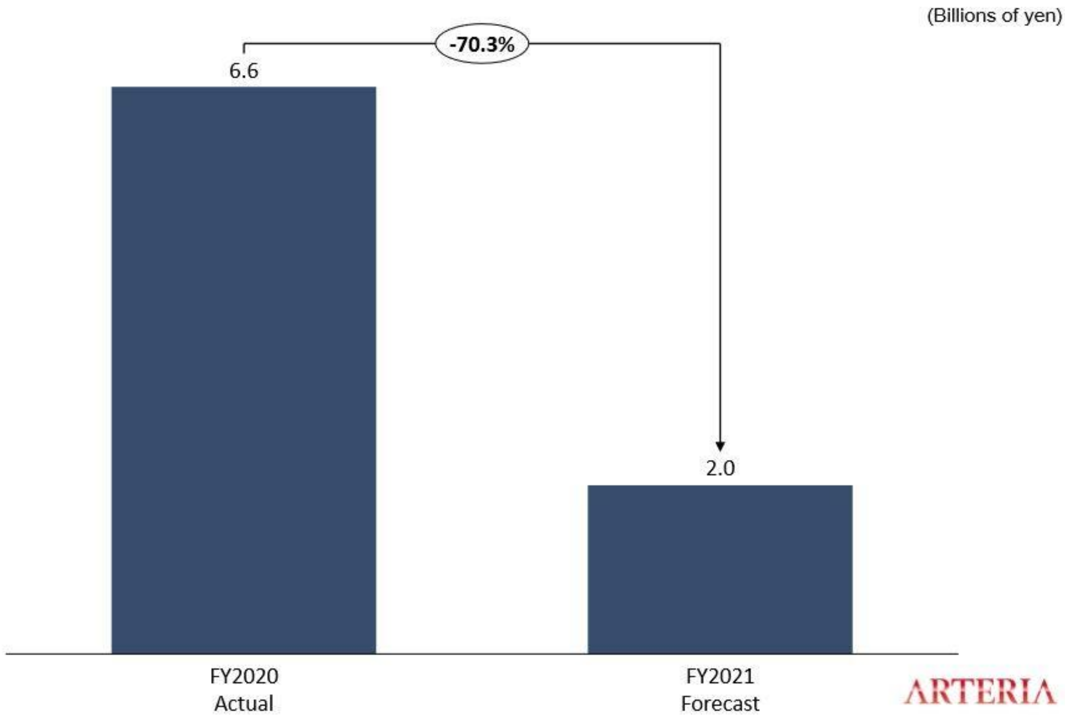
ARTERIA 29

Please see page 29 for our CapEx plan for the current fiscal year.

We expect the current fiscal year to be a year in which we implement aggressive investments compared to typical years. As explained earlier, we plan to invest JPY12 billion, an increase of slightly less than 40% from the previous fiscal year, to build the foundation of our business geared for growth, such as the strengthening of new businesses including SD-WAN and NFV, reinforcement of networks including the renewal of access networks, and construction of ERP.

FCF

- FCF forecast to decrease YoY due to CAPEX increase



ARTERIA 30

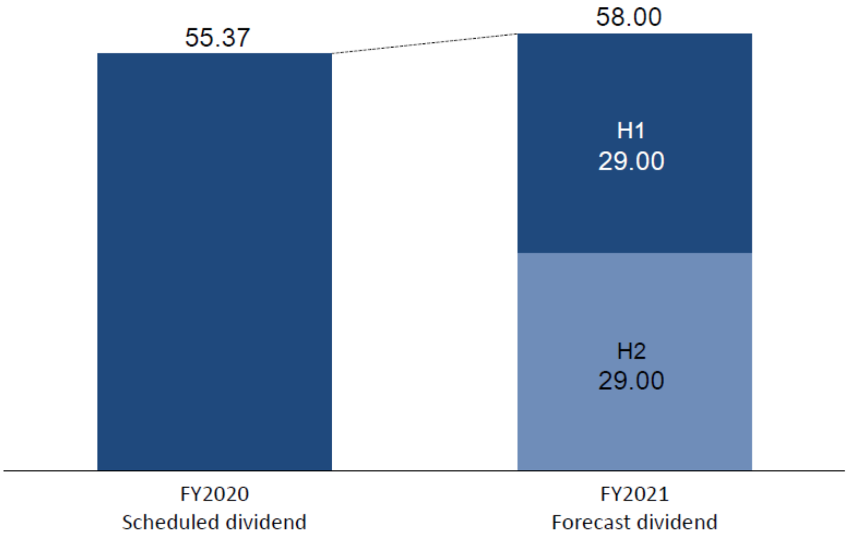
Please see page 30 for our FCF plan.

We expect a temporary decline in FCF to the JPY2 billion range due to an increase in CapEx during the current fiscal year, as explained earlier. There will be no issues in our financial position because we have sufficient liquidity on hand for dividends and debt repayment.

Dividend Policy

- Forecasted minimum dividend for FY21, paid out as interim and year-end
- Sustain 50% payout ratio

Dividends per share: yen



ARTERIA 31

The last slide is about our dividend policy.

We forecast a dividend of JPY58 per share, up JPY2.63 from the previous fiscal year. We have updated our dividend policy starting in this fiscal year. Going forward, we will be paying dividends twice a year, including interim and year-end dividends, and we will maintain the dividend payout ratio at around 50%, with the initial dividend forecast as the lower limit.

Although we will be investing aggressively in the current fiscal year, we will also strive to enhance shareholder returns.

This concludes our presentation.

Connecting New Abilities

ARTERIA

Question & Answer

Question: The first one is about the mid-term plan. I feel that it is a very ambitious mid-term plan. Do you think the FY2025 sales target of JPY80 billion is achievable with the current sales resources?

On the other hand, you also mentioned that you are focused on creating mechanisms to control fixed costs. Please explain this a little more.

Answer: To answer your question, we do not think that the current resources are sufficient for the topline target. Even though we mentioned the curtailment of fixed costs, we expect to increase the number of personnel in a planned manner every year. Please understand that the operating profit target is premised on this increase in human resources. We will strengthen our sales structure and increase our marketing expenses.

Regarding costs, as I stated earlier, we had curbed investments when we were still UCOM and after the merger. As such, there were aging equipment and bottlenecks in our network. We have already carefully planned our investments regarding how much we would spend on those areas. By doing so, we have already planned on how we would be able to minimize costs related to congestion or traffic control.

In addition, we will be introducing an ERP and plan to update our operational systems. Through these initiatives, we believe it is possible to realize highly efficient operations.

Therefore, we believe the operating profit target is achievable, even with the increase in depreciation as a result of the investments every year, including JPY12 billion for this fiscal year and JPY9 billion thereafter.

Question: Yes. Thank you. In the numerical targets announced this time, it says that you aim for JPY65 billion or higher for FY2023 as well as for each of the other targets on a basis excluding M&A. Is it correct to understand that these are the minimum targets?

Answer: Yes, that understanding is fine. We have already decided on where to make investments, and we are planning on how to increase sales and capture demand based on them. If we can realize that we believe a certain degree of profits is the minimum when including the extent of growth that can be achieved in DX.

Question: Thank you. My second question is about the near term, regarding the target for the current fiscal year. In the previous fiscal year, I believe you were impacted in various ways due to COVID-19. How did you factor in the impact of COVID-19 as a premise for the current fiscal year's earnings forecast? Do you think that there will be virtually no impact during the current fiscal year? Could you please explain this point?

Answer: As explained earlier, we had no choice but to use networks of other companies in the previous fiscal year due to the impact of COVID-19. We took countermeasures such as roaming, but we expect to be able to conduct business without taking such measures during the current fiscal year. We think traffic volume will continue increasing in the current fiscal year, and we have created a situation where we wouldn't need to use the networks of other companies. In that sense, these factors have all been factored into our forecasts.

In addition, we are working on reducing costs which had swelled in the previous fiscal year. Through these efforts, we hope to further enhance our cost competitiveness. Does that answer your question?

Question: Thank you. Then, in terms of the negative impact on the top line in the previous year, you think that it will rebound as a positive impact in this fiscal year, correct?

Answer: That's correct. Regarding the top line, our business is based on recurring sales, so the demand that we missed the previous fiscal year won't directly translate to growth in the current fiscal year. The part that we missed last year won't appear in this fiscal year. Therefore, I hope you will understand that we will need to capture new demand.

Of course, sales increased in Q4 last year. So, we have made a steady start heading into the current fiscal year.

Question: Thank you. I would also like to ask 2 questions.

My first question is about sales growth in the mid-term plan. The growth in the core businesses, including Internet, network, and condo, from FY2022 seems more discontinuous or increasing steadily than before. Although I believe you are preparing for growth through the temporary increase in CapEx in FY2021, I see no other factors that would result in drastic growth. You mentioned that you hadn't set percentage targets for growth, but could you tell us about these targets in a little more detail?

Answer: The growth rate is increasing more than before. This is partly due to the impact of COVID-19 in the previous fiscal year. There was a considerable amount of demand that we weren't able to capture despite the explosive growth in communication because we had narrowed investments. To resolve that issue, we plan on continuing significant investments in the current fiscal year. As a result, sales would also increase.

In addition, we see a growing communication demand among general enterprises. We also see a heightened communication demand in condos. There is an extremely robust communication demand among companies providing Internet services, or OTT operators, such as those distributing videos. By steadily capturing that demand, we believe it is possible to grow sales discontinuously. Did that answer your question?

Question: Thank you. As a follow-up to my previous question, I believe the target for CapEx per Sale was 15%. If sales were to increase, then I believe JPY9 billion of CapEx wouldn't reach that level. Also, I believe CapEx contributes to medium-to-long-term growth. If not enough investments in the past are the reason for the weak growth of sales today, then wouldn't it take more time for the effects of CapEx today to start taking shape as results?

Answer: Yes. As you say, the JPY12 billion in CapEx in this fiscal year won't actually start taking shape as results until the next fiscal year or later. However, we also made substantial investments near JPY9 billion in the previous fiscal year. In light of the sufficient inquiries we are receiving in the current fiscal year, we think the number is well within reach. If the effects of the JPY12 billion in investment were to appear in the next fiscal year onward, it would be even more exciting. But, even in the current fiscal year, we think that investments made in the previous fiscal year or earlier will sufficiently take shape.

Question: I understand. Thank you. My second question is a slightly broad question. I would like to ask once again the significance of having your own network. In the current mid-term plan, I believe you have written about the further utilization of your own network and differentiated services as an operator with its own network. Preparing your own band would improve quality, but, ultimately, I think this is a matter of a company's profit margin. Could you please tell us again about what kind of significance or strength there is to own your own network in thinking about the mid-term plan?

Answer: I explained this earlier, but I think the question is about whether it is better to use one's own network or to lease the network of other companies. To put it simply, using a network that is borrowed from other companies means that the expenses will turn into variable costs. That way, the business would be more resilient to risk. When demand falls, variable costs would also fall, so the business would be resilient to risk. On the other hand, when demand is growing, it will directly increase variable costs, meaning that profits will not be able to expand.

Under the current circumstances in which communication demand is very high, traffic has increased robustly, and growth is expected, possessing our own network would allow us to conduct management that uses more leverage. Therefore, it is overwhelmingly stronger to possess our own network by suppressing the growth in fixed costs and expanding sales by steadily capturing the rising communication demand. We believe it is overwhelmingly advantageous.

Question: Thank you. By achieving sales growth, it would also translate to profit growth. Is that correct?

Answer: Yes.

Question: I just have one question. I believe the question will be very abstract and unorganized. In your presentation, you explained that the Company had curbed investments too much in the past and had not conducted enough communication with the stock market. When looking at the material this time, perhaps this is because it includes a mid-term plan, but I really thought that the material shows a strong motivation to explain the business compared to earnings materials in the past that were very simple.

I believe there have been various changes over the past year, including management, on-the-ground sales, and shareholder composition. I also think there was an incident. Could you summarize these changes in the management team and on-the-ground sales? I am asking this to understand the background to those changes.

Answer: Thank you. We appreciate your compliment regarding the enhanced disclosure in our materials.

I believe your question was about changes on the ground and in management. The first point, which is particularly important, is that we used to work toward curbing investments to produce profits back when we were still UCOM and during the post-merger period when a PE fund was involved in management. The goal at that time was how much we could increase EBITDA. But, because of that, I believe we had conducted management in a way where possessing our own networks would lose all significance, as pointed out in an earlier question. Although it wouldn't be good if we had our own network, which is a business based on fixed costs, if the communication industry weren't growing. However, under the current circumstances where communication demand is growing, I believe it is better to leverage our strength of having our own network. The mindset of the management team has also changed considerably. I believe we have become more proactive than before.

In the current mid-term plan, we have held discussions every week for about the past 9 months, including the CxO, officers, and employees. By creating a detailed investment plan through such discussions, I don't want to toot our own horn, but I believe our on-the-ground workers have brightened up and become more forward-looking. We mustn't create an environment where employees would be over-worked, but I believe it is fair to say that our ground-level employees have adopted a more positive view than before.

Question: I'm sorry, it's been more than a year since the last time joining your earnings call.

In the conversations earlier, you mentioned about how curbing investments in the past led to missed opportunities in capturing the growth in data volume. I haven't reached out to your company in the past year or so, but from my understanding based on several interviews I've done in the past, I didn't get the impression that a shortage in in-house capacity or resources led to uncaptured demand. That's why, when listening to President Kabumoto talk today, I was slightly bewildered.

This may be a change that happened in the past year or so, but if there were indeed a change in the demand environment over the past year and there was uncaptured demand due to capacity shortages, then to take it a step further, was this in terms of leased lines or condo Internet? Or is it an issue with the capacity of the Company's own line and applicable to all businesses? Was this a matter of having contracts but deciding not to obtain them because of the shortage of resources? Please tell me a little more about this.

Answer: The most notable area where there wasn't enough investment, as touched on earlier, is the congestion that occurred in the previous fiscal year. Congestion is a situation where traffic is clogged up, and we caused various inconveniences to customers. The communication stops. Even if it doesn't stop, it gets slower. This didn't occur just at our own company, but also occurred frequently at various companies.

When these issues happened, we didn't just use our own network but also used the networks of other companies so that we don't lower the level of satisfaction of customers. This is what is referred to as roaming. We went to that extent so that we wouldn't lower the satisfaction level of customers. This issue was singularly due to not having made investments in these areas in the past.

Also, we have an FTTx network, which is a last-one-mile network. We have done minor upgrades from time to time over a very long period, but there are some areas where there are delays. Because of that, we haven't been able to differentiate our services for condos, and we weren't able to realize high-speed connections with our lines without using the lines of other companies. We also had regional issues. For example, the last-one-mile network has been upgraded significantly and is comfortable in the metropolitan area and Osaka. But, for example, when looking at local cities, we haven't been able to upgrade our networks to that extent, so there were areas where we couldn't capture communication demand.

Nevertheless, we have been able to grow to this extent up to now. Going forward, by resolving those issues, we would capture new demand and demand that we had not been able to capture up to now. It would also lead to cost reductions. That is why I mentioned that the business would grow.

Question: Thank you. Next, could you tell us the approximate amount of roaming costs for the full year in the fiscal year that ended?

Answer: We are paying around JPY10 billion annually for communication equipment usage fees, which are the usage fees of other companies' networks. These fees can be broken down into backbone network and last-one-mile ones. This time, due to the impact of COVID-19, the increase in these fees was probably around JPY200 million to JPY300 million.

Question: Do you think that these costs will drop out in the current fiscal year?

Answer: Yes. We won't be able to resolve them completely, but we are in the middle of working hard to reduce them.

Answer: Earlier, you also mentioned leased lines. To answer that, investments were not a bottleneck in creating leased lines up to now. We have a robust backbone network, so there have not been such bottlenecks. If we can acquire a leased line, we borrow dark fiber from other companies or take various other measures, so that part is fine. This time, we will be improving our access network, but this doesn't mean that we are merely using FTTx for the access network. We can also use leased lines and VPN as last-one-mile communication. Therefore, if this leased line business improves, I believe our cost competitiveness will also increase.

Question: I understand. Thank you. I believe you mentioned Connectix in the part about DX. Regarding the business expansion of Connectix, will you be providing services to an OTT or other operators, or will you be expanding it as a paid option for each condo? What kind of service format would it take?

Answer: This will be a service sold directly to condo residents. As explained, we have provided building-wide condo Internet in the past, but they were sold to condo management associations, and there was no direct transaction with residents. This is a service that we will sell directly to condo residents. Some companies provide employees with subsidies as part of telecommuting promotion measures, so there might be some sales to companies in that regard. However, the service will basically be sold directly to residents.

Question: I thought there might be a certain degree of marketing costs in starting up a B2C business. What are your views on that?

Answer: Yes, it is as you say. Frankly, we won't be able to target all condos from the start. As such, we would need to use marketing costs wisely. There wouldn't be a point in marketing the service to all condos. We have formulated the numerical targets factoring in these marketing costs to a meaningful extent.

Question: You revised the shareholder return policy and newly stated that the initial dividend forecast will be the lower limit. Just to confirm, this isn't limited only to the current fiscal year, is it? This is the same policy as your parent company, Marubeni. Other trading houses have adopted progressive dividends, where they would maintain or increase dividends every year. But Marubeni adopts a policy of not reducing dividends for this fiscal year only. Frankly, this policy hasn't been evaluated highly among trading houses. Looking only at your company, I believe the policy has improved. Just to confirm, please let me check if this is only applicable to the current fiscal year.

Answer: This isn't a progressive dividend policy, but a policy where we issue an initial dividend forecast every fiscal year, and that forecast serves as the lower limit of the dividend. Therefore, it is not limited to this fiscal year only, but it also isn't a progressive dividend. Perhaps that means that the stock market won't evaluate the policy highly, but that is our policy. Having said that, our business is based on recurring sales, so our sales do not fluctuate like the business of trading houses. Therefore, in real terms, I think they will be progressive dividends.