

**ARTERIA**

**7<sup>th</sup> Term**  
**Earnings Results Briefing**  
March 31, 2022

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**May 20, 2022**

**ARTERIA Networks Corporation**

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# **FY2021 Earnings Results**

## FY2021 Highlights

- Core service performance (internet, network and condominium internet services) led to achievement of earnings forecast in first year of mid-term plan.
- Achieved revenue growth rate of 5.0% YoY in core services in FY2021. Capture demand growth by responding to soaring needs for high-speed and secure network services, driven by expanded cloud usage and telecommuting.
- Recorded a disposal gain of 1.9bn yen on the partial transfer of the data center business in FY2021 as part of a strategic review of non-core businesses. Net impact of this transfer on operating profit, including one-time related costs, was 1.2bn yen.
- FY2022 earnings forecasts are based on the mid-term plan and have not been changed. There will not be any significant gain on transfer disposal of data centers etc. affecting our earnings in FY2022. While D&A will increase as a result of higher CAPEX, the structural reorganization executed in FY2021 will allow us to control previously inflated network costs.

# Financial Highlights

➤ Sustained YoY revenue and profit growth.

	FY2020	FY2021	Change	(Billions of yen) Ratio
<b>Net sales</b>	<b>53.3</b>	<b>55.4</b>	+2.07	+3.9 %
<b>Core services sales</b>	<b>42.5</b>	<b>44.6</b>	+2.11	+5.0%
<b>Operating profit</b>	<b>8.9</b>	<b>9.5</b>	+0.67	+7.6 %
<b>Profit before tax</b>	<b>8.5</b>	<b>9.2</b>	+0.78	+9.3 %
<b>Profit</b>	<b>5.9</b>	<b>6.4</b>	+0.51	+8.7 %
<b>Profit attributable to owners *</b>	<b>5.5</b>	<b>6.0</b>	+0.50	+9.0 %

\*Profit attributable to owners of the parent

# Forecasts

- While there will not be a disposal gain on transfer of data center (occurred in FY2021) forecast sustained revenue and profit growth in FY2022.

(Billions of yen)

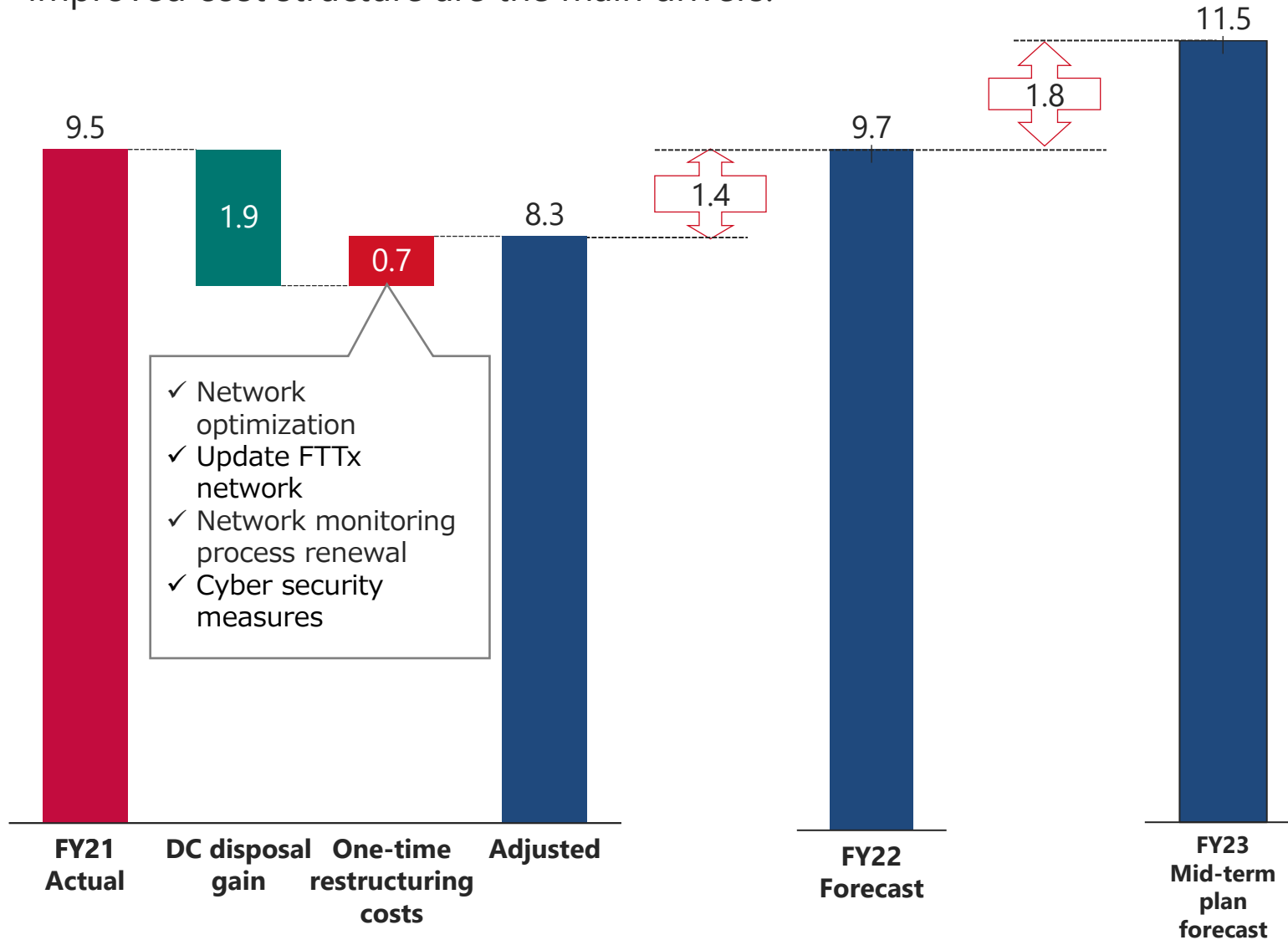
	FY2021	FY2022 (forecast)	Change	Ratio
Net sales	55.4	58.0	+2.60	+4.7 %
Core services sales	44.6	48.3	+3.63	+8.1%
Operating profit	9.5	9.7	+0.11	+1.1 %
Profit before tax	9.2	9.3	+0.07	+0.7 %
Profit	6.4	6.4	+0.03	+0.4 %
Profit attributable to owners *	6.0	6.1	+0.02	+0.3 %

\*Profit attributable to owners of the parent

# Adjusted Operating Profit Analysis

- Adjusted profit level excluding one-time gain for FY2021 was 8.3bn.
- Aim to achieve the mid-term plan profit target in FY2022. Recurring revenue and improved cost structure are the main drivers.

(Billions of yen)



- ✓ Network optimization
- ✓ Update FTTx network
- ✓ Network monitoring process renewal
- ✓ Cyber security measures

# Analysis of FY2022 Forecasts

- Forecast 8.1% YoY increase in revenue of core services (internet, network and condominium internet services).
- Recurring revenue accounts for 93% of sales, orders for more than half of the increase from FY2021 in revenue of core services were received in FY2021 and will be billed in FY2022.
- In FY2020 and FY2021 network costs were inflated as a result of COVID-19 and operating profit growth was temporarily sluggish. As a result of the structural reorganization, executed in FY2021, operating profit is expected to recover to pre COVID-19 levels in FY2022.

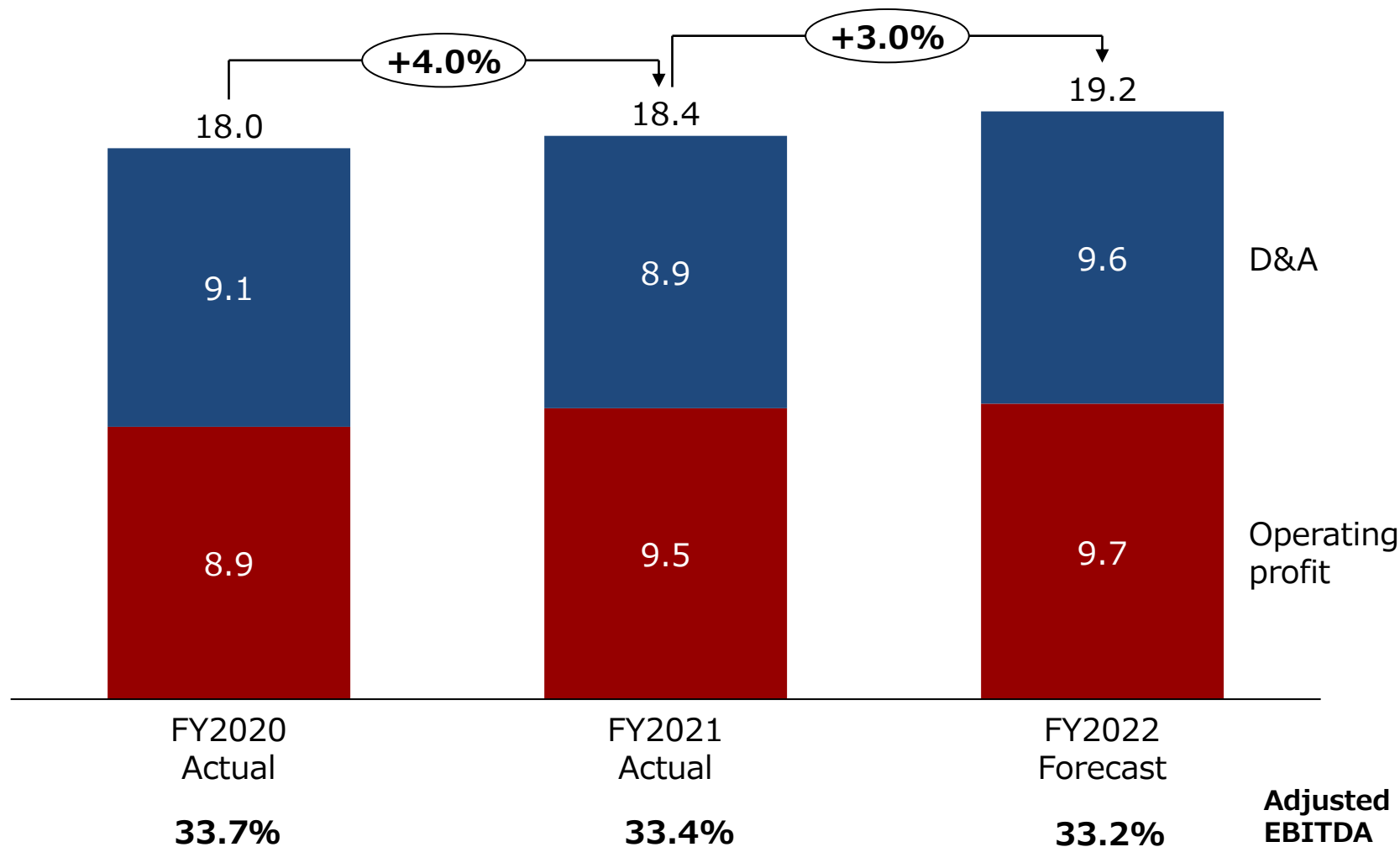
	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Forecast	(Billions of yen)
<b>Sales</b>	51.5	53.3	55.4	58.0	
<b>Revenue of core services</b>	40.8	42.5	44.6	48.3	
<b>Revenue growth rate of core services</b>	5.7%	4.1%	5.0%	8.1%	
<b>Operating profit</b>	8.7	8.9	9.5	9.7	
<b>Disposal gain on the partial transfer of the data center business</b>		▲ 0.6	▲ 1.9		
<b>One-time restructuring costs</b>			+0.7		
<b>Adjusted profit</b>	8.7	8.3	8.3	9.7	
<b>Adjusted profit margin</b>	16.9%	15.6%	15.0%	16.6%	



# EBITDA

➤ FY2022 EBITDA forecast to increase by 3% to 19.2bn.

(Billions of yen)

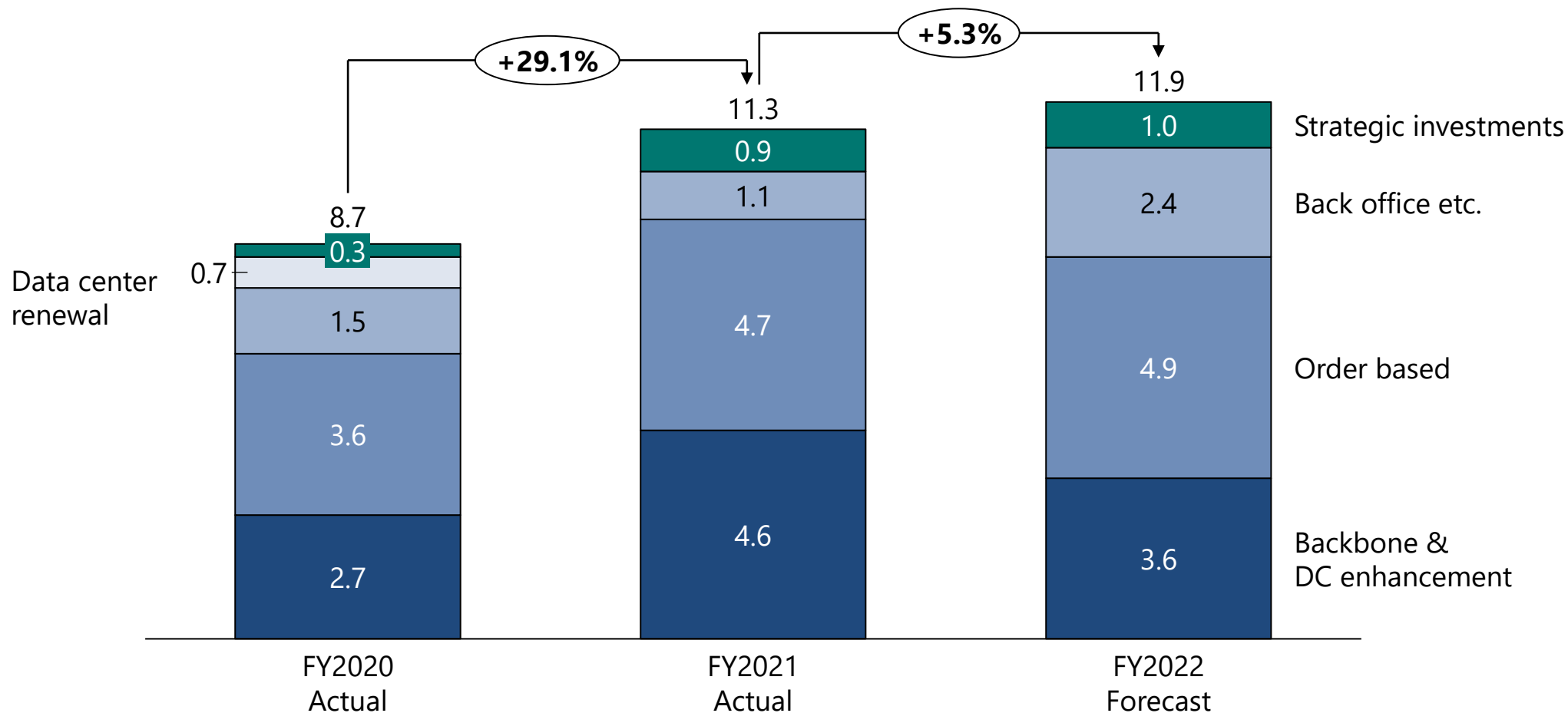


Adjusted  
EBITDA  
Margin

# CAPEX

- FY2021 CAPEX was 11.3bn (29.1% increase YoY).
- Plan approx. 11.9bn CAPEX (5.3% increase YoY) in FY2022 mainly to execute large business deals, orders and core system upgrades.

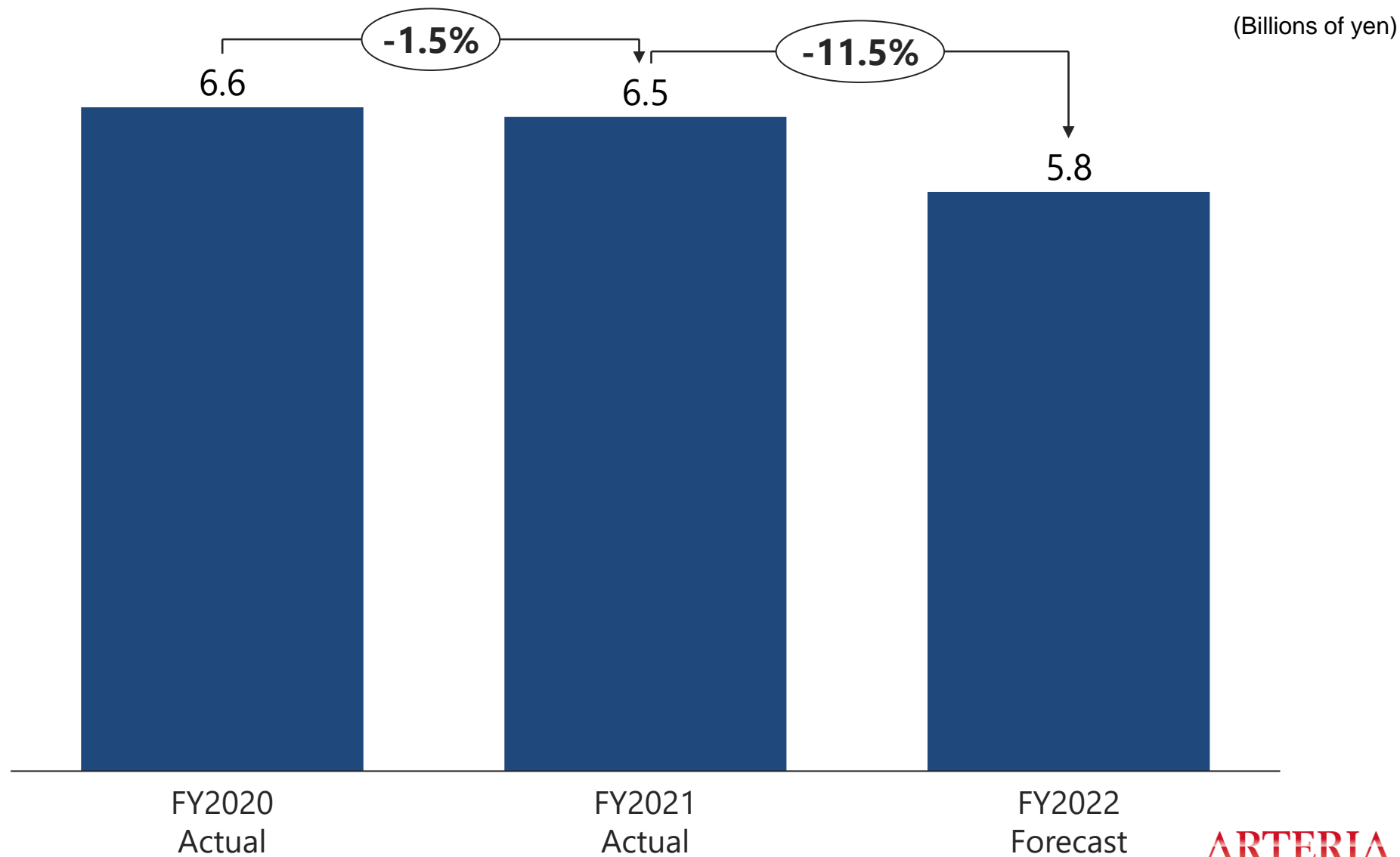
(Billions of yen)



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

# FCF

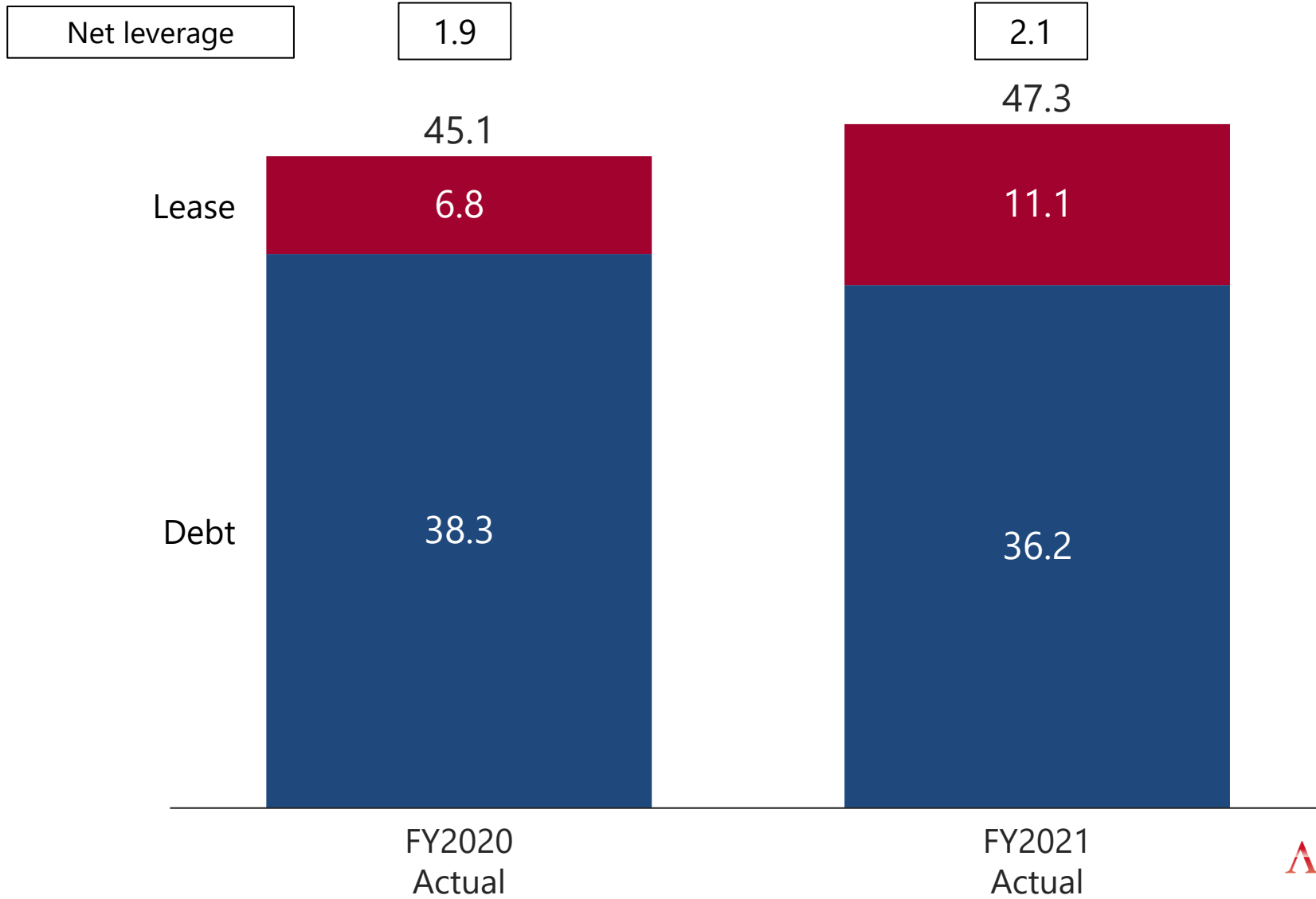
➤ FY2022 FCF forecast at 5.8bn due to higher level of CAPEX in FY2021.



# Capital Structure

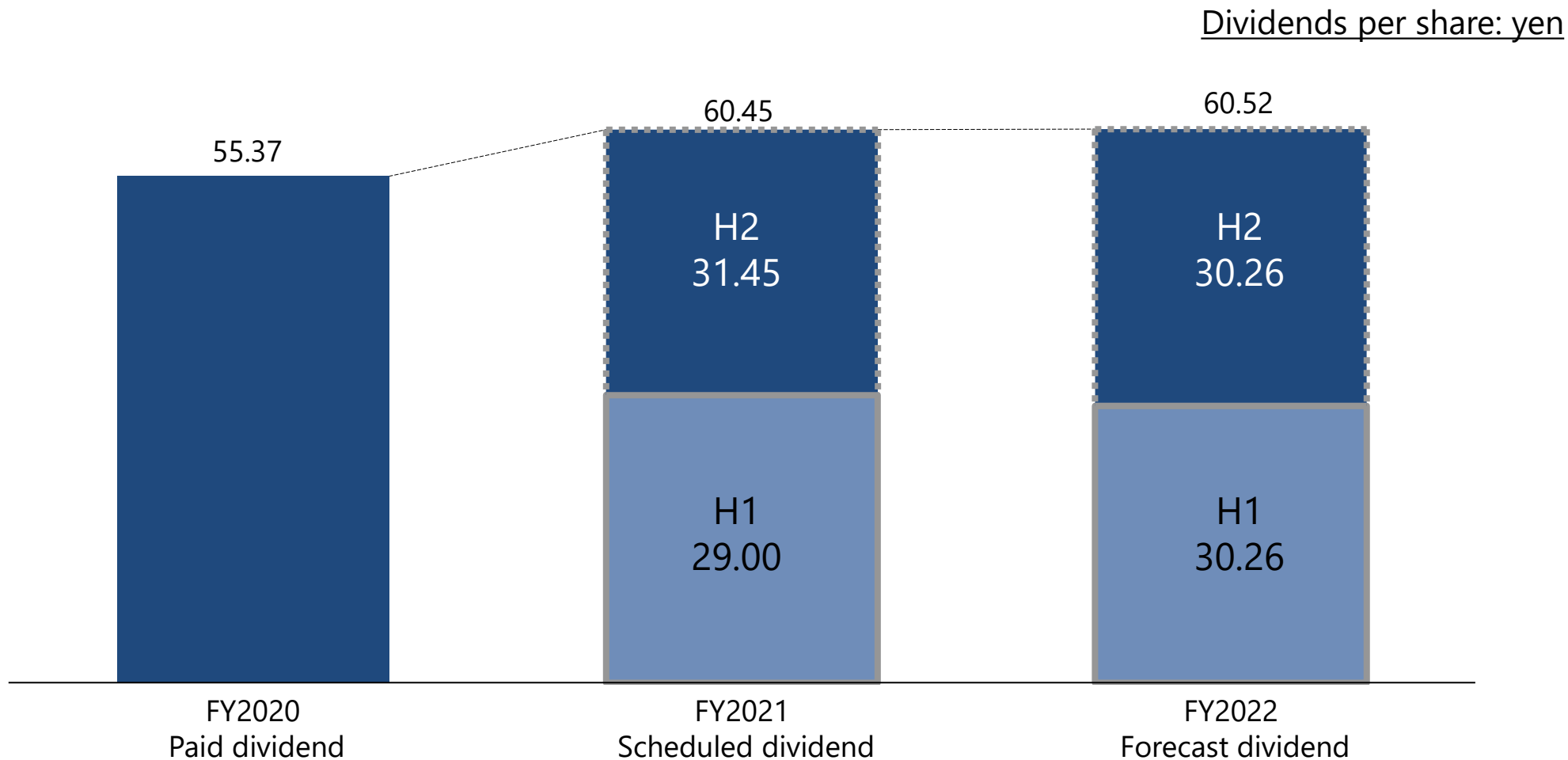
- Debt decreased with scheduled payments; EBITDA increased. Leases increased as a result of the data center transfer which impacted net leverage negatively.

(Billions of yen)



# Dividend Policy

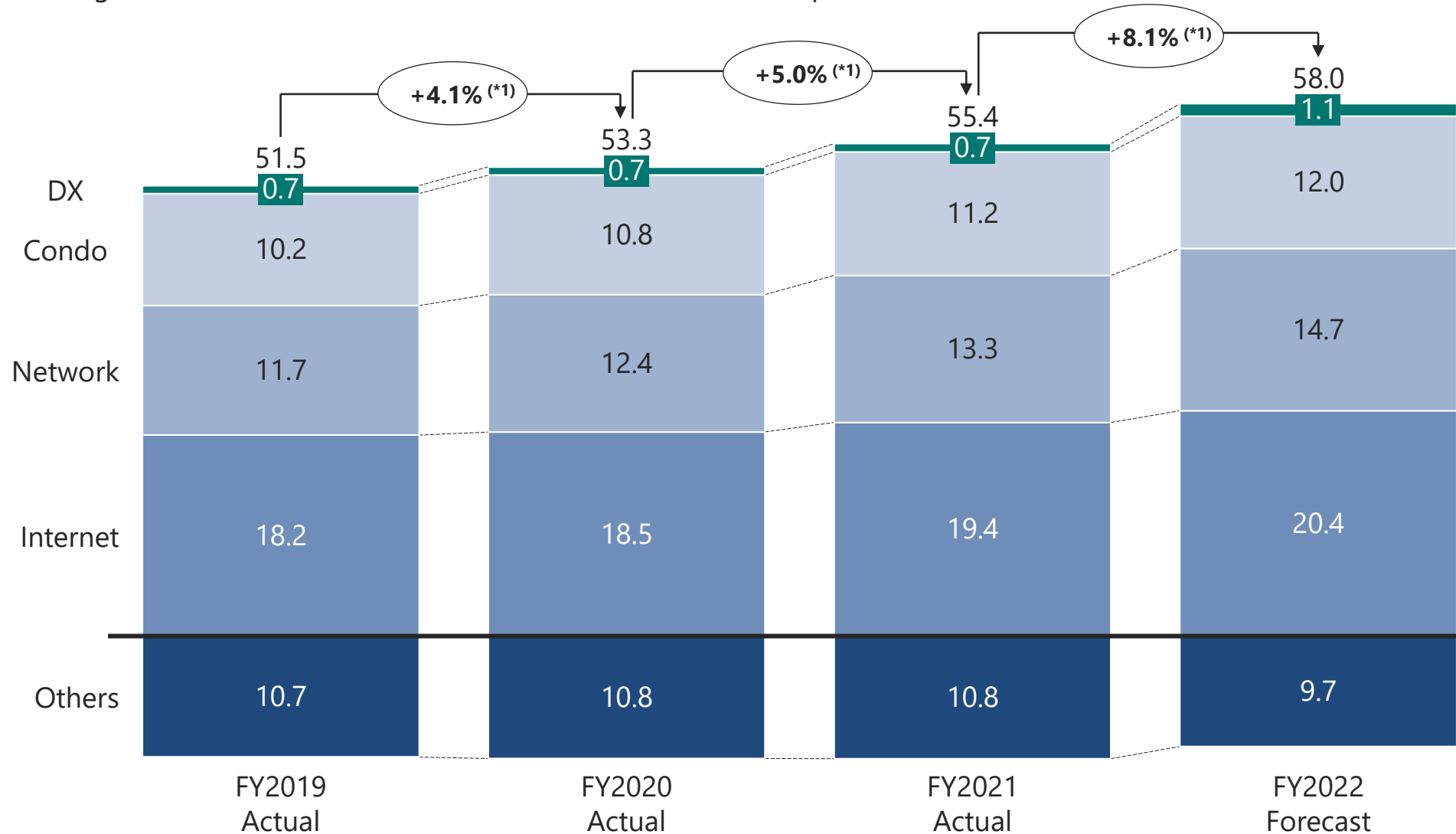
- Scheduled dividend for FY2021 is 60.45 yen compared to original forecast of 58.00 yen.
- Sustain 50% payout ratio. Minimum dividend for FY2022 forecast higher than FY2021.



# **Core Services and Growth Strategy**

# Revenue by Service

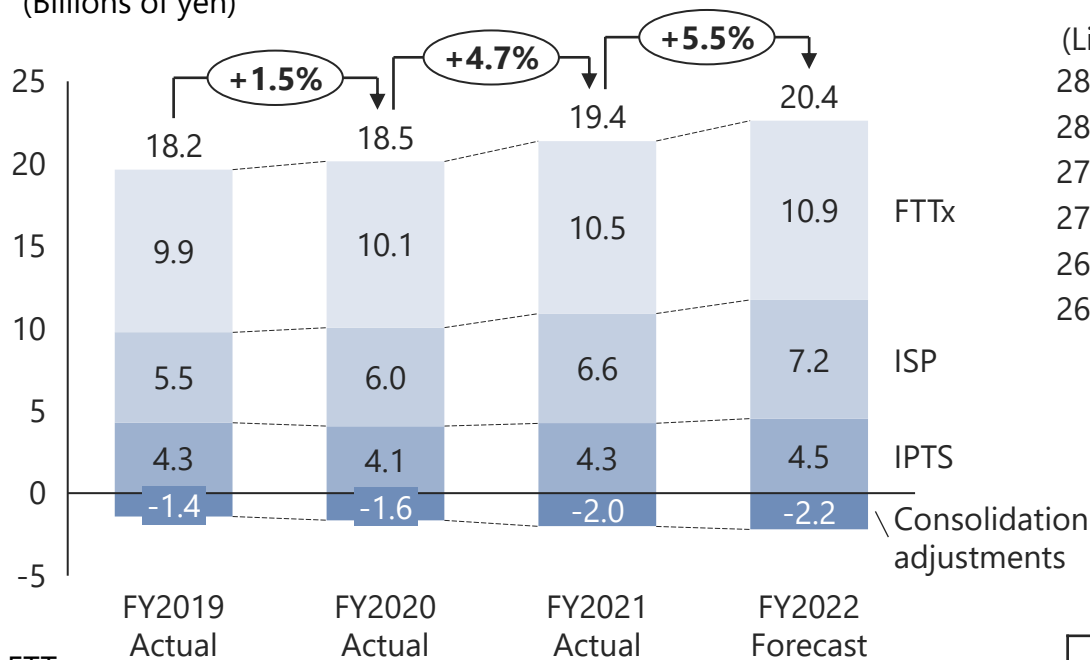
- Achieved target for the first year of the mid-term plan.
- YoY growth rate for core services in FY2021 was 5.0%. Is expected to be 8.1% in FY2022.



※1 Growth rate of core services (excluding others)

# Internet

(Billions of yen)

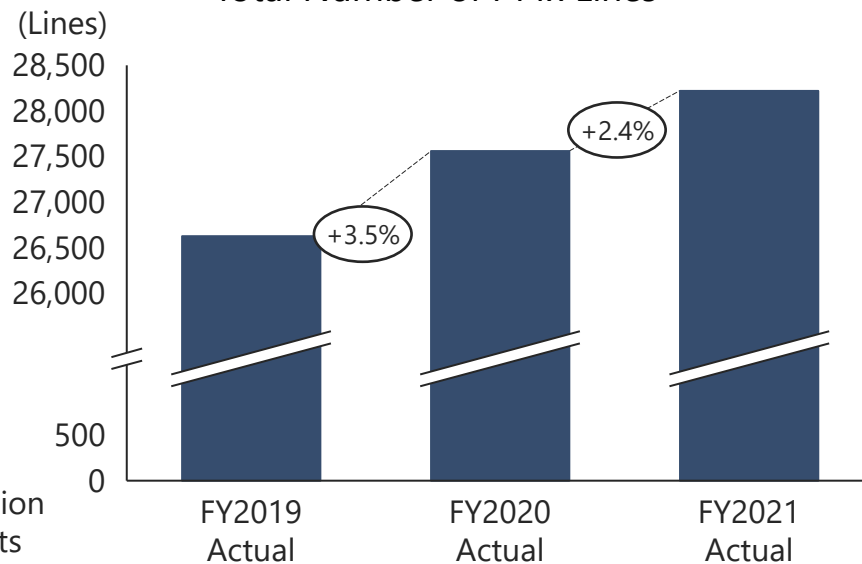


- FTTx**
- Demand for high-quality / broadband FTTx<sup>(note)</sup> services is increasing due to the promotion of DX by corporates.
  - Expect steady growth by strengthening cooperation with partners.

- ISP**
- Sales of "Cross Pass"<sup>(note)</sup>, a service provided with our own VNE equipment, expanded due to an increase in demand for high-quality services.
  - Promote the transition from PPPoE<sup>(note)</sup> and expand sales.

- IPTS**
- Sales to cloud<sup>(note)</sup> service providers are increasing.
  - Aim for further growth by capturing demand for unified communications<sup>(note)</sup>.

Total Number of FTTx Lines

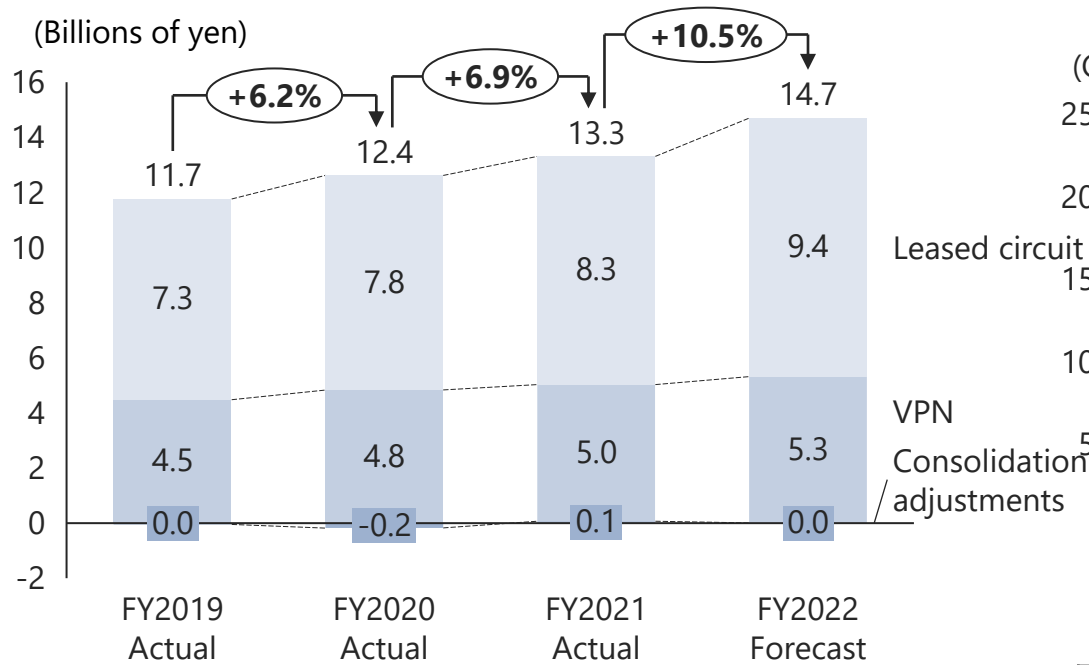


	FY2019	FY2020	FY2021
Total number of lines	26,624	27,561	28,221

The growth rate of the number of FTTx lines is 2.4%, but the unit sales price of lines has increased due to the increase in the ratio of broadband services. The growth rate of sales exceeds the growth rate of the number of lines.



# Network



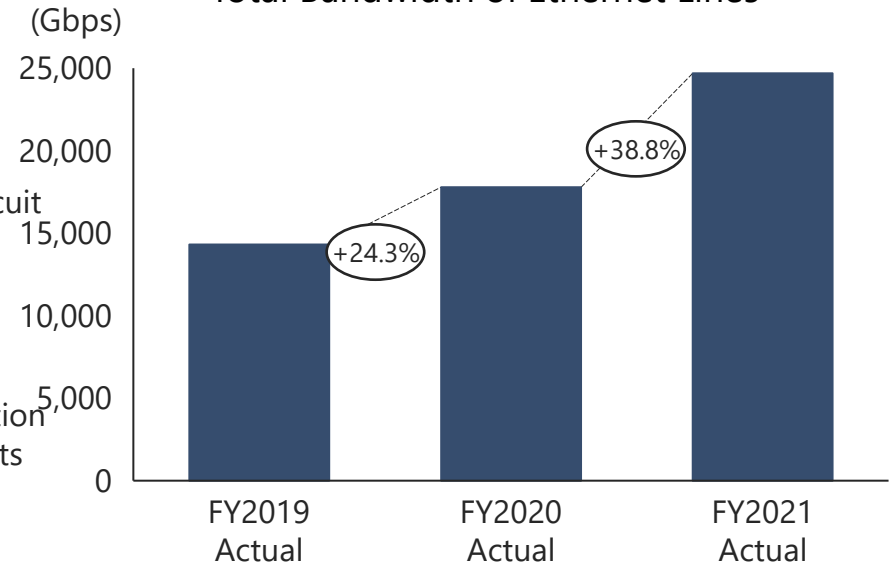
## Leased circuit

- Sales to corporates, OTTs<sup>(note)</sup> and telecommunications carriers are strong due to increased opportunities for telecommuting and DX generated by higher traffic.
- Expect significant growth driven by expanded business opportunities after strengthening and extending the core network.

## VPN

- Sales of remote access, connection services to cloud services are strong.
- With the release of the NFV<sup>(note)</sup> service "VANILA"<sup>(note)</sup>, FY2022 is expected to exceed FY2021.

## Total Bandwidth of Ethernet Lines

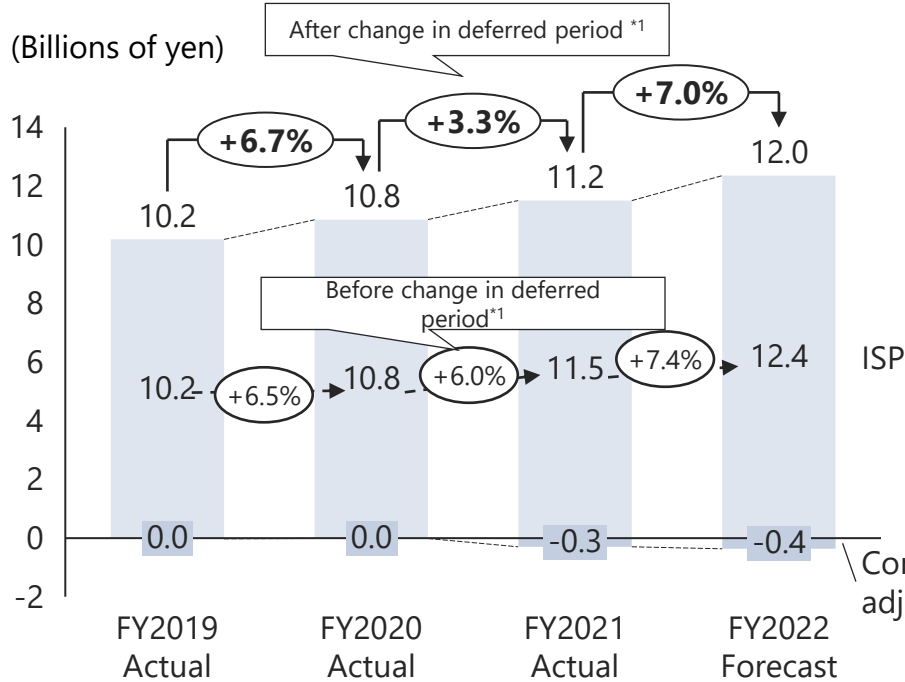


	FY2019	FY2020	FY2021
Total bandwidth*1 (Gbps)	14,320	17,794	24,700

The ratio of broadband services increased significantly to 38.8% due to strong sales to corporates, OTTs and telecommunications carriers.

\*1 Total bandwidth = service bandwidth × number of lines

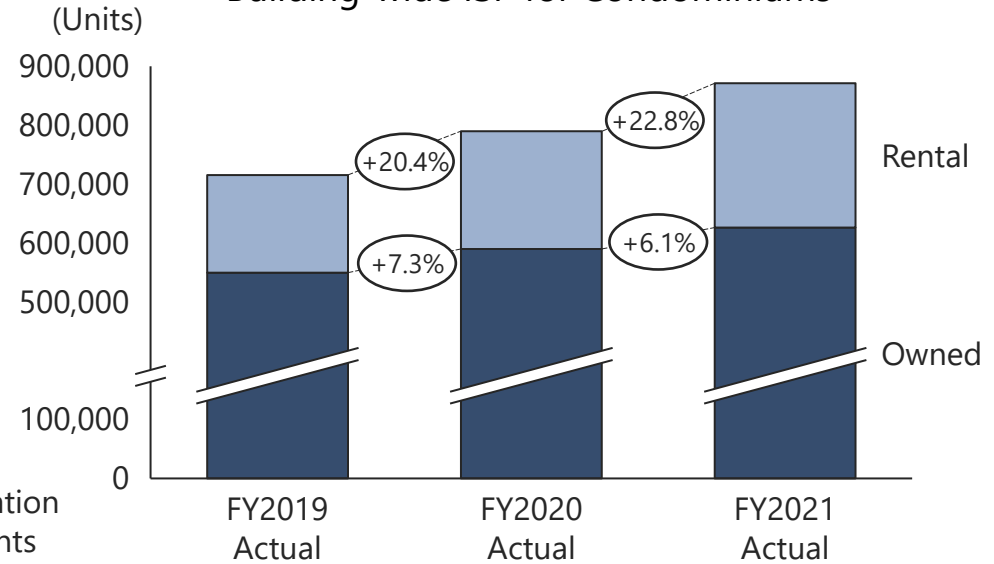
# Condominium Internet



## Condo

- Growth rate declined due to change in deferred period for initial sales to 3.3% YoY. Growth rate excluding this impact was 6.0% YoY. Internet connection service growth exceeded FY2021.
- Demand for high-quality services is increasing due to telecommuting and the spread of video distribution services. In combination with Japan's first priority communication service\*2 "Connectix"<sup>(note)</sup>, orders in both new owned condominiums and new rental condominiums are accumulating.
- Aim to increase orders in FY2022 by strengthening sales in new market segments in addition to existing markets.

## Building-wide ISP for Condominiums



	FY2019	FY2020	FY2021
Rental	165,737	199,556	245,151
Owned	549,849	590,250	626,232

Although completion of buildings was postponed due to COVID-19 and the Olympic Games, the growth rate of rental increased. Growth rate exceeded 20%.

\*1 Refers to the revenue recognition standard in Japanese standards from April 2021

\*2 A service enabling priority control for each condo unit with building-wide ISP (as of May 2021, Company research)

**FY2021-2025 Mid-Term Plan**  
**Management Strategy Framework Progress in FY2021**

# Measures for Growing the Core Business

**Gain further demand by optimizing and updating FTTx network**



- Promoted enhancement and construction of network. Start update and area expansion of FTTx network
- Expanded IP backbone network to Los Angeles, San Jose and Singapore
- Launched NFV new service “VANILA” and external call service for “Microsoft Teams”



**Enhance customization capabilities to generate added value and aim to capture more network demand from OTTs**



- Signed MoU with Cinia Ltd. as a business partner for the project laying a fiber optic submarine cable connecting Asia and Europe via the Arctic Ocean



**Accelerate growth in the rental market in addition to the owned condo market and further consolidate leading position**



- Acquired leading market share for 8 consecutive years in “MM Research Institute, whole-building type ISP for condominiums in Japan (March 2021)”<sup>\*1</sup>
- Number of paying units for rental condo increased by 22.8% YoY



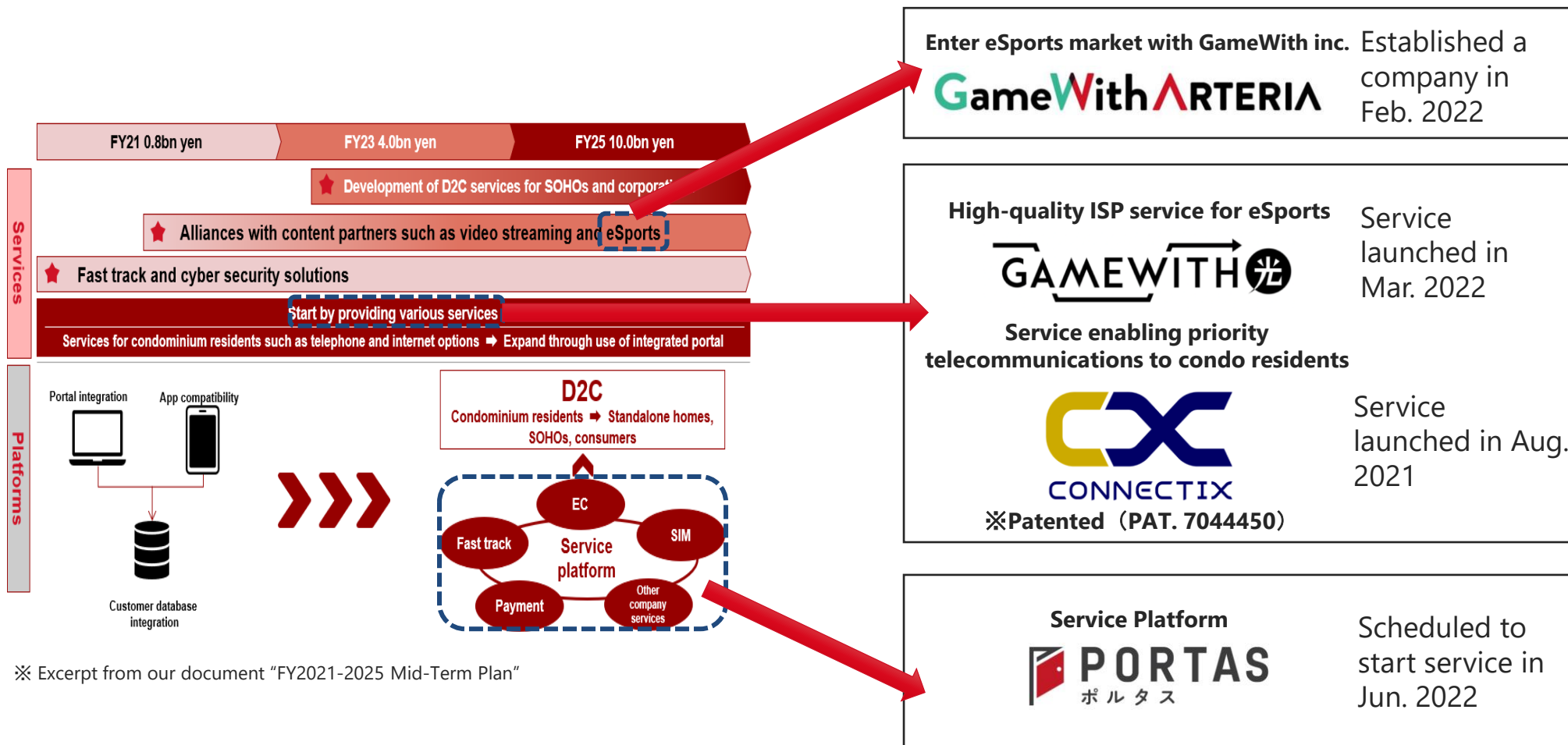
<sup>\*1</sup> Group Company - TSUNAGU NETWORK COMMUNICATIONS INC. acquired leading market share in the survey “ MM Research Institute, whole-building type ISP for condominiums in Japan (March 2021) “. It concludes the results before the business integration with ARTERIA Networks Corporation, and it's the 4<sup>th</sup> consecutive year after the business integration.

# Measures for Incorporating a New Growth Portfolio

( Progress in DX services)

➤ Progress made during FY2021 towards achieving the mid-term plan targets.

## Achievements in FY2021



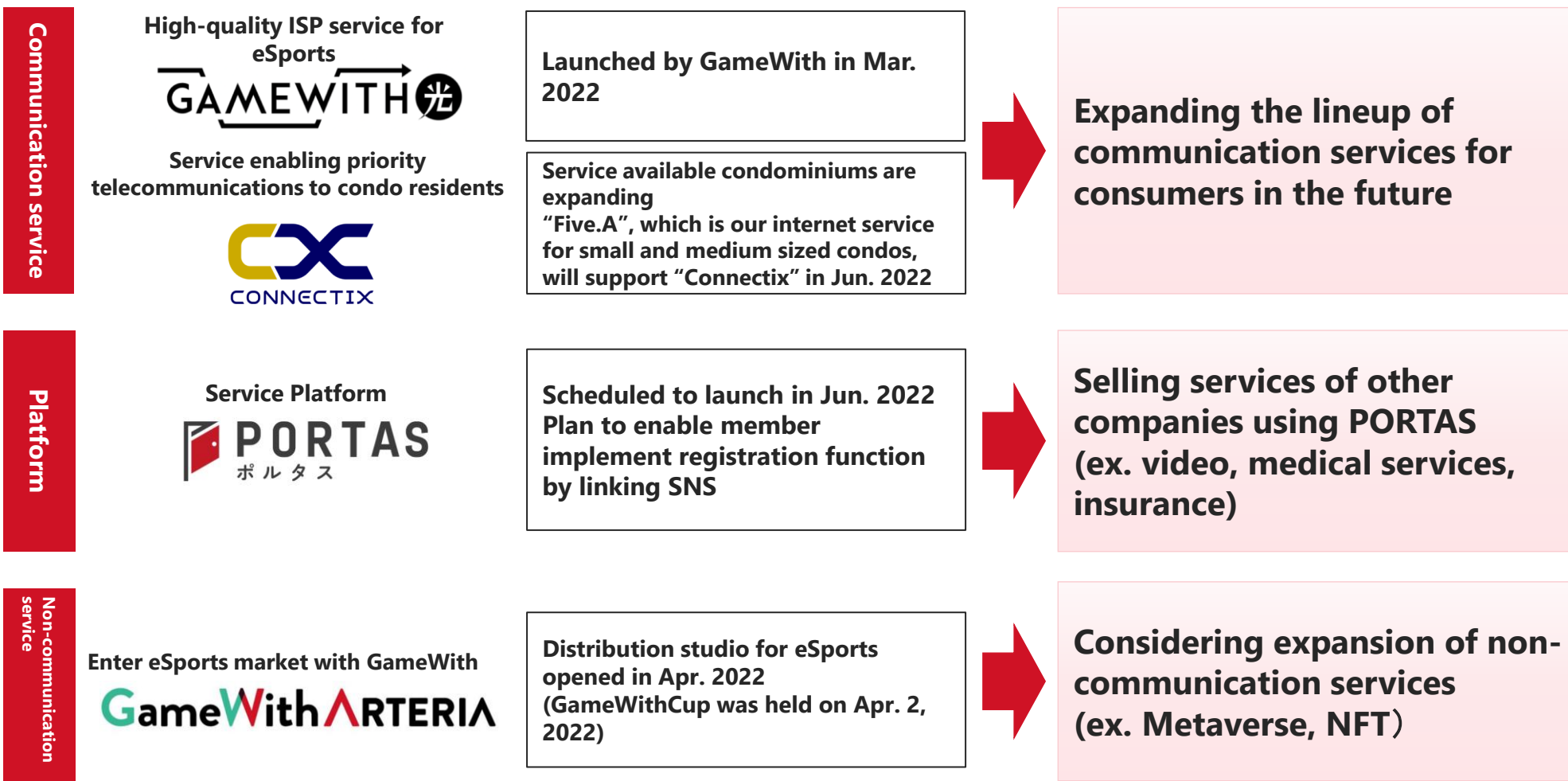
※ Excerpt from our document "FY2021-2025 Mid-Term Plan"

# Measures for Incorporating a New Growth Portfolio

## ( Plans for DX services)

- Work to achieve the goals of the mid-term plan.
- Started providing various services from FY2022 on, based on the preparation and construction efforts executed in FY2021.

## Schedule after FY2022

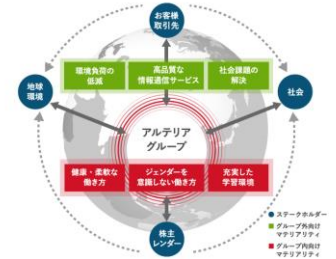


# Pursue planet-friendly management by addressing workstyle reform (Hatarakikata Kaikaku) and SDGs

Use clean energy in provisioning to condos and contribute to a decarbonized society through the provision of telecommuting solutions etc.



- Announced establishment of a Basic Sustainability Policy (Mar. 1, 2022)
- Started efforts to reduce the environmental burden which is one of our priorities



Upgrade to highly energy-efficient internal system and strengthen security by implementing zero trust <sup>(note)</sup> security



- Implemented cloud migration of back-office systems
- Obtained a "Digital Transformation Certification" from the Ministry of Economy, Trade and Industry



Enhance development of human resources, implement diversity and reform workstyles through roll out of satellite offices etc.



- Obtained "3-star Eruboshi Certification" and "Kurumin Certification".
- In addition to the Yokohama satellite office, in use since FY2020, the Nerima satellite office opened in FY2021. Drive decentralizing offices in FY2022 by establishing two satellite offices in Takatsu (open since Apr. 2022) and Chiba prefecture (scheduled for Q2)



# Appendix



# Glossary

FTTx	Stands for Fiber To The Home. A service that provides super-high-speed internet access between tens of Mbps to up to several Gbps by optical fiber cable connections to each home. The term FTTx is used to refer to include services for offices as well as households.
Cross pass	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.
PPPoE	Stands for Point-to-Point Protocol over Ethernet. The method that enables the function of protocol PPP (Point-to-Point) over Ethernet.
Cloud Service Provider	Service that builds a PBX (private branch exchange) on the cloud and provides calls and communications over the Internet.
Unified communication	Systems that integrate various communication tools such as phone, email, chat and online meeting system, etc.
OTT	Stands for Over The Top. Service providers who provide content such as video and audio over internet lines.
NFV	Technology that provides flexible network functions without physical restrictions using virtual technology.
VANILA	Network as a Service (NaaS) utilizing NFV technology. NaaS is A service that builds and uses network functions such as routers and firewalls on the cloud.
Connectix	Connectix uses SD-WAN technology to control the quality of telecommunications in each condo via a virtual network. It is an option service at an additional charge. SD-WAN stands for Software Defined Wide Area Network: a specific application of software defined networking (SDN) technology expanding from LAN (Local Area Network) to WAN connections. SDN offers bandwidth on demand, security, and authentication functions through software to enable shorter network connection times and easy changes to configurations and functions.
Metaverse	The metaverse is a virtual world where humans, as avatars, interact with each other in a three-dimensional space that mimics reality.
NFT	Non-fungible token: a unique unit of data (= the only one existing of its type) that links to a particular piece of digital art, music, video, etc.
Zero trust	A network security environment that constantly monitors and checks users and devices on the premise that all network traffic is not trusted.

# Costs Breakdown

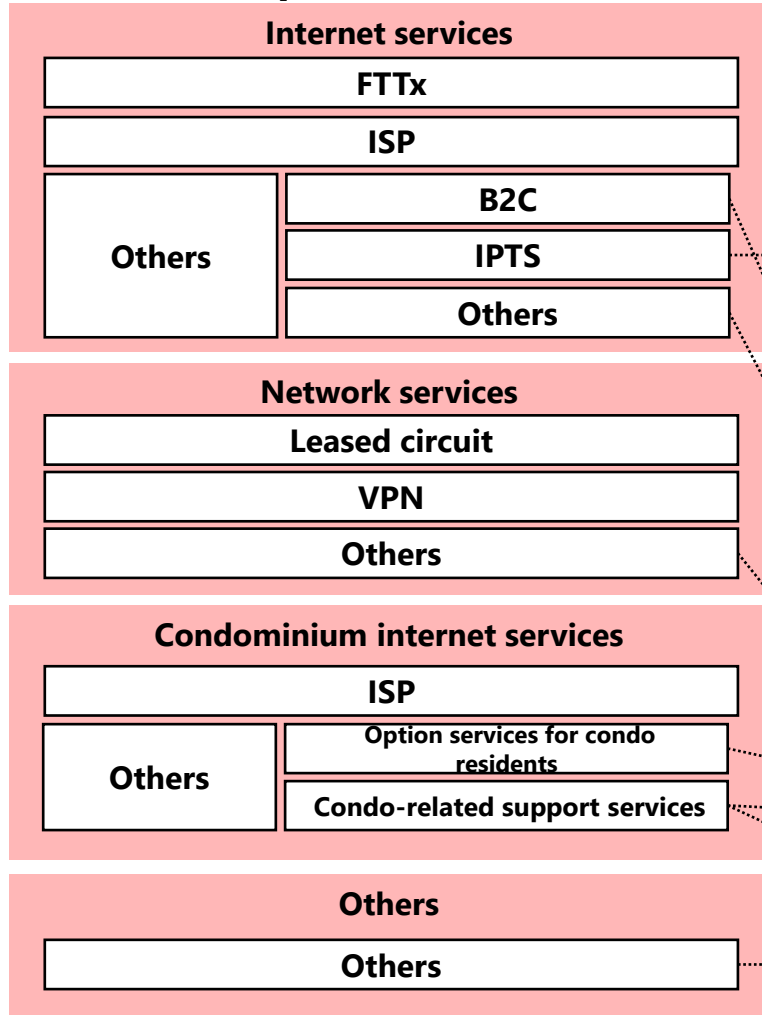
(Millions of yen)

	FY2020	FY2021
<b>COGS</b>	36,828	38,543
Communication costs	11,389	11,737
Outsourcing	5,869	5,672
Personnel expenses	2,618	2,891
D&A	7,409	7,285
Other	9,543	10,958
<b>SG&amp;A</b>	8,114	9,316
Personnel expenses	3,844	4,266
D&A	1,448	1,422
Commissions and other fees	788	961
Outsourcing	789	1,153
Agent fee and promotion	401	467
Other	844	1,047

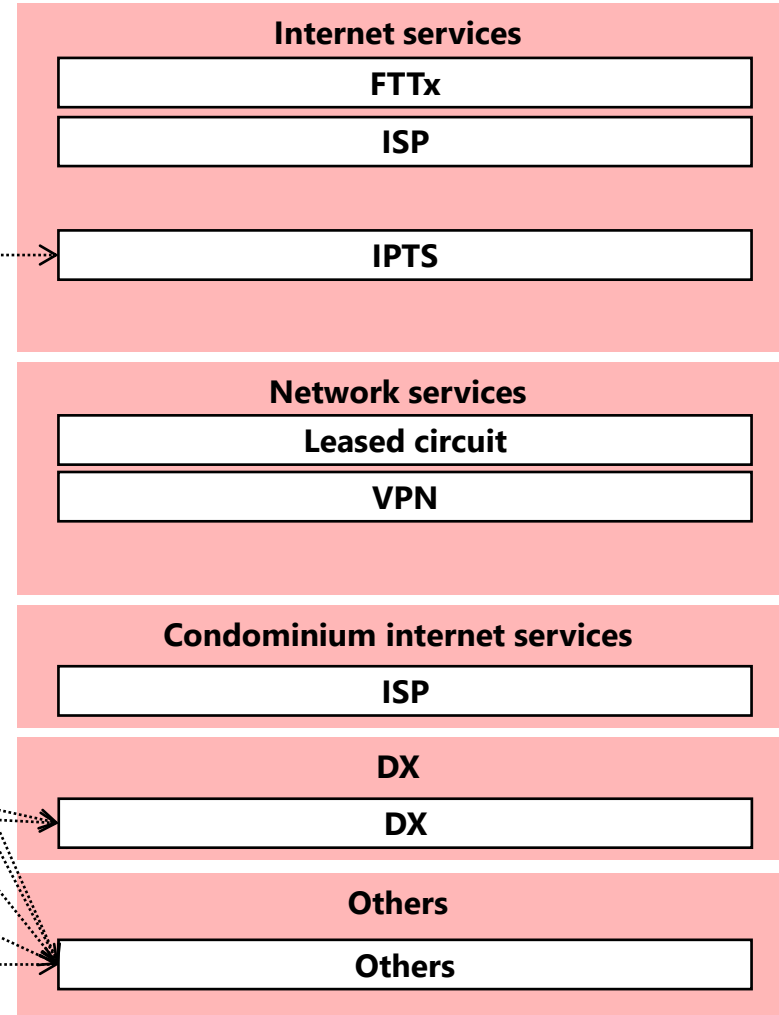
# Change in Core Services Classifications

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

## Up to FY2020



## From FY2021 onward



\*Consolidated adjustment amount is included in each segment

**Connecting New Abilities**

**ARTERIA**

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