ARTERIA

H1 Earnings Results Briefing
March 31, 2022

November 19, 2021
ARTERIA Networks Corporation

H1 Earnings Results Briefing

Date
November 19, 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

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.

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I'm Kabumoto, CEO. Thank you very much for taking the time out of your busy schedule to participate in our financial results briefing today, albeit in the form of a conference call. I would like to explain the financial results for H1 of the fiscal year ending March 31, 2022 in accordance with the materials. Thank you.

Now, please see page 4. These are the highlights of the financial results for H1 of the fiscal year ending March 31, 2022.

To summarize our business performance, we have been performing very well, especially in existing and recurring businesses, and we believe that we will be able to achieve our business performance in the fiscal year ending March 31, 2022, the first year of the mid-term plan.

Our core services have maintained growth with solid sales performance. On the other hand, network costs have risen since last year due to measures to deal with congestion caused by the effects of the COVID-19. These costs are still slightly high and continued to have an impact in H1 of this fiscal year. As a result, the margin of profit growth in H1 of the fiscal year for the mainstay continuing business has been limited.

On the other hand, as we announced at the end of last fiscal year, we sold part of our data center business. In H1 of the fiscal year, we posted a gain of about JPY1.2 billion on the transfer. Since there are 1-time expenses, the net impact on operating profit for H1 of the fiscal year is approximately JPY800 million to JPY900 million. On a full-year basis, we estimate that it will be about JPY1.5 billion.

At the same time, we are developing company-wide structural reforms aimed at optimizing network costs for the growth of our mainstay services. In H2 of the fiscal year, although we will incur 1-time expenses associated with these structural reforms, we expect to be able to secure the level of profits forecasted.

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

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Next, the highlights of P&L.

First of all, in terms of net sales, the sale of the data center business and the deferral of initial sales of the condominium Internet service, which I will explain later, had an impact of about 1.6%. Including this, the increase rate is 2.8%. I will explain the growth of our core services later.

As a result, our core services are growing steadily. Profit at each level increased in the 20% range, partly due to the impact of the sale of the data center business, as I explained earlier.

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

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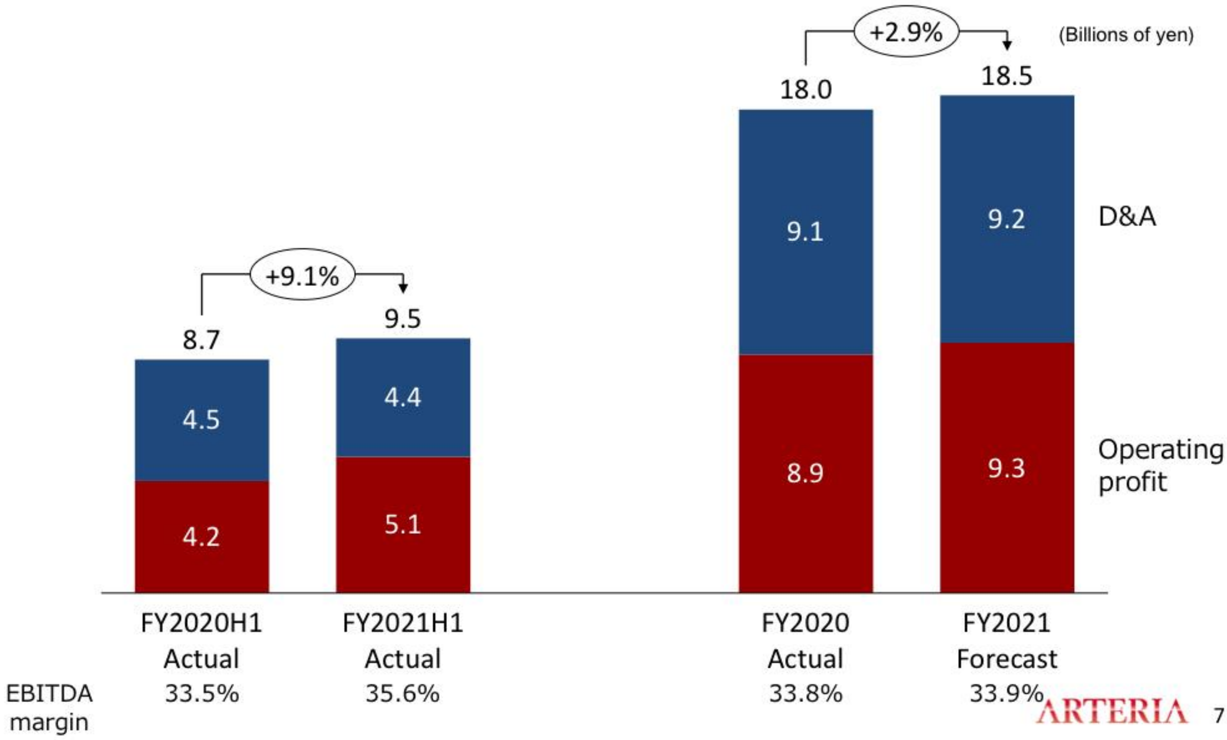
The following is the percentage of progress against the forecast.

Although sales are slightly down, at 49%, the profit from the sale of the data center, as mentioned earlier, has resulted in a 55% progress rate for each stage of profit.

For H2 of the fiscal year, we are planning to include expenditures related to structural reforms, but we are confident that we will be able to achieve the forecasted figures at the beginning of the fiscal year under firm control. However, in this earnings announcement, we have not revised the earnings forecast that we announced at the beginning of the fiscal year.

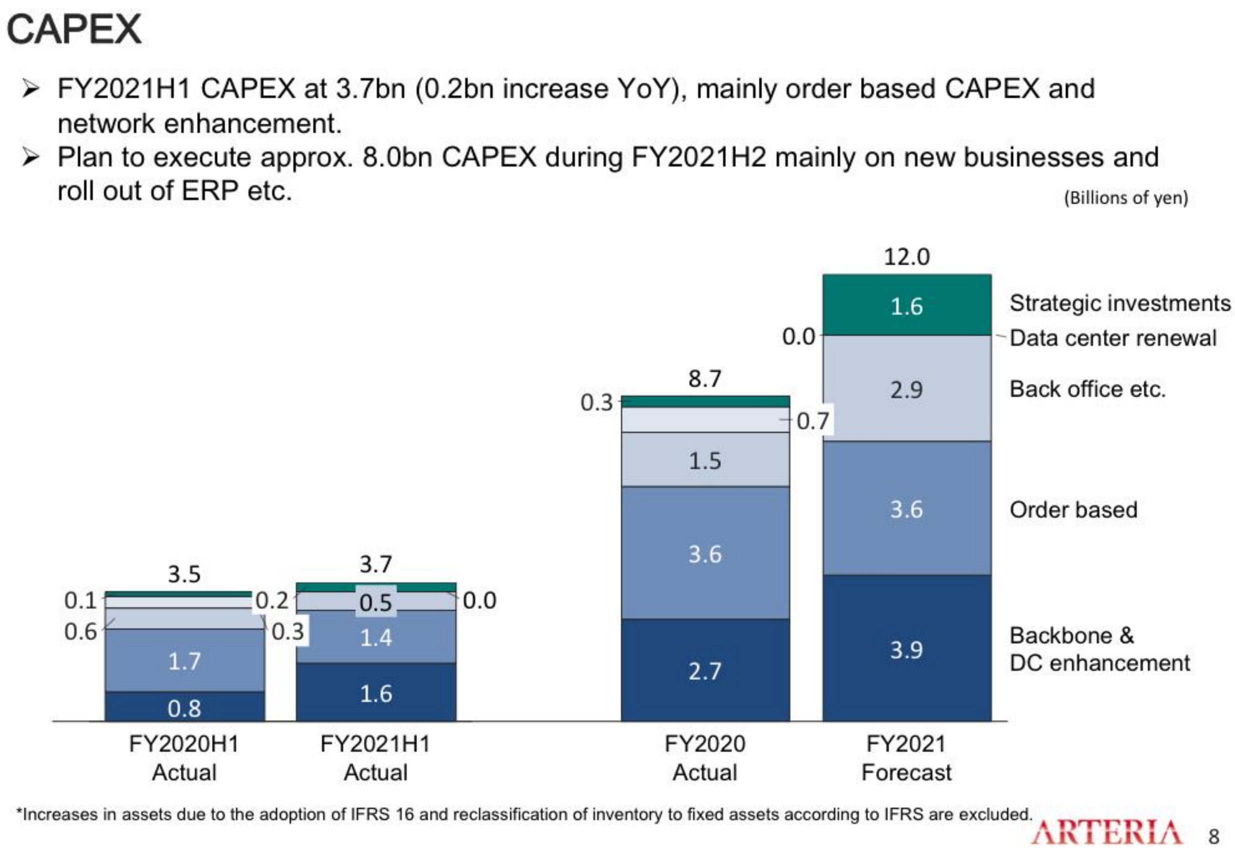
EBITDA

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



This is the EBITDA for H1 of the fiscal year.

EBITDA improved by 9.1%, and the EBITDA margin was also maintained at the 30% level. The forecast for the end of the fiscal year is JPY18.5 billion. The EBITDA margin is also expected to remain unchanged at a little over 30%.



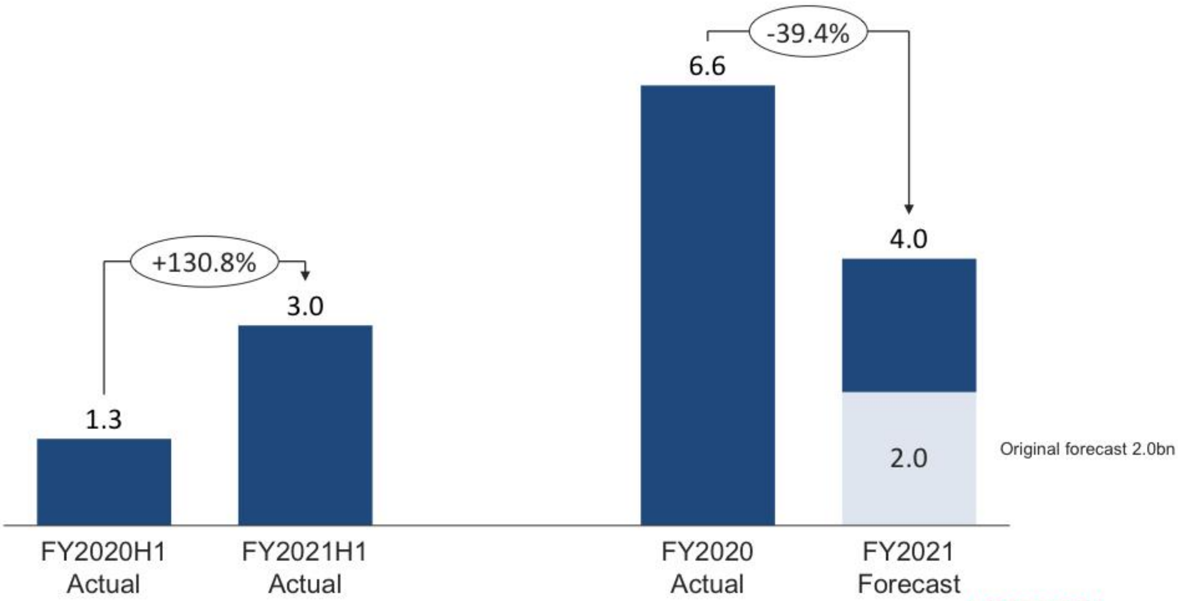
Next, CAPEX.

The results for H1 of the fiscal year were JPY3.7 billion, an increase of JPY200 million from the previous fiscal year, and we are planning to achieve JPY12 billion this fiscal year. Due to the impact of the shortage of semiconductors for network equipment, we are slightly behind schedule, but will catch up in H2 of the fiscal year and plan to invest JPY12 billion.

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)



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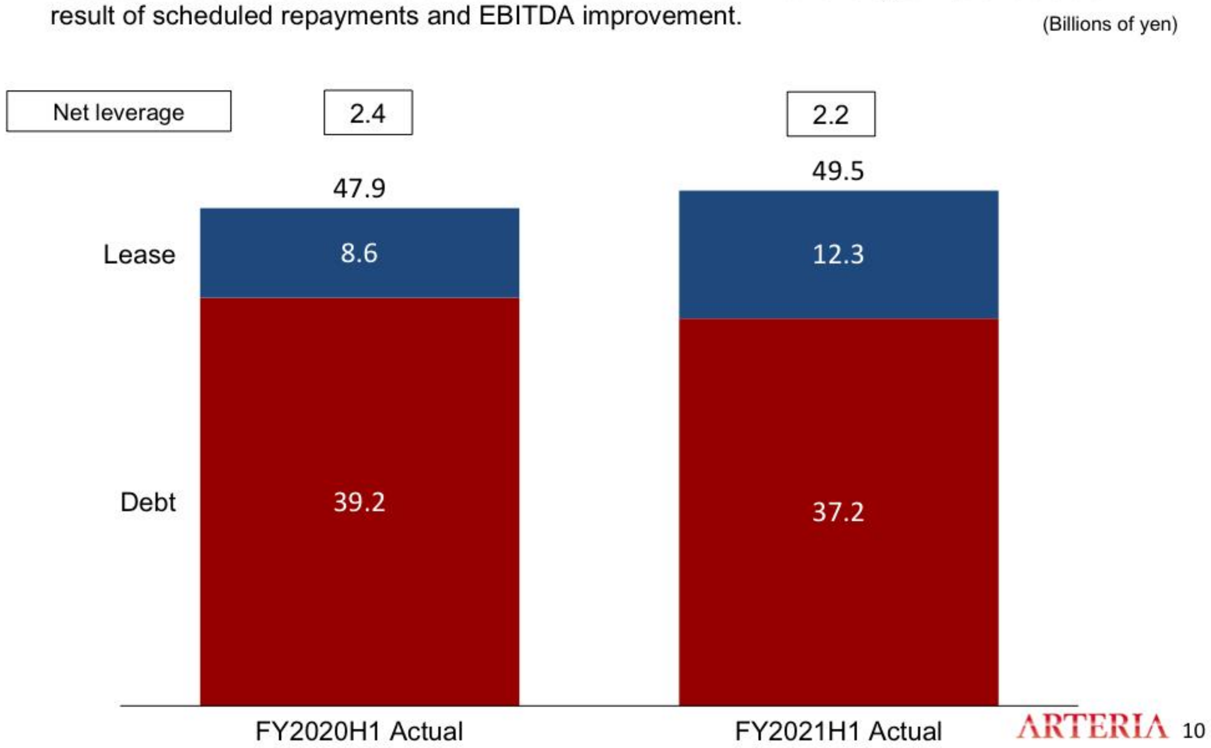
Next is the statement of cash flows.

In H1 of the fiscal year, net sales increased by 130% YoY, to JPY3 billion, due in part to the impact of the sale of data centers and investment securities.

In H2 of the fiscal year, as I mentioned earlier, we will be making capital investments, so with the increase in H1 of the fiscal year, we are forecasting about JPY4 billion, exceeding the JPY2 billion forecast at the beginning of the fiscal year.

Capital Structure

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

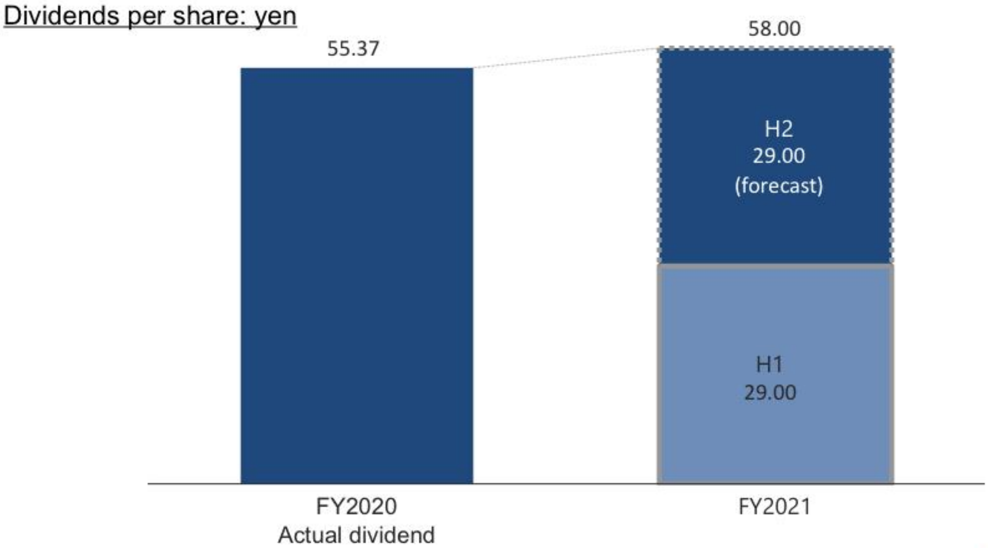


The next item is capital structure.

There was a sales and leaseback transaction in connection with the sale of the data center business, resulting in an increase in lease obligations. Even though leases have increased, net leverage in H1 of the fiscal year under review improved to 2.2 due to the increase in EBITDA and progress in scheduled repayments.

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.



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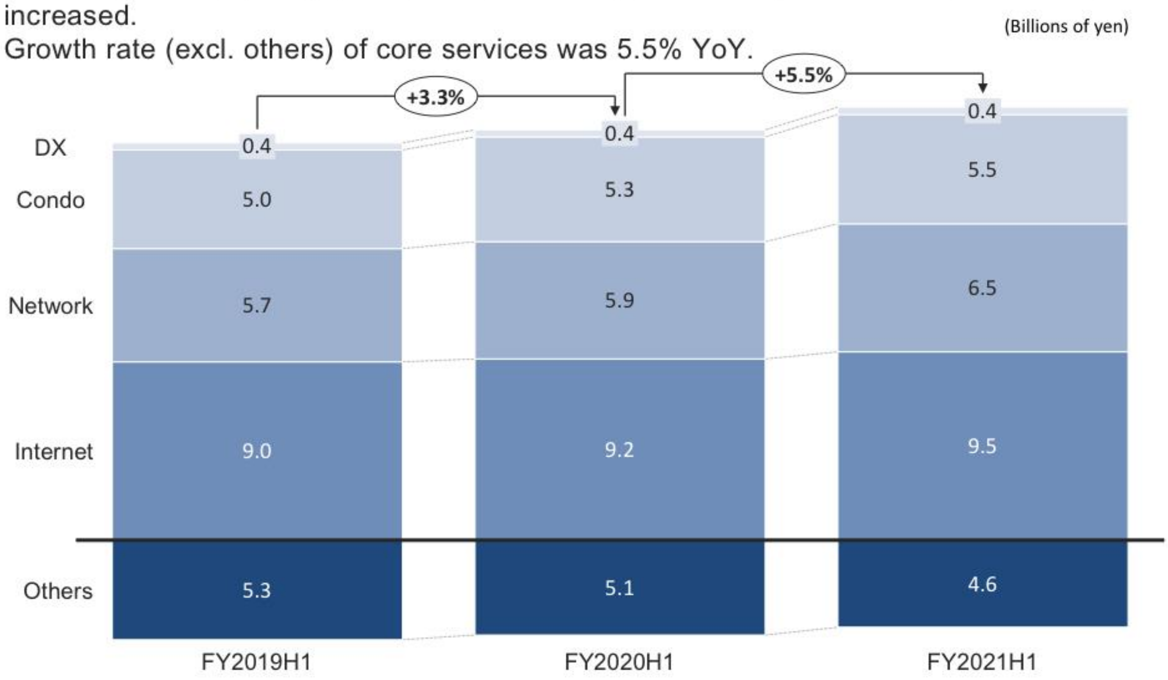
Next, please see page 11, dividends.

From this fiscal year, we will pay dividends twice a year, with the expected amount of dividends at the beginning of the fiscal year as the lower limit. Since there is no change in the earnings forecast for this fiscal year, the dividend for H1 is JPY29 per share, as expected at the beginning of the term. For H2 of the fiscal year, we plan to maintain the current level of JPY29. This is the lower limit.

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.



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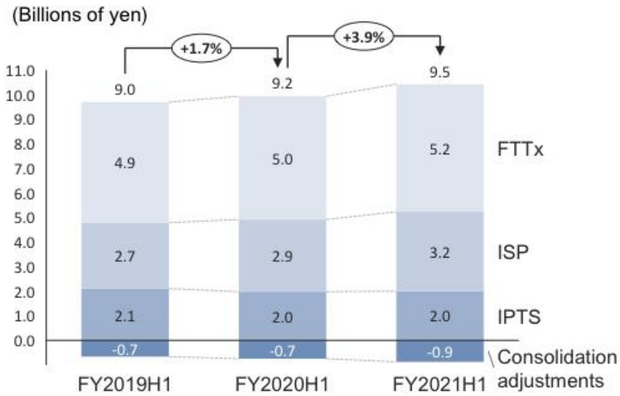
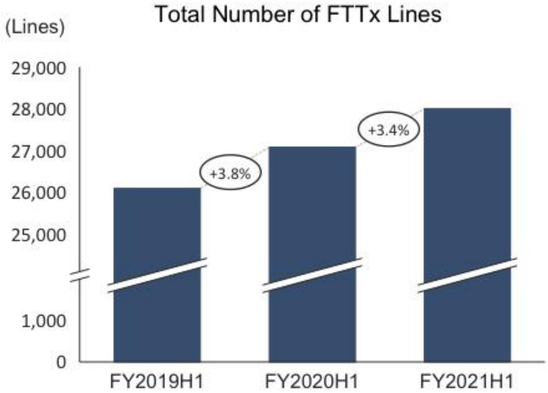
Next, I will explain the forecast and results by service and growth strategies.

I will explain the details in each field, but overall, as I mentioned at the beginning, demand, which had been stagnant due to the impact of the COVID-19, is on a recovery trend, and the growth rate including Others is 2.8%. Excluding Others, such as the decrease in sales from the data center business that was transferred, the growth rate was 5.5%.

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)

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From the next page, I will explain each field.

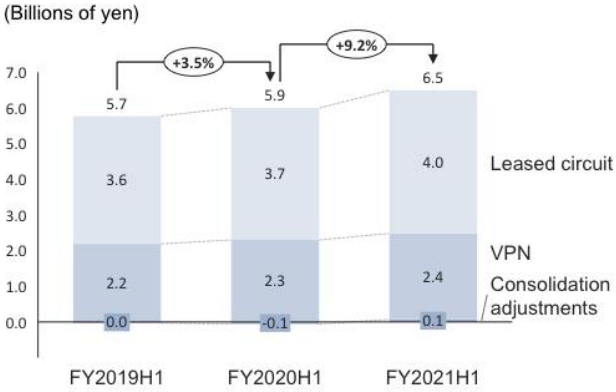
First, in the Internet business, our mainstay FTTx and ISP services are expanding steadily. YoY growth of 3.9% has been achieved. In the FTTx market, sales of high-quality, high-bandwidth services are expanding steadily against the backdrop of the growing use of cloud computing and the promotion of telework.

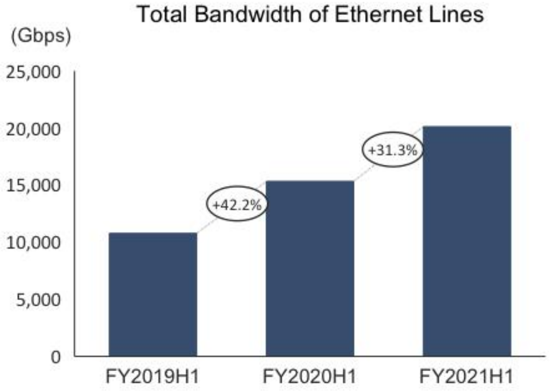
The total number of lines, which is a KPI, is growing at a rate of 3%, which is higher than the market growth rate.

As for ISPs, although the background is similar to that of FTTx, the provision of our IPoE services, Cross Pass, is expanding.

As for IPTS, we had some difficulties last fiscal year, but although office demand is declining, sales opportunities for cloud PBX providers are increasing, and we are seeing signs of a recovery to positive growth.

Network





	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

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The next page, page 15, is the network.

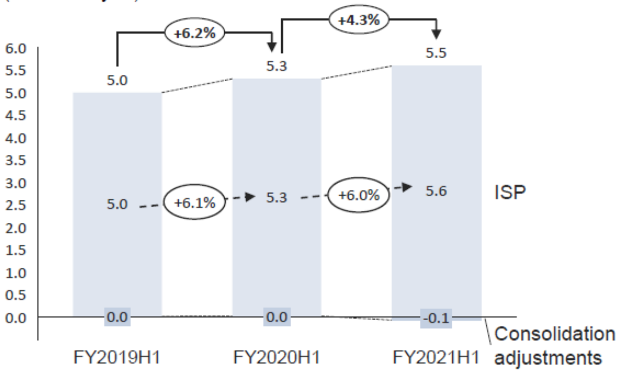
Last fiscal year, orders were stagnant due to the impact of the COVID-19, but we were able to achieve a significant growth of 9.2% compared to the same period last year.

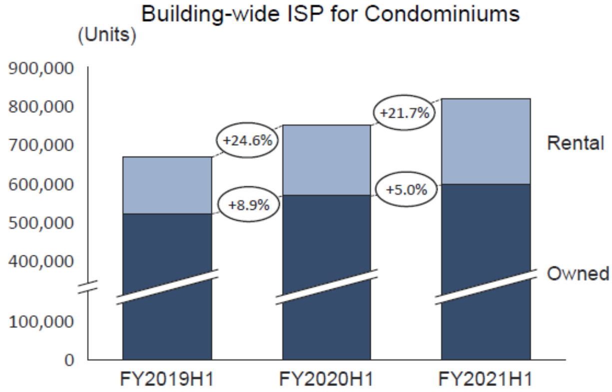
As for the leased circuit, traffic is increasing due to the increased opportunities provided by telework and DX. In addition, sales to OTTs and telecommunication carriers have been strong.

As you can see, the total number of bandwidths, which is 1 of our KPIs, has increased by more than 30%.

As for VPN, it continues to grow at a stable rate. Optional products, remote access, and cloud connection services are all doing well.

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.

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This is about condominium internet.

It is 4.3% YoY, but the deferral period of initial sales has been changed a little from this year, and due to the influence, it seems to be 4.3%. The growth rate is about 6%, which is almost the same as the previous year.

In addition to the mainstay condominium market, we have been able to cover all aspects of the rental market, including large-, medium-, and small-scale properties.

As telecommuting and other services are still available, there is a growing demand for high quality services, and we are seeing an increase in the replacement and migration of existing facilities.

As for the number of units billed, which is a KPI, the number of rental units grew at a very high rate of 20%.

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.

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The above is the progress of our mid-term plan.

In May of this year, we announced our mid-term plan, and once again, our mid-term plan sets targets of JPY80 billion in sales and JPY15 billion in operating profit for FY2025, based on organic growth alone, not including M&As. Our mid-term plan was to invest in growth to achieve this goal and to increase our market capitalization to JPY200 billion.

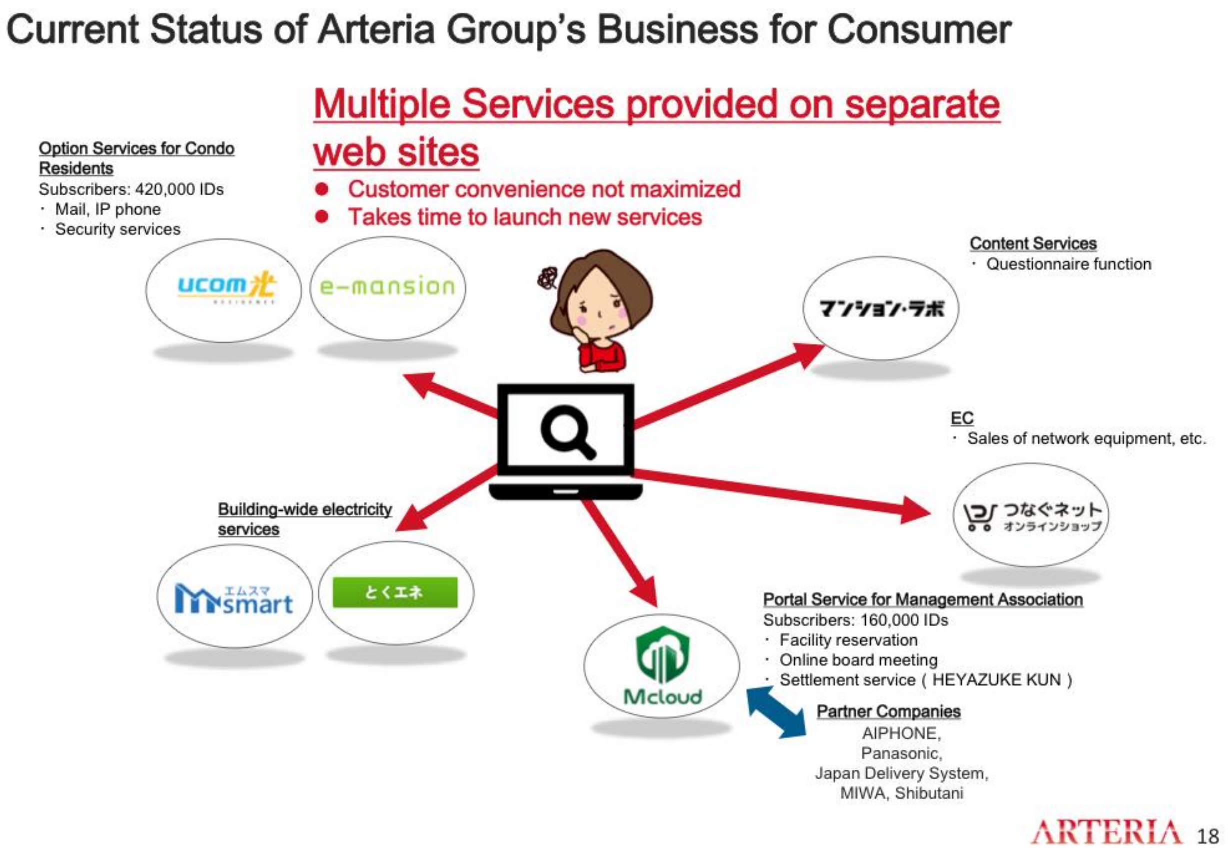
In H1 of the fiscal year, we are on track to achieve this goal. As for the growth of the core business, we are acquiring demand from foreign carriers and OTTs, and expanding and upgrading our network infrastructure in the Kanto and Kansai areas, where there is a concentration of hyper-scale data centers.

The gain from the sale of the data center is being used for structural reforms. As I said at the beginning of this article, we are trying our best to lower the cost, which has remained at a high level.

Regarding the second point, capturing new growth portfolio, Connectix, the first D2C service launched in this fiscal year, has started its service. As I will explain later, we are developing a platform to further expand our D2C services.

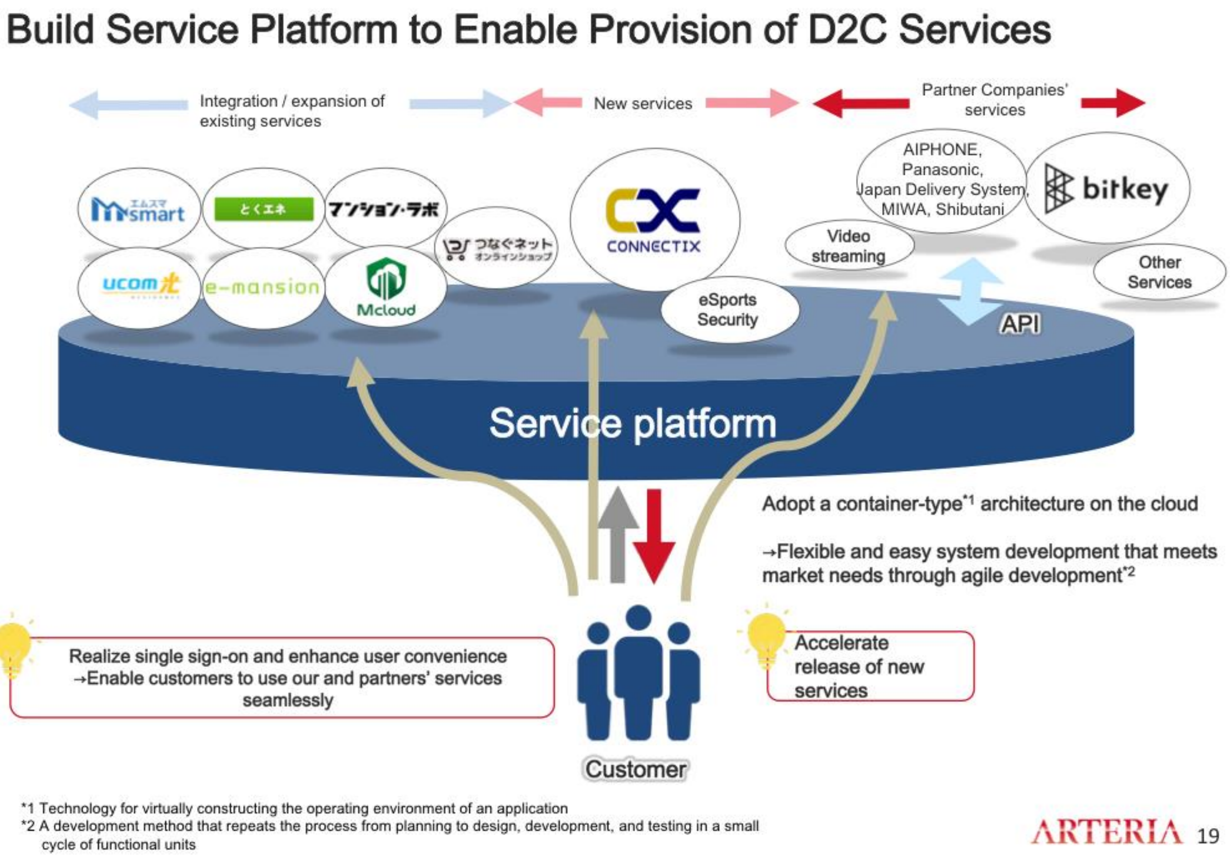
With regard to the third point, the reform of work styles and SDGs, we have obtained 2 certifications this fiscal year: Eruboshi Certification, for the promotion of women's activities, and Kurumin Certification, for measures to support the development of the next generation.

In addition, we have already opened 1 satellite office in Yokohama, and we plan to open 3 more during this fiscal year. We will make it easier for our employees to work by reforming the way they work.



Now, I would like to explain 1 of the initiatives that we are currently working on, which is part of the D2C service.

In terms of the current status of the D2C service business of the ARTERIA Group, this is actually a portal site for condominiums, but we have many portal sites like this one. However, each of them is not linked, and single sign-on is not available. They are being operated separately, which makes it very difficult to use.



We are currently building a new service platform for this. It's like the one that was disjointed earlier is now on top of the left one.

Also, there is Connectix, which I mentioned. In addition, we are in the process of creating a platform that will allow us to collaborate with our partners.

It says that the platform is based on a container architecture in the Cloud, but it is being built on a cloud-native architecture and developed in an agile manner.

With this, we are thinking of providing added value to our customers and residents of condominiums by collaborating with various companies through APIs, and we are currently building the platform for this. Eventually, this will become a profit base. We believe that it will become 1 of our profit bases. We are also moving forward with more and more projects like this.

That's all from me. I am sorry for speaking so quickly, but I would like to conclude my explanation.

Moderator: Thank you for your attention.

Question & Answer

Question: I have 2 questions.

First of all, I would like to know about structural reform. I would like to know more about the specifics. Also, I got the impression from your explanation earlier that you were basically going to invest the profit from the sale of the data center, but the net impact of the profit from the sale for the full year is about JPY1.5 billion, so I would like to confirm whether or not that will be fully invested. Also, if you could give us some quantitative explanation of the effects of the structural reforms, please let us know. This is my first question.

Answer: Let me explain the structural reform first. I mentioned at the beginning that the cost of the network has remained at a high level, but this is due to the congestion caused by the COVID-19, which caused us to use the network of another company as a roaming network, and also because we have increased the number of interconnections with NTT's Flet's network. These costs have increased.

We are now working on various concrete measures, such as returning these lines to our own lines and lowering the cost of the Flet's connection. And there are a few other things, too. Basically, there is this cost part, and then there is the monitoring part, and so on. The thing is how we can control such costs.

In order to increase sales in the future, as I explained in the previous briefing, we need to find a way to control the cost in order to make the most of the advantages of having our own network. To become the company that can control such cost, we are now trying to figure out how to make that happen.

As I said, we have JPY1.5 billion, but some of it will be absorbed by the cost, which remains high. About 1/2 of the expenses will be used for these structural reforms, and the structural reforms will lead to growth in the next fiscal year and beyond.

There is also a question of how much we will be able to invest in the next fiscal year and beyond, but if we are going to do this, I think it would be better to try our best to achieve effects in the hundreds of millions.

Question: Thank you very much.

Now for the second question. 6 months have passed since the announcement of the mid-term plan, and you mentioned at the beginning that things are going well, but if we look at the segments, for example, I have the impression that sales growth in the network business has been a little stronger than what is expected in the mid-term plan. I would like to ask you a little bit more about each of these areas, and whether you have seen any positive or negative changes in the business environment during the first 6 months of the year.

Also, looking at the mid-term plan, the growth rate of condominiums is factored in at a fairly high level, so I would like to know how you feel about achieving that goal for condominiums in the next fiscal year and beyond.

Answer: Networks, first of all, corporations, networks. In terms of network, we had a lot of trouble last fiscal year. We were not able to build up much during the term, so to speak. This was due to a number of factors, such as the fact that we were not able to do business, and the fact that various companies postponed their investments due to the impact of the COVID-19.

Since the beginning of this fiscal year, or rather since the latter half of the last fiscal year, inquiries have been gradually increasing, and this has actually led to orders, which are now showing results in this fiscal year. In addition, I believe that the number of orders received has been increasing steadily this fiscal year.

The leased circuit is showing high growth, and the demand for this network is quite high, especially for OTTs. As for the Internet, we are a wholesaler, but our IPoE service is growing very steadily.

The only one that I still have some concerns about is IPTS. I was hoping that it would go a little further in H1 of the fiscal year, but it has come back. I think this will also expand steadily in H2 of the fiscal year.

There are not many companies that have their own access lines, but FTTx is our enterprise internet line, so there is a very strong demand for it. That’s the impression I got. Overall, as we expected, the demand for networks is increasing rapidly.

As for condominiums, we are steadily acquiring customers and orders are growing very fast, and I think this will probably be the highest order ever. That is all from me.

Question: I have 2 questions. The first point is about capital investment. The fact that H1 of the fiscal year did not progress that much seems to indicate that there are some factors that are not in line with the original plan, such as the impact of various construction projects.

The feeling of this capital investment in H1, and the impact of semiconductors at the moment, and the cost will come out in other condominiums, Internet, et cetera, so if it is different from the initial forecast, or if it will be delayed, I think there are various things that are good and bad for the next fiscal year. Please tell me how you feel about it at this point. Thank you.

Answer: We invested about JPY3 billion last fiscal year and JPY3 billion this fiscal year, although we were actually planning to do a little more. As I mentioned in my explanation, and as Mr. Tokunaga also mentioned, the shortage of semiconductors is having an impact, and that is why there is an impact on H2 of the fiscal year.

At present, however, there are some invisible delays on the part of NTT, so that is a bit of a concern. At present, we are on schedule to spend about JPY12 billion in H2 of the fiscal year, based on our current understanding of the delivery schedule for various communication devices and other arrangements.

As for costs, as you mentioned, it is often said that costs are rising due to the shortage of semiconductors, and also due to SCM problems. We believe that we are doing everything we can to prevent this. We have been taking various measures in advance of such movements. We have not seen much of an increase in costs, or so we have heard, but I don't think it has gotten to that point.

Question: I understand very well. Thank you very much for your explanation. Secondly, I would like to ask you about the DX business. Sales declined once in QoQ, but it was not that big, so there is probably nothing to worry about. If that is the case, when do you expect to make it big in that DX business?

In addition, on page 19, you talked about the integration and expansion of service platforms, but I think the cost of this will be incurred in SG&A expenses apart from capital investment. How have you factored this in, and what are your plans for the cost? That's all.

Answer: For DX, there has been a slight drop in phones, so there has been a slight decrease in revenue. We are now in the process of creating the service platform that I showed you earlier, and also trying out some new businesses. I'm hoping that various things will take shape in the next fiscal year or so.

However, we are not sure how much it will contribute to our revenue, and we do not expect it to be that fast. However, at the moment, our priority is to challenge and create new services for the future.

In the current and next fiscal years, we have fully factored in these costs in the so-called mid-term plan, so I hope you understand that we are doing everything as planned in the mid-term plan.

Question: Thank you very much. As a follow-up, please tell us about the current inquiries for Connectix or the outlook for this fiscal year.

Answer: Some of the Connectix equipment needs to be replaced, and we are working very hard on that. Although we are a little behind schedule, Connectix is now available to 80,000 households, and we still have a long way to go. On the other hand, because of Connectix, there are many customers who want to leave the bulk of their apartments to us. This is a situation where Connectix has been very helpful for us to get bulk condominium accounts, both existing and new.

Question: I'm sorry, but which of the 2 types of inquiries do you think will contribute more to the sales or the rentals?

Answer: It's both.

Connectix is receiving inquiries for both sales and rentals.

Answer: Since there don't seem to be any questions at the moment, I'd like to say this 1 more time. Probably your biggest concern is that there will be JPY1.5 billion in operating profit this fiscal year. I think you wonder if profits will increase even if it disappears next fiscal year.

According to our plan, sales are going well, and we have been able to control costs to a certain extent, so we believe that we will be able to achieve the goals of the mid-term plan. I hope you understand that there will be no problem even if we lose this JPY1.5 billion.

Question: I would like to confirm what you just said about the JPY1.5 billion. Is it correct to assume that the profit from the sale will be offset by structural reforms and the increase in network costs in the initial plan for the fiscal year?

Answer: Yes, that's correct.