H1 Earnings Results Briefing
March 31, 2022

November 19, 2021

ARTERIA Networks Corporation

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FY2021H1
Earnings Results

FY2021H1 Highlights

- Recurring businesses are driving steady earnings. On track to achieve guidance for first year of mid-term plan.

- Core services are sustaining sound growth trends. Network costs, which have been inflated due to congestion measures as a result of COVID-19 since FY2020, continue to trend high and contribution to profits from recurring businesses is limited.

- Recorded a disposal gain of 1.2bn yen in FY2021H1 on the partial transfer of the data center business, as part of a strategic review of non-core businesses announced in FY2020. Net impact of this transfer on operating income, including one-time related costs, amounts to 800-900M yen, forecast around 1.5bn yen in FY2021.

- To achieve growth in our core services we have put in place company-wide structural reorganization aimed at optimizing our network costs. While some one-off restructuring costs will occur during FY2021H2, we forecast that we will be able to achieve forecast profit levels.

Financial Highlights

- Sustained YoY revenue and profit growth.

(Billions of yen)

	FY2020H1	FY2021H1	Change	Ratio
Net sales	25.9	26.6	+0.73	+2.8%
Operating profit	4.2	5.1	+0.90	+21.6%
Profit before tax	4.0	4.9	+0.97	+24.4%
Profit	2.8	3.4	+0.63	+22.7%
Profit attributable to owners*	2.6	3.2	+0.63	+24.5%

*Profit attributable to owners of the parent

Forecasts

- Net sales & all profit levels showing approx. 55% progress.
- No change in FY2021 forecast.

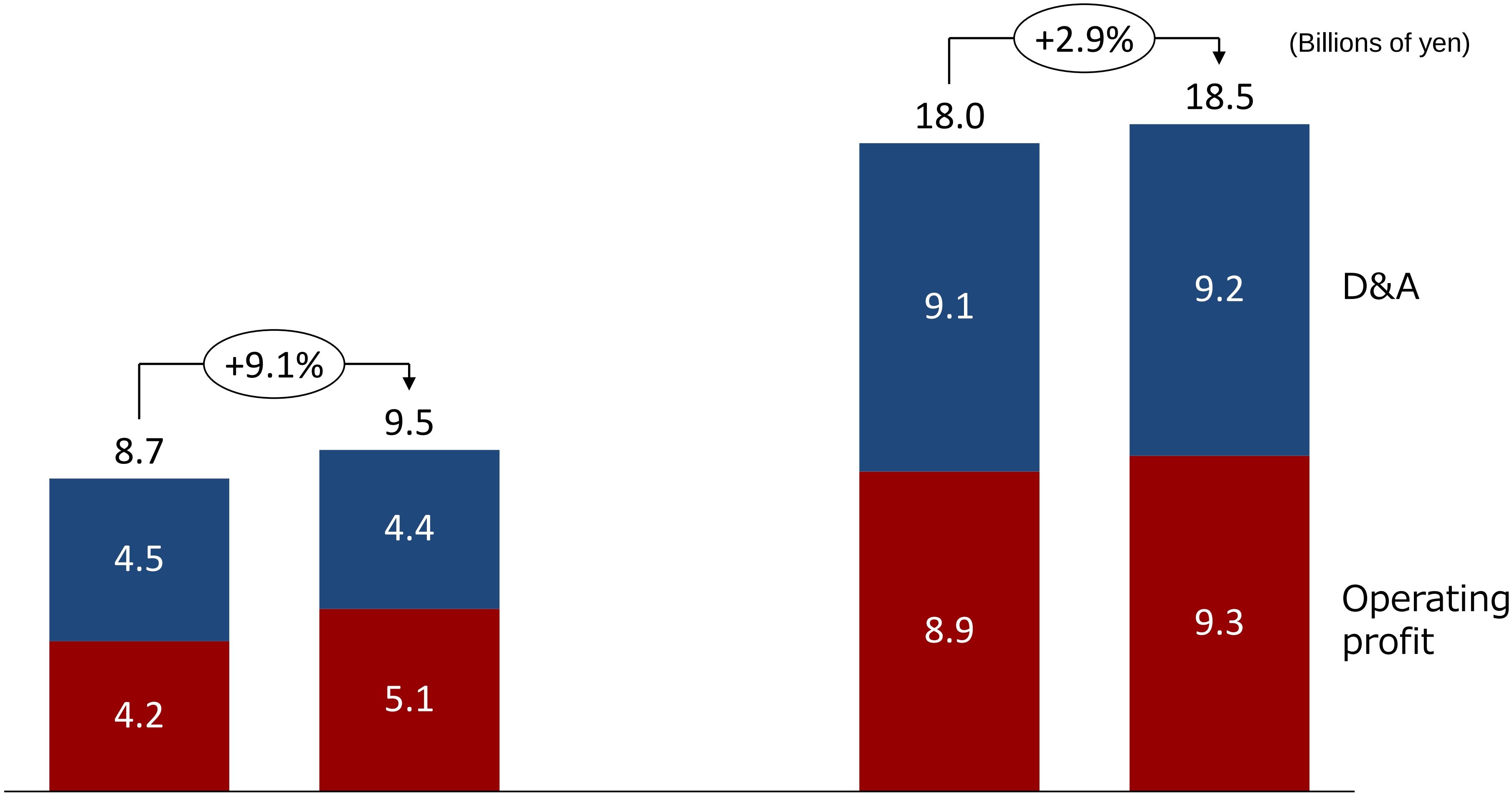
(Billions of yen)

	FY2021 (forecast)	FY2021H1	Progress
Net sales	54.5	26.6	48.8%
Operating profit	9.3	5.1	54.4%
Profit before tax	8.9	4.9	55.4%
Profit	6.2	3.4	55.0%
Profit attributable to owners*	5.8	3.2	55.4%

*Profit attributable to owners of the parent

EBITDA

- EBITDA improved by 9.1%, to 9.5bn during FY2021H1, FY2021 forecast at 18.5bn.

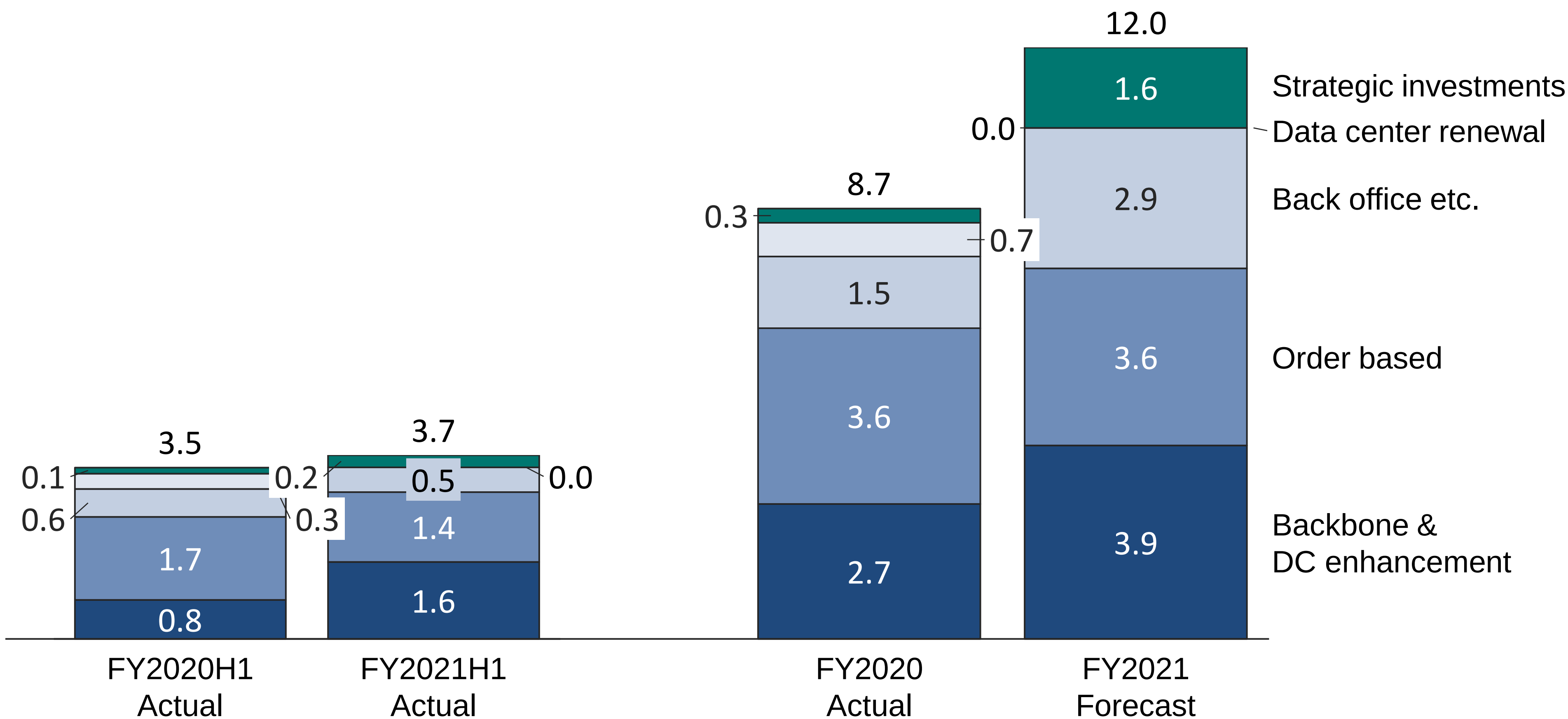


	FY2020H1 Actual	FY2021H1 Actual	FY2020 Actual	FY2021 Forecast
EBITDA margin	33.5%	35.6%	33.8%	33.9%

CAPEX

- FY2021H1 CAPEX at 3.7bn (0.2bn increase YoY), mainly order based CAPEX and network enhancement.
- Plan to execute approx. 8.0bn CAPEX during FY2021H2 mainly on new businesses and roll out of ERP etc.

(Billions of yen)

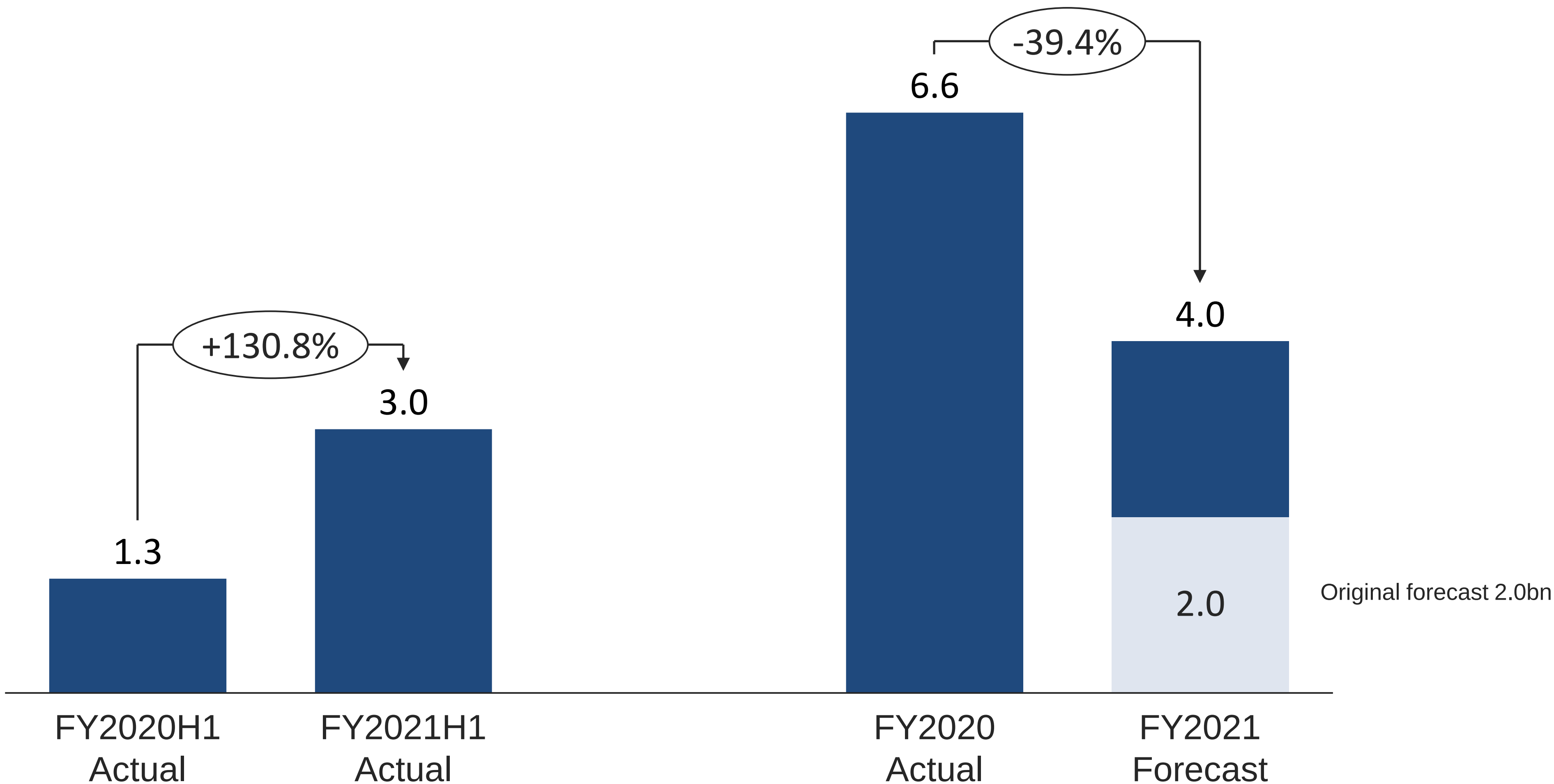


*Increases in assets due to the adoption of IFRS 16 and reclassification of inventory to fixed assets according to IFRS are excluded.

FCF

- FCF in FY2021H1 increased by 3.0bn (130%) due to transfer of data center business and proceeds from sale of investment securities. Expect FY2021 FCF to exceed original forecast at 4.0bn.

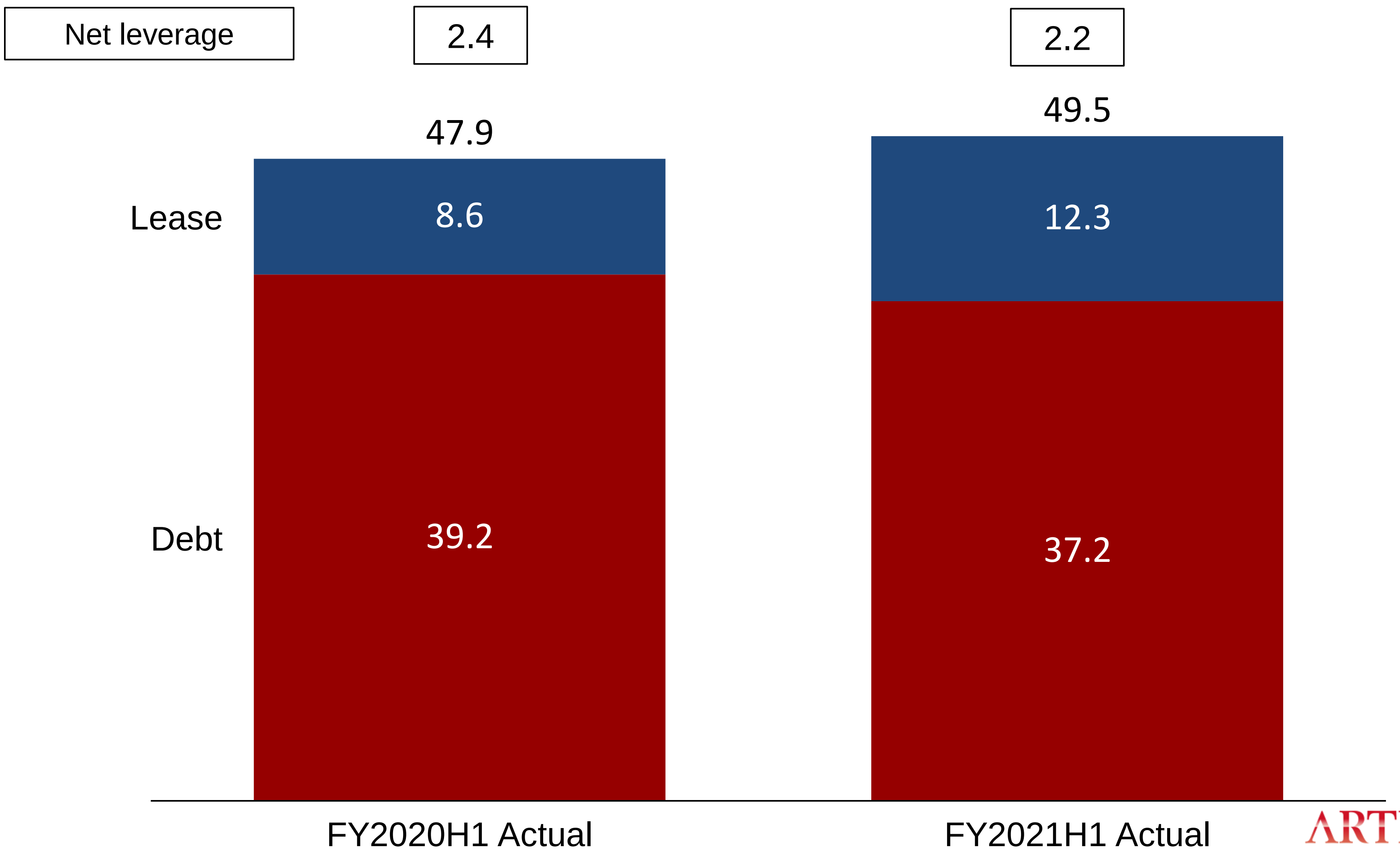
(Billions of yen)



Capital Structure

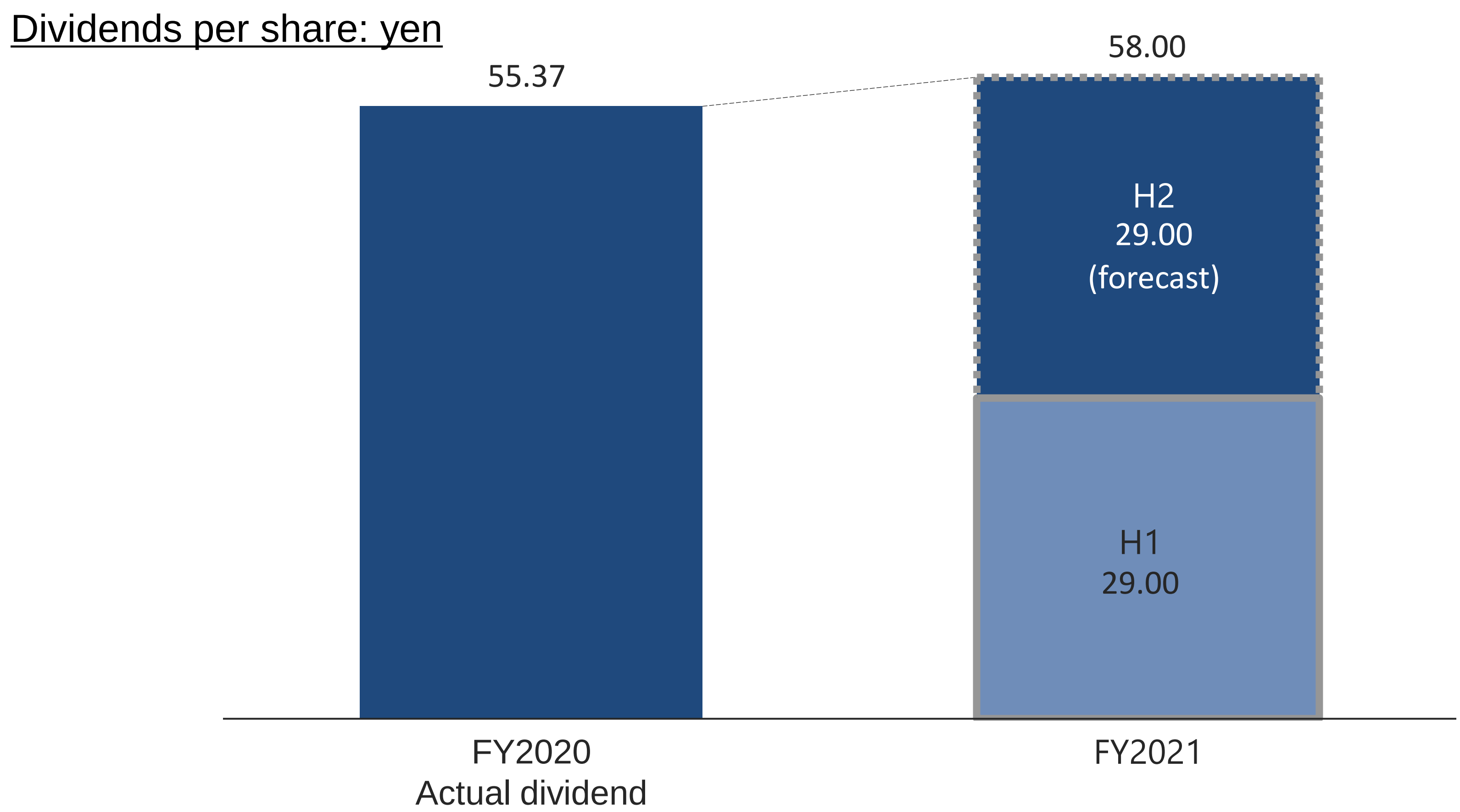
- Leases increased as a result of the data center transfer. Net leverage improved as a result of scheduled repayments and EBITDA improvement.

(Billions of yen)



Dividend Policy

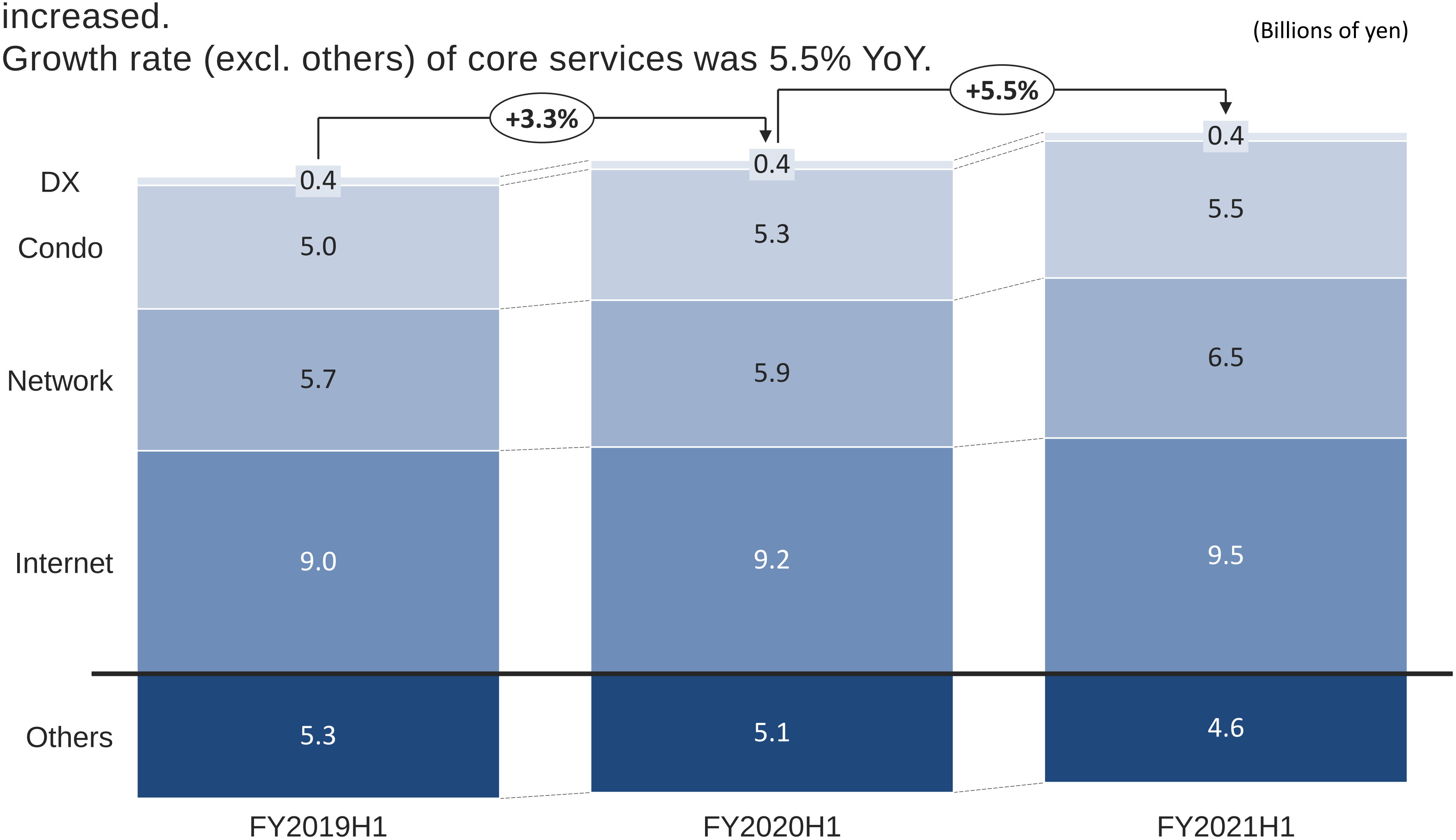
- Forecasted minimum dividend for FY2021, paid out as interim and year-end.
- Dividend for FY2021H1 is scheduled to be 29.00 yen.
- Sustain 50% payout ratio.



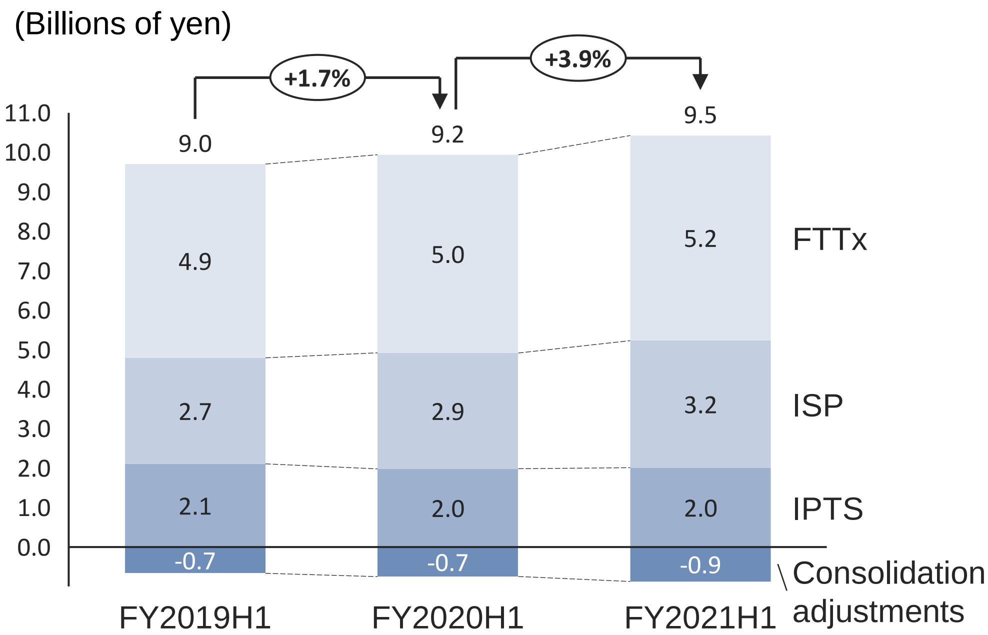
Core Services and Growth Strategy

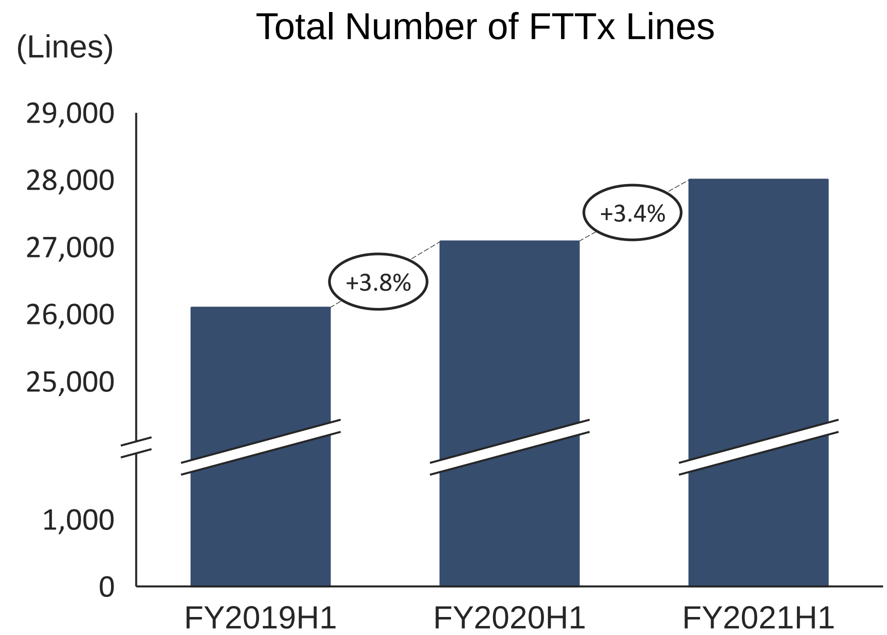
Revenue by Service

- Demand, previously sluggish due to COVID-19, is recovering. Sales for core services increased.
- Growth rate (excl. others) of core services was 5.5% YoY.



Internet





	FY2019H1	FY2020H1	FY2021H1
Total number of lines	26,096	27,084	28,003

FTTx

- Driven by continued increase in cloud usage and the spread of telecommuting, sales of best effort basis maximum 10Gbps (uplinked downlink) FTTx service are expanding steadily.

ISP

- Demand for high-quality services has increased, and take-up of Cross Pass[*1] service has expanded.

IPTS

- While the demand for phone calls generated from offices is stagnating, IP phone services showed signs of recovery due to increased sales to partners such as cloud PBX[*2] operators.

While the expected growth rate of fixed broadband services in the Japanese market is forecasted at 2.3%[*3] , our growth rate was 3.4%.

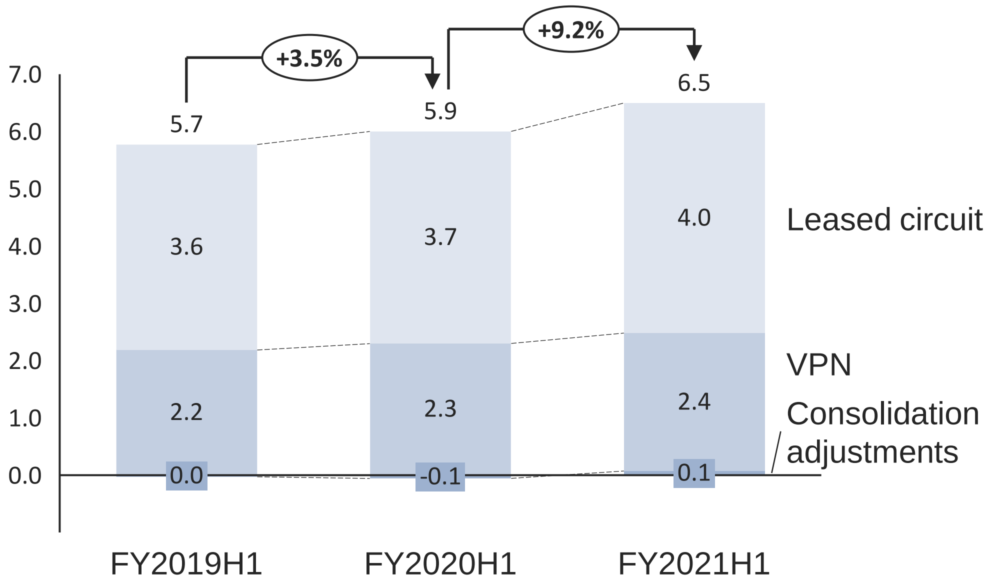
*1 Cross Pass is a flat-rate internet connection service compatible with NTT EAST and NTT WEST Flet's service. It is also compatible with services provided by their OEM partners

*2 Service that builds a PBX (private branch exchange) on the cloud and provides calls and communications over the Internet.

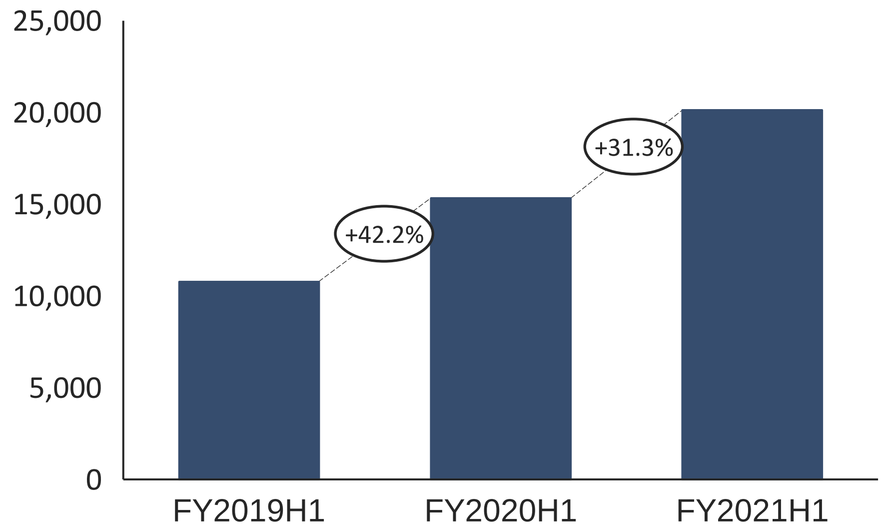
*3 2021 market growth forecast
Source: IDC Japan, April 2021「Japan Telecommunications Services Forecast, 2021 2025」(JPJ46557521)

Network

(Billions of yen)



Total Bandwidth of Ethernet Lines



	FY2019H1	FY2020H1	FY2021H1
Total bandwidth*2 Gbps	10,780	15,333	20,124

Leased circuit

- Orders, previously sluggish due to COVID-19, started to show signs of recovery and sales expansion continued.
- In response to the continuing increase in data traffic against a background of telecommuting and digital transformation opportunities, sales to OTTs*1 and telecommunication providers are expanding steadily.

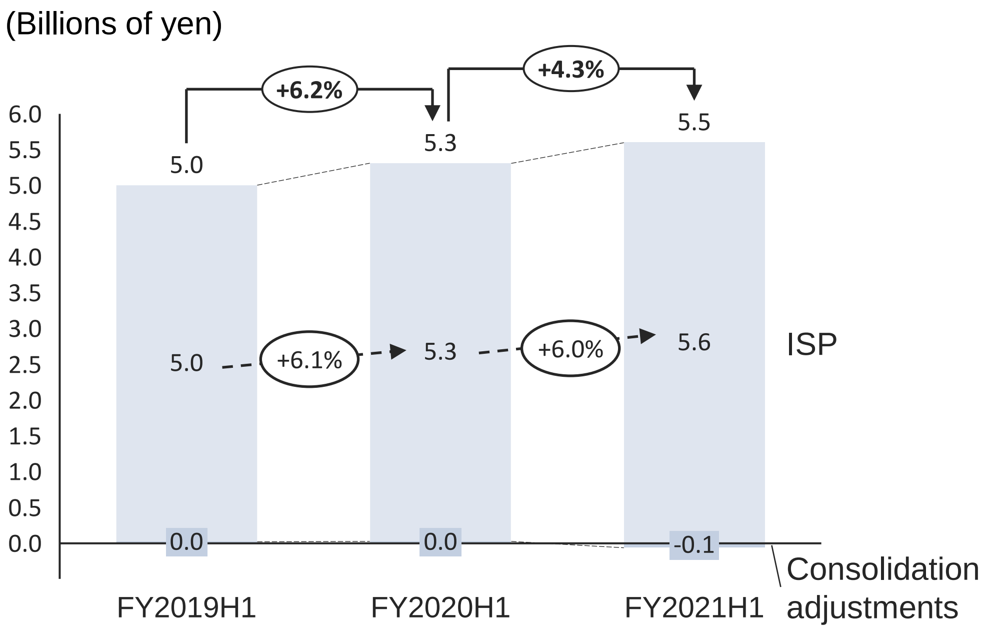
VPN

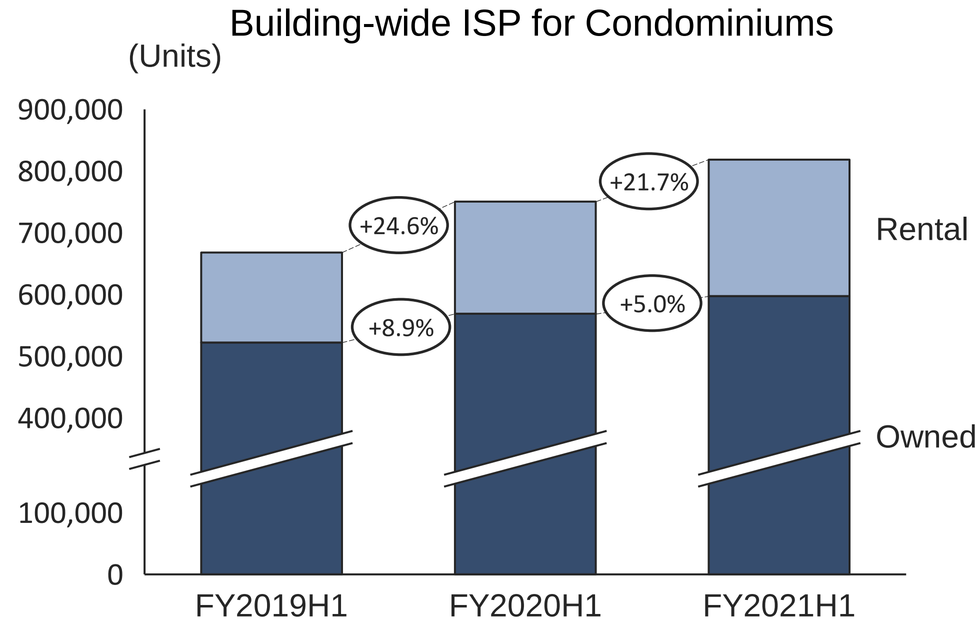
- Steady sales increase.
- Sales of remote access service and services which enable use of cloud-based services are trending strong.

As a result of large orders in FY2020 the growth rate in FY2021 was lower but still sustained a high growth rate at 31%.

*1 OTT: Over The Top
*2 Total bandwidth = service bandwidth × number of lines

Condominium Internet





	FY2019H1	FY2020H1	FY2021H1
Rental	145,717	181,509	220,898
Owned	522,356	568,963	597,635

Condo

- Growth rate declined due to change in deferred period for initial sales to 4.3% YoY. Growth rate excluding this impact was 6.0% YoY and sustained comparable level.
- Provide services to condominiums ranging from small to large in both the owned and rental markets.
- Increase in telecommuting resulted in more focus on telecommunication quality. This has led to the introduction of new services, but also capturing replacement demand from customers in need of higher quality telecommunication.

Growth in paying units was lower due to postponement of completion of new builds driven by COVID-19 and the Olympic games. Growth rate in the rental market has sustained more than 20% YoY.

Mid-Term Plan Review in FY2021H1

1. Measures for growing the core business

- Captured demand from foreign telecommunication providers and OTTs and decided to invest in Kanto and Kansai network where data centers are concentrated. Construction to start in FY2021.
- Execute various investments for the growth of the core business such as service optimization/update, operational reform, and organizational strengthening.

2. Measures for incorporating a new growth portfolio

- The first D2C service, "Connectix," was launched at the end of August*1 .
- Building a service platform to enable provision of D2C services by integrating existing service portals*2 . Phase 1 will be released in FY2021.

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

- Obtained "Eruboshi Certification" three stars based on the Act on the Promotion of Female Participation and Career Advancement and "Kurumin Certification" based on the Act on Advancement of Measures to Support Raising Next-Generation Children.
- Reform workstyles by decentralizing offices, we decided to establish satellite offices in 3 locations in the Tokyo metropolitan area and will open them in FY2021.

*1 More details on Connectix can be found in our news release (August 23, 2021). https://www.arteria-net.com/news/2021/823-01/
*2 Refers to portal sites, EC sites, etc. for condominium residents and management associations provided by our group.

Current Status of Arteria Group's Business for Consumer

Multiple Services provided on separate web sites

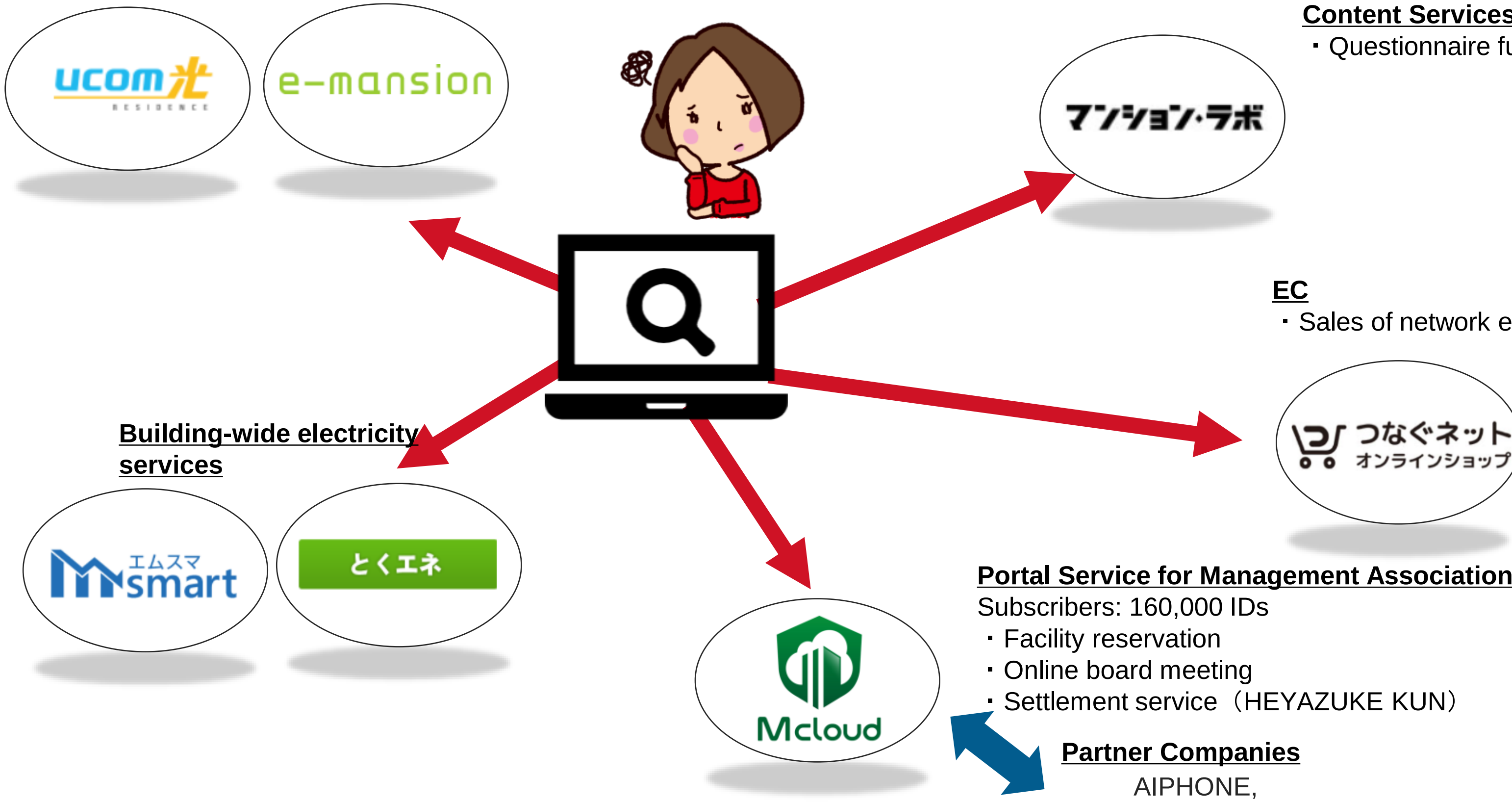
- Customer convenience not maximized
- Takes time to launch new services

Option Services for Condo Residents
Subscribers: 420,000 IDs
・Mail, IP phone
・Security services

Content Services
・Questionnaire function

EC
・Sales of network equipment, etc.

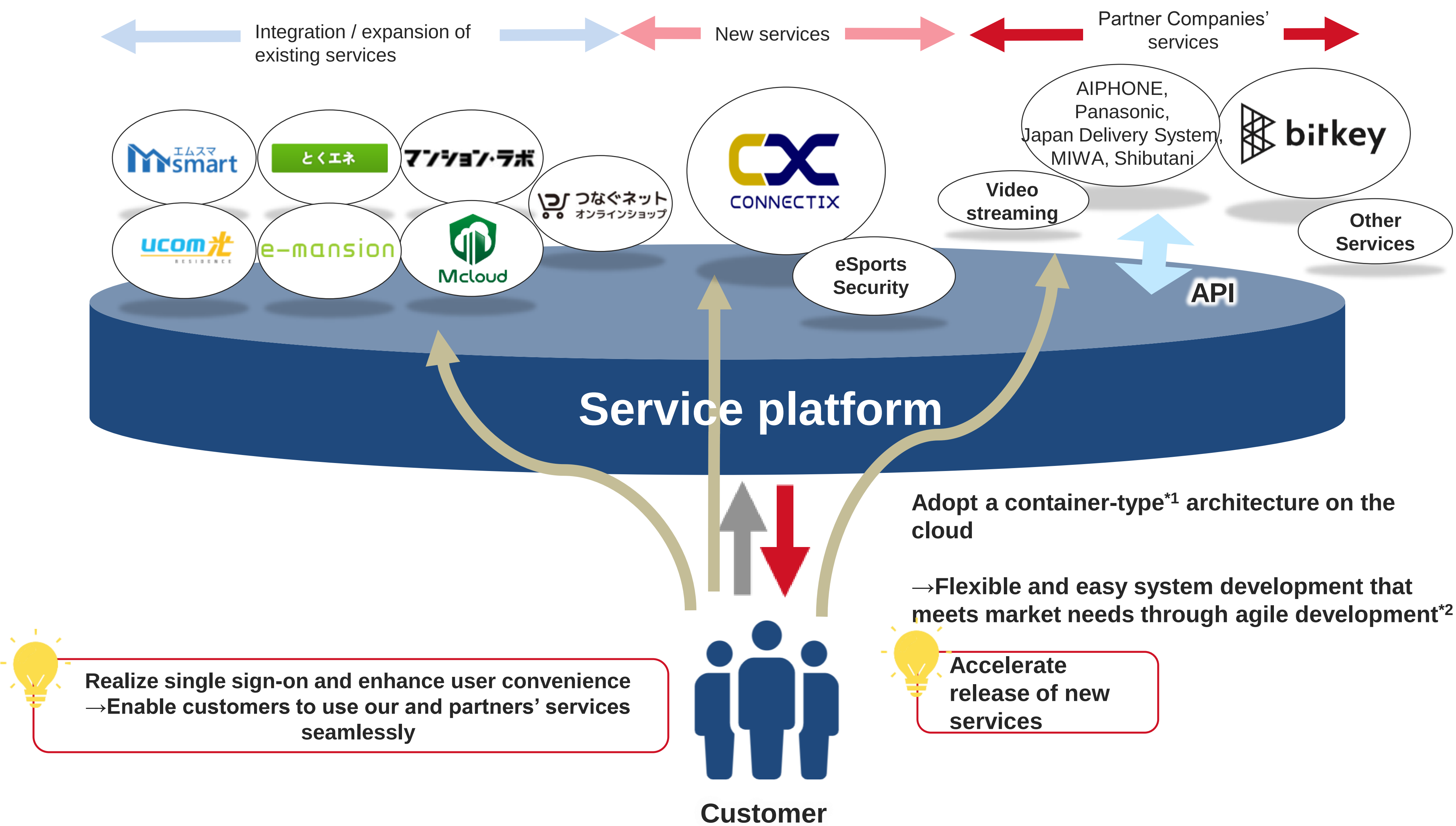
Building-wide electricity services



Portal Service for Management Association
Subscribers: 160,000 IDs
・Facility reservation
・Online board meeting
・Settlement service（HEYAZUKE KUN）

Partner Companies
AIPHONE,
Panasonic,
Japan Delivery System,
MIWA, Shibutani

Build Service Platform to Enable Provision of D2C Services



*1 Technology for virtually constructing the operating environment of an application

*2 A development method that repeats the process from planning to design, development, and testing in a small cycle of functional units

Appendix

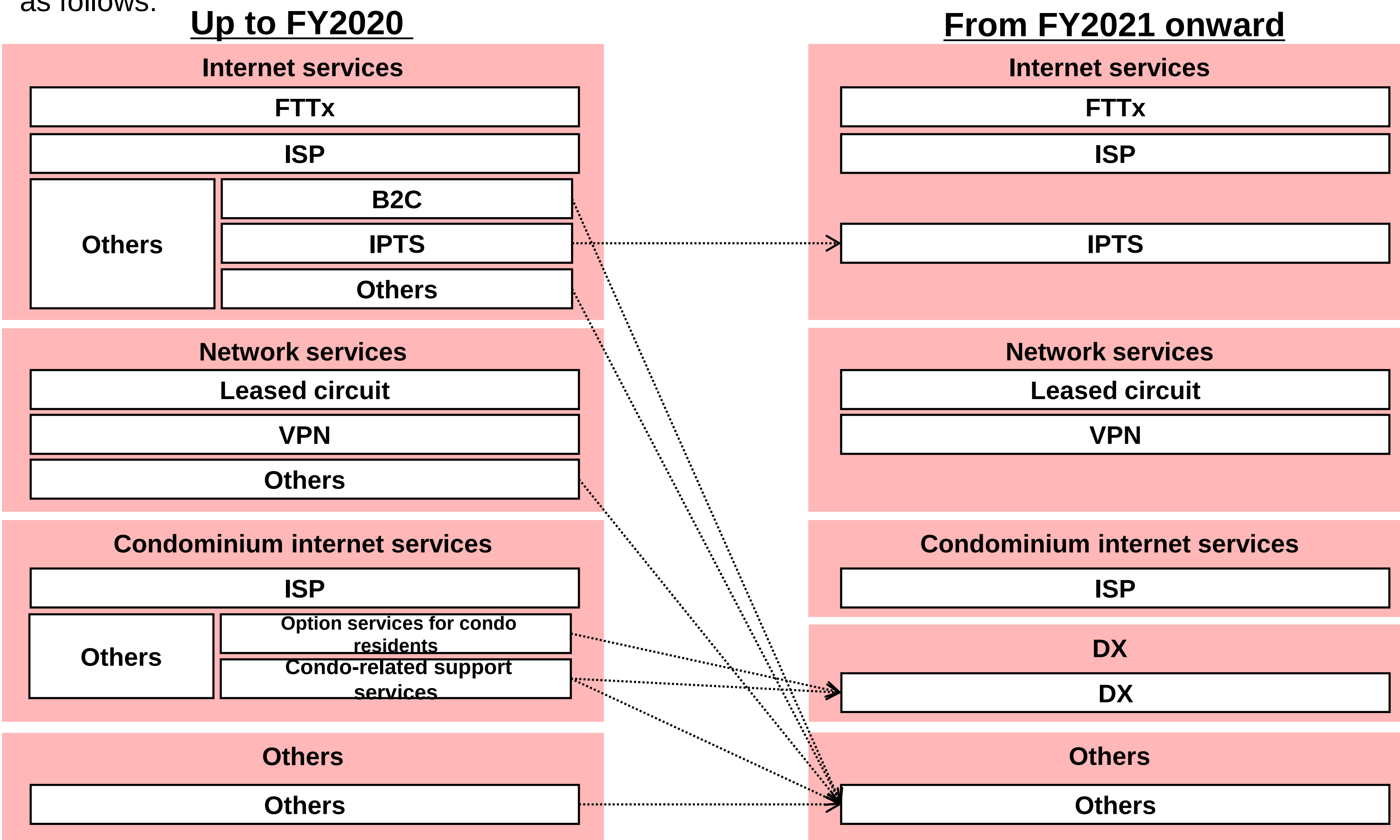
Costs Breakdown

(Millions of yen)

	FY2020H1	FY2021H1
COGS	17,673	18,132
Communication costs	5,635	5,754
Outsourcing	2,595	2,741
Personnel expenses	1,290	1,383
D&A	3,675	3,568
Other	4,480	4,688
SG&A	3,951	4,515
Personnel expenses	1,881	2,048
D&A	726	714
Commissions and other fees	400	492
Outsourcing	364	548
Agent fee and promotion	194	215
Other	387	499

Change in Core Services Classifications

In light of our current business scale and management strategy, we have changed our core service classification as follows:



*Consolidated adjustment amount is included in each segment

Connecting New Abilities

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