7th Earnings Results Briefing

Date

May 20, 2022

Meeting Participants

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

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 date 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.

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Kabumoto: Hello, everyone. Thank you very much for your attendance today. I would like to explain our full-year results for the fiscal year ended March 2022. Thank you.

Let me begin by explaining the highlights of our full-year results.

First, let me talk about our main services. We achieved our forecast for the first year of the medium-term plan, mainly for Internet, Network, and Condominium Internet.

I will explain in more detail later in this presentation for sales by major service segment in the fiscal year ended March 2022, which include the spread of cloud computing, high-speed communications, and demand for high-security networks. The Company achieved 5% growth compared to the same period of the previous fiscal year.

We have been reviewing our non-focused businesses as previously announced and have sold the data center business, with a gain of JPY1.9 billion in the previous fiscal year. As we have already announced, we have reduced the cost of sales, which had remained at a high level in the last two years, through the cost related to the transfer and structural reforms. As a result of considering the temporary cost, the impact of increasing profit for sales profits as approximately JPY1.2 billion.

For the fiscal year ending March 2023, the current fiscal year, there is no change from the financial targets of the mid-term plan. As a premise of the forecast for this fiscal year, we do not plan to record any gain from the sale of the data center. Depreciation and other expenses will increase due to increased capital investment, but we plan to curb the increase in network costs by implementing the structural reforms in the previous fiscal year, as mentioned earlier.

I would now like to explain our financial situation in more detail. Now, Tateishi, CFO, will explain. Thank you.

Financial Highlights

➢ Sustained YoY revenue and profit growth.

(Billions of yen)

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

*Profit attributable to owners of the parent

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Tateishi: Thank you very much. I will explain the financial situation and the premises underlying the forecast, mainly in terms of figures.

The page you are looking at shows the summary of P/L.

First, for the fiscal year ended March 2022, net sales increased 3.9% to JPY55.4 billion, and operating income increased 7.6% to JPY9.5 billion. Final income attributable to the parent company increased 9% to JPY6 billion. The result is a continued trend of increased sales and profits.

The impact and profit associated with the gain from the transfer of the data center will be explained in detail later in this presentation.

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

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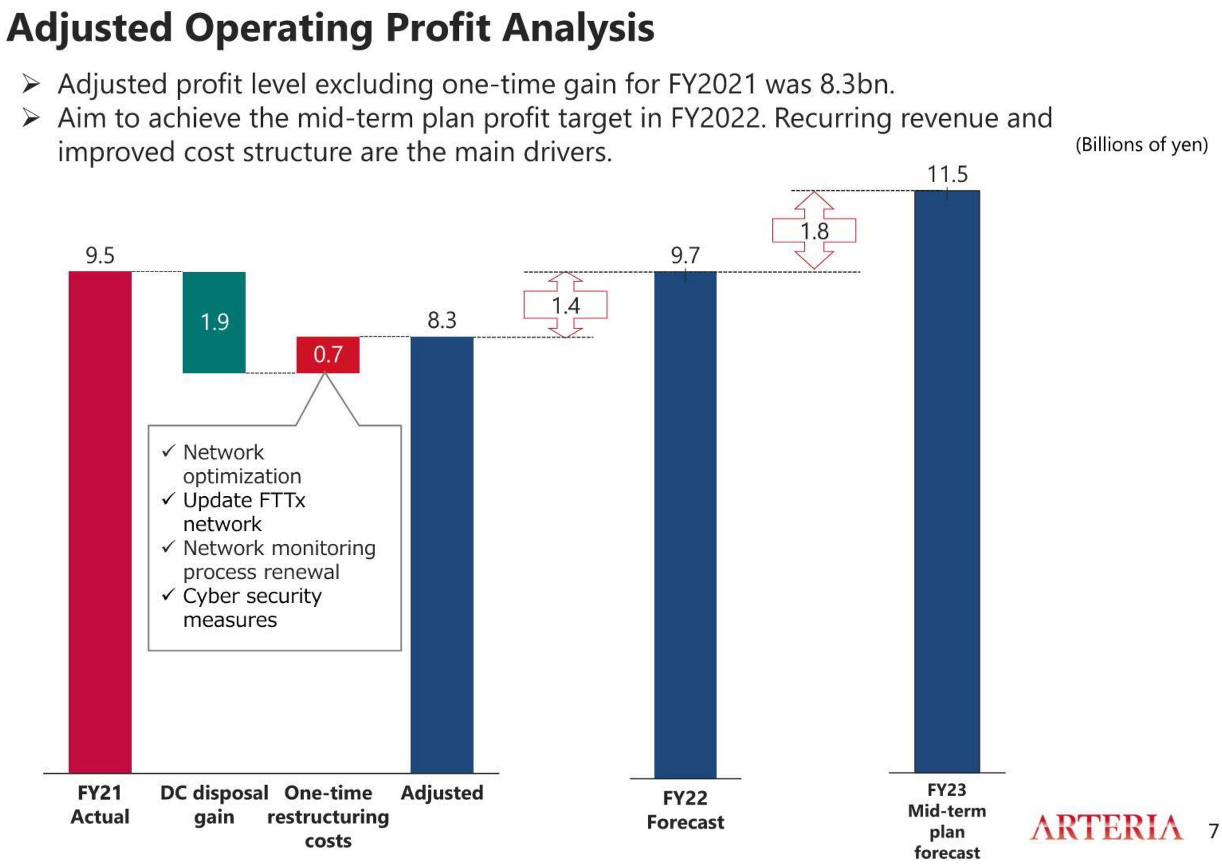
Please turn to the next page.

This page is about the earnings forecast for the current fiscal year.

For the current fiscal year, we are targeting a 4.7% increase in net sales to JPY58 billion, a 1.1% increase in operating income to JPY9.7 billion, and a 0.3% increase in income attributable to the parent company to JPY6.1 billion. The gain from the transfer of the data center in the previous fiscal year is also related to the increase in profit, which will be explained on the next page.



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This chart shows a transition of operating income by year, including the targets.

First, the left side of this bridge, the left side of the graph shows the bridge from which the profit excluding the effect of one-time gains or losses is calculated.

As I mentioned earlier, the gain from the transfer of the data center in the previous fiscal year had an impact of JPY1.9 billion. Putting this back and adding or subtracting JPY0.7 billion in one-time expenses contributed for structural reforms, we estimate operating income on an ordinary basis to be JPY8.3 billion.

Since we do not plan a large one-time gain or loss in this fiscal year as we did in the previous fiscal year, the real amount, i.e., the difference of JPY1.4 billion from the JPY9.7 billion target for this fiscal year, is the amount we will accumulate.

The next page shows the status, including sales forecast and cost control, toward achieving this goal.

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.

(Billions of yen)

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

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Please turn to page three of the material.

The table at the bottom of the next page shows an analysis of P&L results for the past three fiscal years along with the forecast for the current fiscal year.

First, among the components of sales, internet, network, and condominium internet, these three main services are expected to increase by 8.1% over the previous fiscal year.

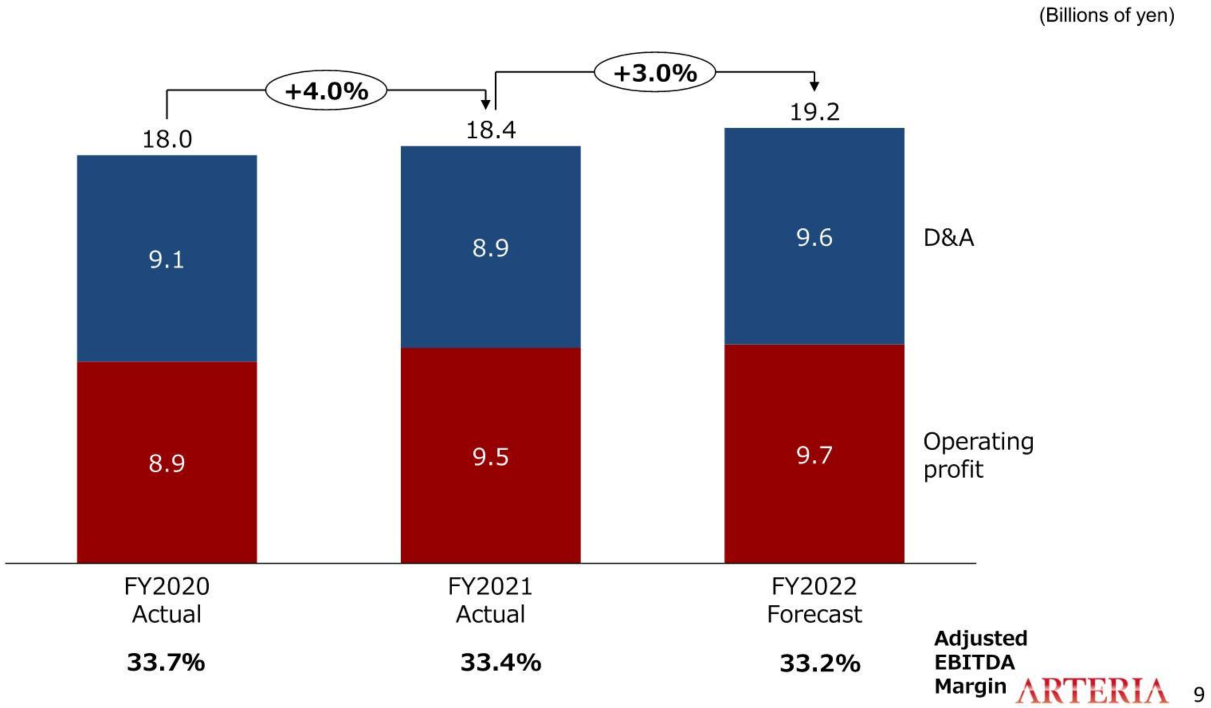
We will later explain each initiative for the current fiscal year for each service field, but the majority of our sales, 93%, are recurring, that is, monthly recurring charges. Of the increase from the previous fiscal year, more than half were orders received by the previous fiscal year and are scheduled to begin billing this fiscal year. We do not expect that all of this increase will be covered by orders received during the current fiscal year.

Therefore, the forecast for the growth of main services for the current fiscal year is based on the area that can be assumed for the current fiscal year based on the orders received at the beginning of the fiscal year, plus the area acquired during the current fiscal year. We consider this to be accurate to some degree.

In addition, with regard to the profit structure, the previous fiscal year and the year before that saw an increase especially in telecommunication costs to cope with traffic, due to the impact of COVID-19. We expect to recover to the profit ratio before COVID-19, which was the pre-COVID-19 level, specifically the latter half of 16%.

EBITDA

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



Next, please. Next is about EBITDA.

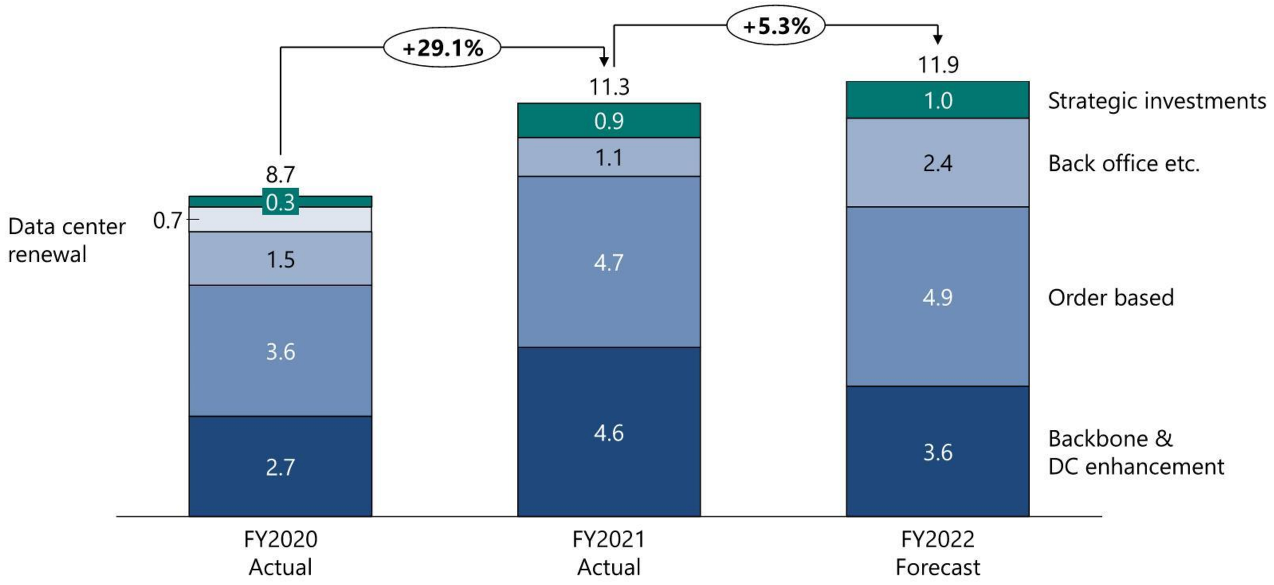
EBITDA for the fiscal year ended March 2022 is JPY18.4 billion.

In the current fiscal year, the growth in operating income is less than that in the previous fiscal year since there was a gain from the sale of the data center in the previous fiscal year. However, EBITDA itself is expected to increase to JPY19.2 billion due to the increase in depreciation expenses.

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.

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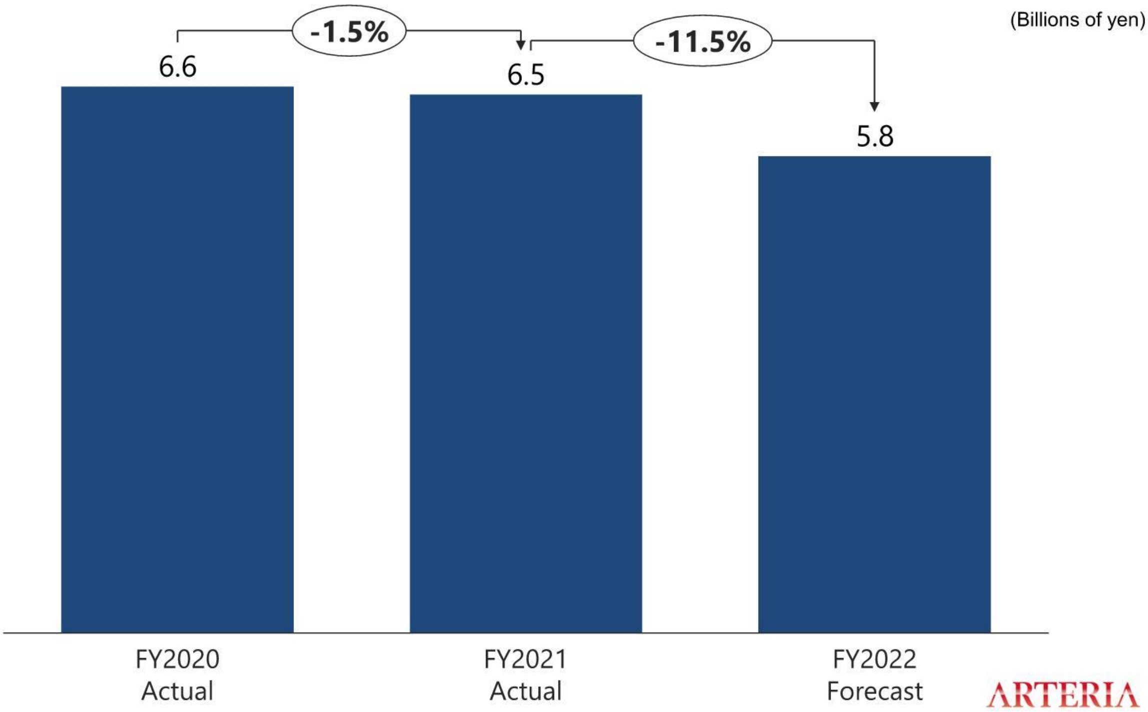
Next, please. Next is the capital investment plan for the current fiscal year and the actual results up to the previous fiscal year.

First, the results for the previous fiscal year was a 29% increase over the previous two fiscal years to JPY11.3 billion, mainly due to increased investment in facility construction and network enhancement associated with increased volume of orders received in the previous fiscal year.

In the current fiscal year, we plan to invest JPY11.9 billion, up 5.3% from the previous fiscal year, including investments in enhancement of new businesses such as SD-WAN, Connectix, and NFV, enhancement of facilities for increased volume of orders received, and ERP to renew core systems.

FCF

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



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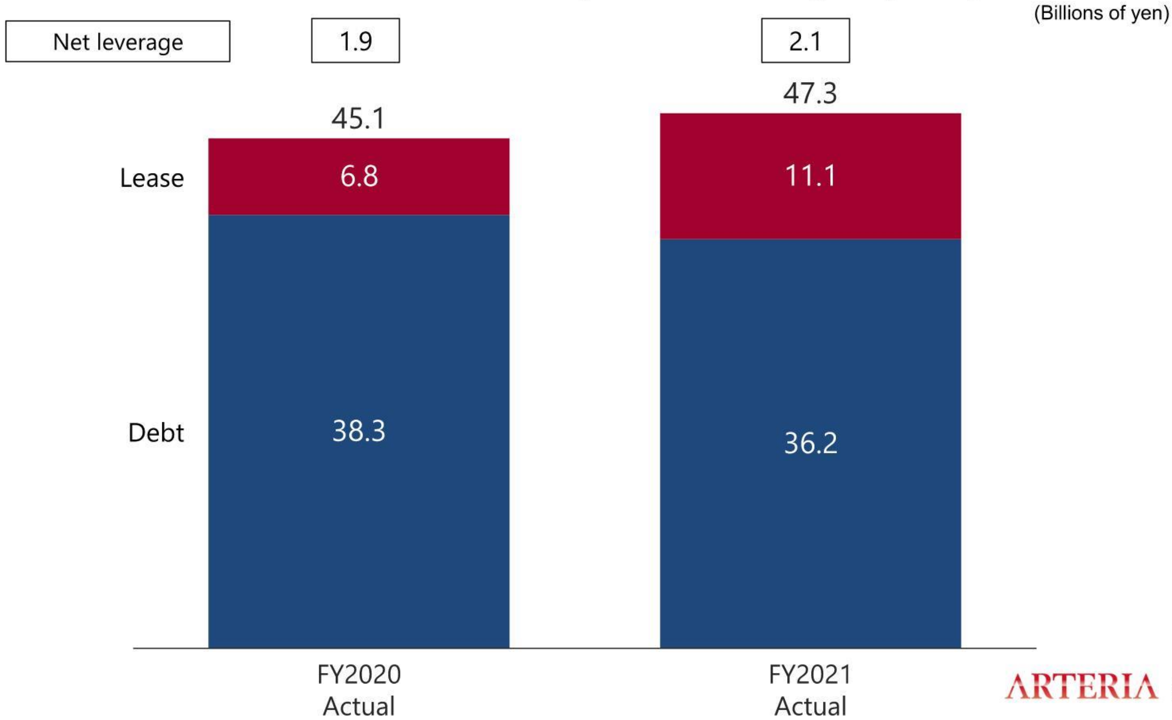
Next, please. Given these, these are the actual and projected free cash flow.

Free cash flow in the previous fiscal year was about the same level as the year before that, and that in the current fiscal year is projected to be less than JPY6 billion, as capital investment will continue at a high level.

Capital Structure

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



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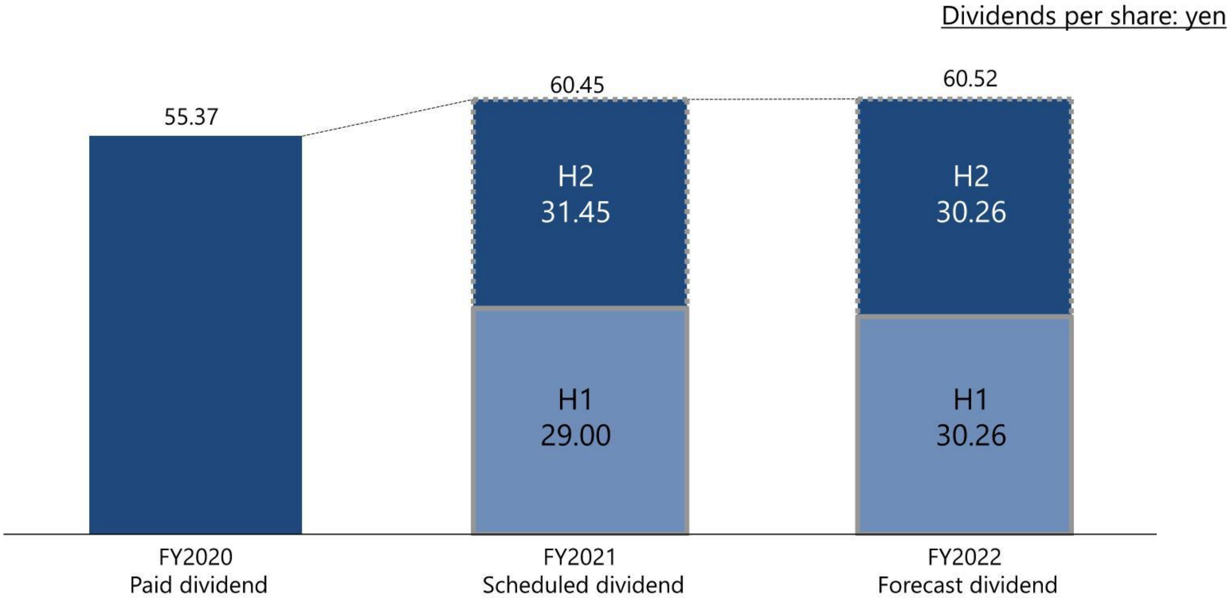
Next, please. Next is the status of capital structure and debt related matters.

First, bank loans are decreasing with scheduled repayments progressing without any changes. However, in the fiscal year ended March 2022, the previous fiscal year, lease obligations increased due to the recognition of the sale of data center as sales and leaseback transaction. Because of that, net leverage has increased slightly from 1.9x to 2.1x.

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.



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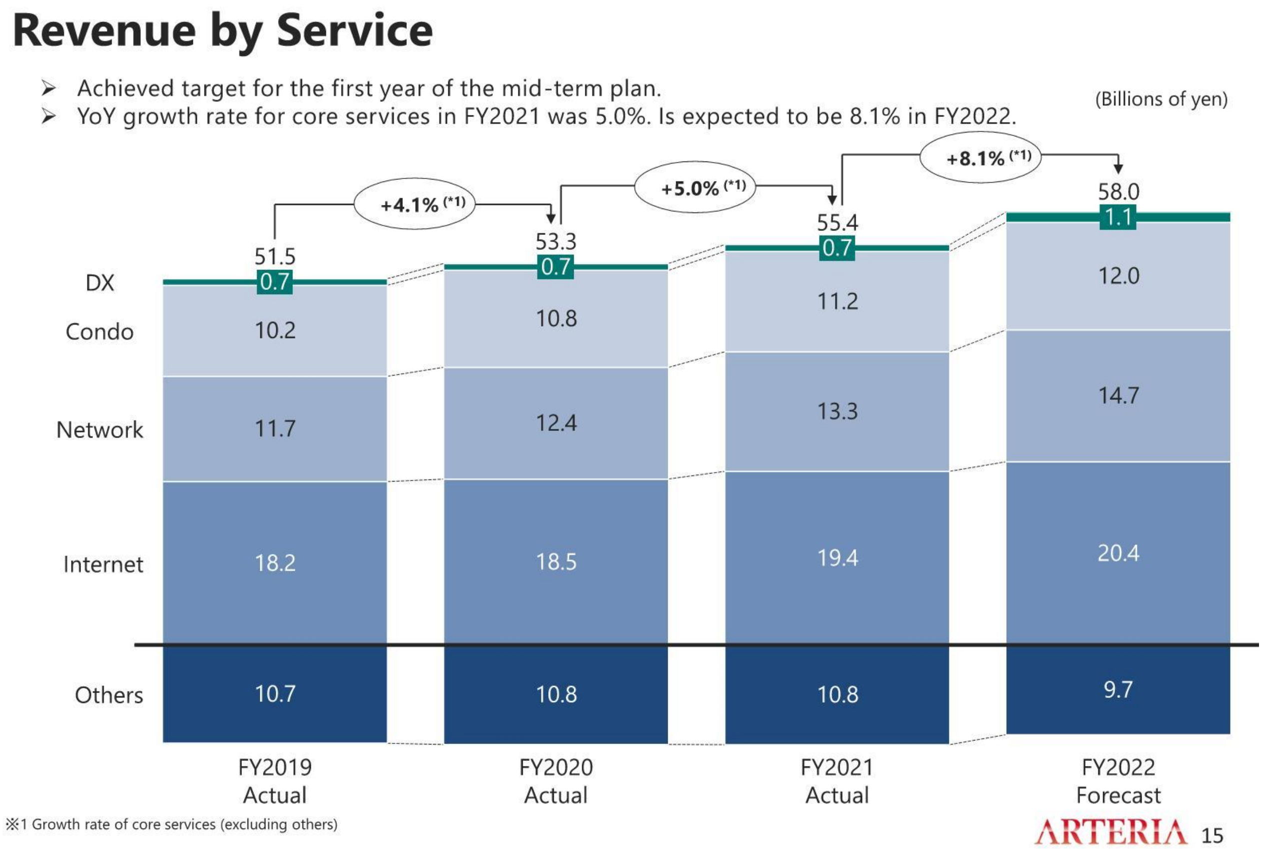
Next, I would like to discuss our dividend policy.

As you can see, in the previous fiscal year, the Company resolved to increase the dividend to JPY60.45 per share, compared with the forecasted dividend of JPY58 at the beginning of the fiscal year.

In this fiscal year, we will continue to maintain a dividend payout ratio of 50%, which is the lower limit. The dividend forecast for this fiscal year is JPY60.52.

That concludes my presentation on the financial part. Thank you very much.

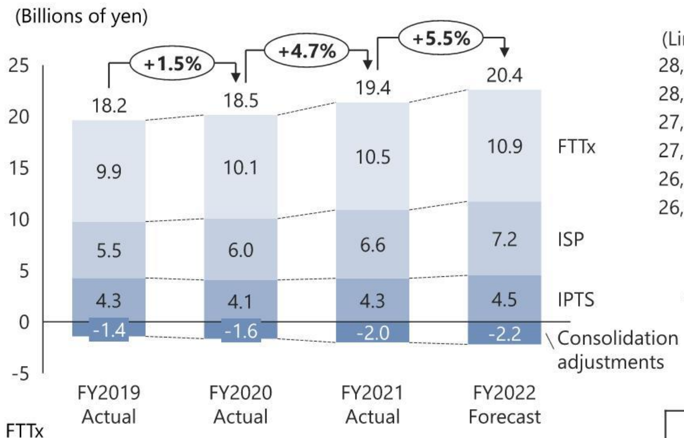
Kabumoto: Next, I will explain our performance outlook and growth strategies by business segment.

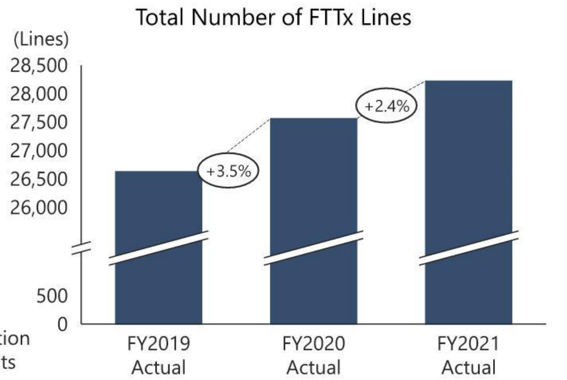


Now, let me explain by segment.

As I explained earlier, our overall target was JPY54.5 billion last fiscal year, but the result was JPY55.4 billion. Growth of 5% in the last fiscal year exceeded the target. Our target for this fiscal year, as explained earlier, is to achieve the 8% level in our main services and JPY58 billion overall.

Internet





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

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

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

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

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.

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Now, I will explain per segment.

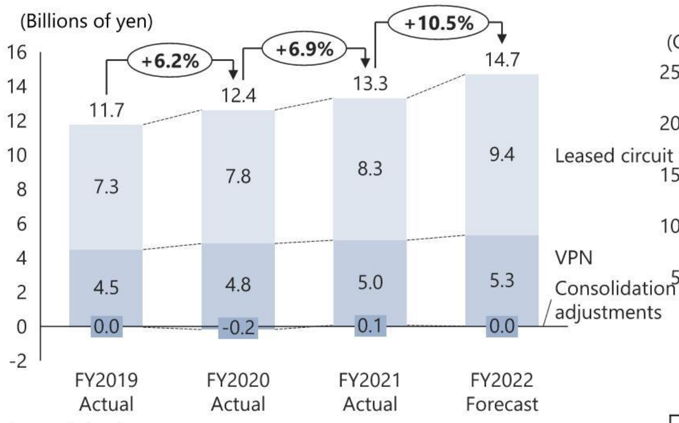
The first is internet service. Internet includes FTTx, ISP, and IP telephone. The Company is steadily expanding in this segment. Regarding FTTx, sales are growing steadily as more and more customers demand high-quality, high-bandwidth services for cloud computing and teleworking.

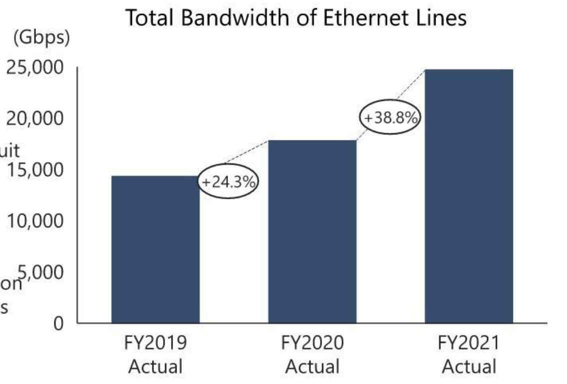
The cumulative number of FTTx lines is shown on the right. Looking at it, it may appear to be 1 percentage point decline in the fiscal year before last, but this is due to an increase in sales to customers who demand high bandwidth. The growth in terms of the number of lines declined, but the amount of payments actually increased.

As for ISPs, similar to FTTx, the transition from PPPoE to IPoE, which is Cross Pass in our company, has been progressing and is steadily expanding.

IPTS decreased once in the last fiscal year, partly due to the impact of COVID-19, when demand for office phones decreased, but it recovered in the last fiscal year. We are expecting further growth this fiscal year, though not as large as we would like.

Network





Leased circuit
- Sales to corporates, OTTs(note) 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(note) service "VANILA"(note), FY2022 is expected to exceed FY2021.

	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

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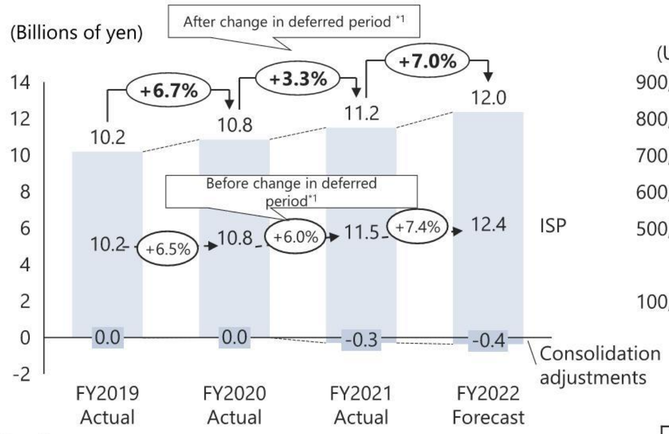
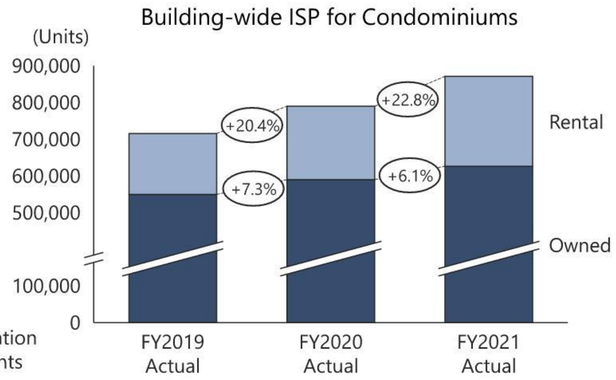
This one is about lines dedicated for network services and VPN.

Sales of lines dedicated for network services are steadily expanding to general companies, OTTs, and telecommunications carriers, that, like the Internet, are demanding high-speed circuits. The number of bandwidths, which is used as a KPI, is 40%, as shown on the right side, indicating significant growth.

As for VPN, we saw growth last year, and the new NFV service, VANILA, which was scheduled for the first half of last fiscal year, was delayed a bit. In fact, since we will launch it this fiscal year, we believe that this level of sales can be achieved this fiscal year with the growth of sales of VANILA.

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"(note), 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.

	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)

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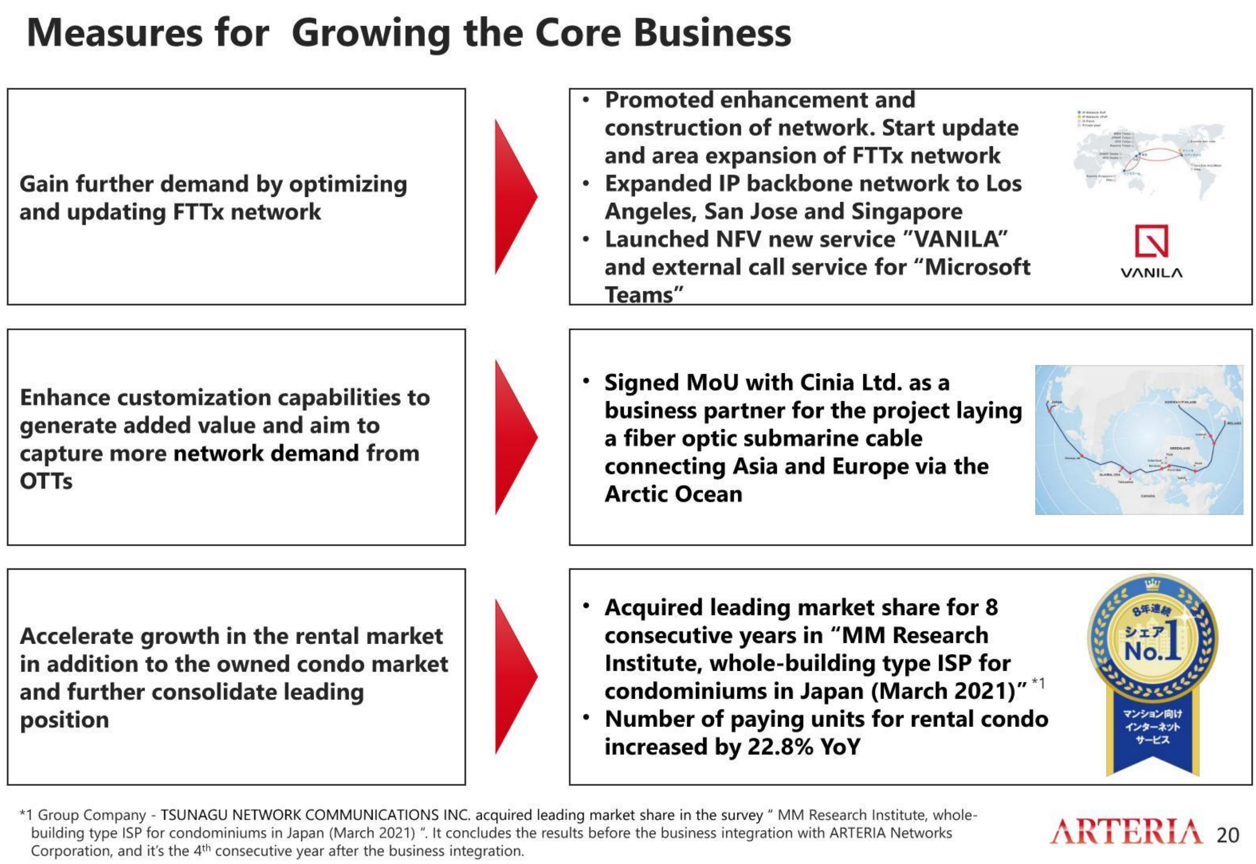
Next is the condominium internet service.

If you look at the upper graph on the left, there are two numbers. The figure of last fiscal year appears to be 3.3%, but it is 3.3% due to the impact of the initial sales deferral. Without this, it should have been 6% growth.

For the building-wide internet service, sales are steadily increasing due to an increase in the number of customers demanding high-quality services for telecommuting and video streaming.

In addition, as will be mentioned later, priority communication service in condominiums, which we released last year, is called Connectix, and we are receiving orders not only for newly built condominiums for sale, but also for newly built condominiums for rent. The number of units billed, which is a KPI, has also achieved a high growth rate of 23%, especially for rental properties.

In this fiscal year, we entered the market for detached houses, which we started in the previous fiscal year, and we would like to accumulate more orders by strengthening our sales efforts in the new market. For the current fiscal year, we are targeting JPY12 billion, a 7% increase over the previous fiscal year.



Next, I would like to explain the progress made in the strategic framework of our medium-term management plan for the fiscal years ended March 2022 through fiscal years ending March 2026.

In the medium-term business plan, the first is to grow our core businesses. There are three of them.

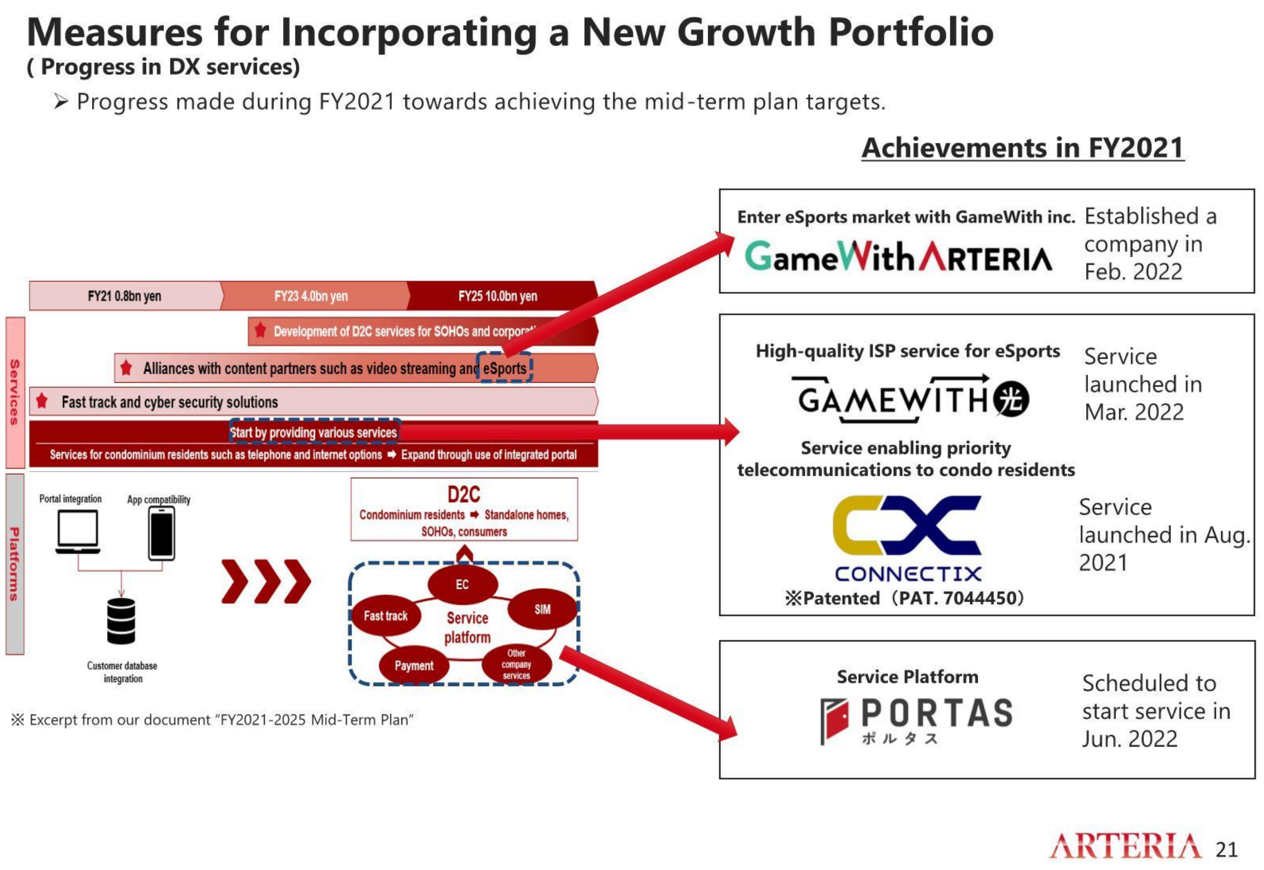
As you can see from the top on the left, we are optimizing and modernizing our network and service lineup including FTTx, optimization and modernization of facilities, and expansion of our service area, as well as expansion of ring network of dedicated lines, as mentioned earlier. IP backbones are being extended to Los Angeles, San Jose, and Singapore. This will probably expand further in this fiscal year.

We have released a new NFV service, VANILA, which was mentioned earlier. We have also started selling an outbound calling service for Microsoft Teams.

Regarding the second point of strengthening our ability to respond to customization, we will work to capture demand for network infrastructure from OTTs. This may or may not be directly related, but as we have released, we are participating in a project to connect Europe, Japan, and Asia via the Arctic Ocean. To this end, we have signed an MoU with Cinia. At this stage, there are no submarine cables in the Arctic Ocean, and demand is expected to increase as this will be the shortest route between Europe and Japan.

The third is condominium internet. In addition to condominiums for sale, the Company was ranked number one for the eighth consecutive year on MM Research Institute's whole-building type ISP for rented condominiums in the last fiscal year. For the rented condominiums, as mentioned earlier, we achieved a 22.8% increase.

Regarding the new growth portfolio, the DX Business Department has been newly established, and Managing Director Ohashi, who is present today, will explain this part. Thank you.



Ohashi: Hello. My name is Ohashi, and I am in charge of technology.

Another pillar of our medium-term management plan is to incorporate a new growth portfolio, and I would like to begin by explaining our efforts in FY2021 in this context.

In the DX business, we will develop in the consumer market and create a platform for it, for which we presented this picture on the left in the mid-term business plan. We have listed on the right what we accomplished in FY2021 in this context.

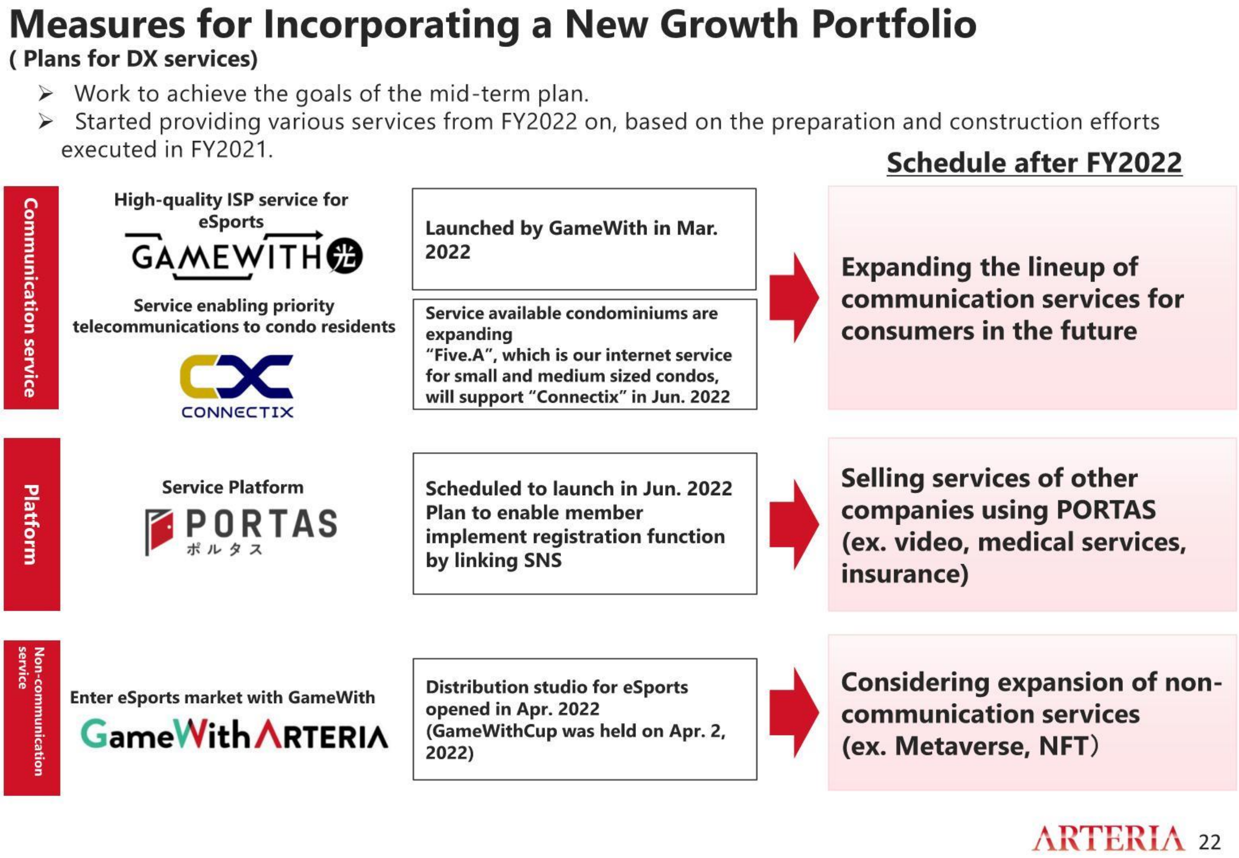
The first is that when we look at the consumer market, it will be important to decide which market we target. As one of these markets, we recognize that the gaming and e-sports markets will continue to grow and expand significantly in the future.

Among them is GameWith, one of Japan's leading game strategy websites. By forming a joint venture with this company, we have established a foothold in the gaming or e-sports market. This company was established in February of last fiscal year.

As one of the immediate synergies from our partnership with this company, we have launched a high-definition internet service for gamers, which is an area of our strength. We released this service because we know that many game players are looking for a higher quality service, rather than the regular internet service.

Connectix is the same communication service among the building-wide internet services we informed you last fiscal year, which allows priority control on a per-condo basis. This service was launched last summer, and thanks to the support of our customers, we were able to obtain the applicant's patent for this service. We are now expanding by differentiating ourselves from our competitors and providing priority service to our customers.

Finally, we have started to build a platform to provide these services last fiscal year, and we expect to launch the service in June during the first quarter of this fiscal year.



I would like to present this slide to show the direction of future development, including this fiscal year.

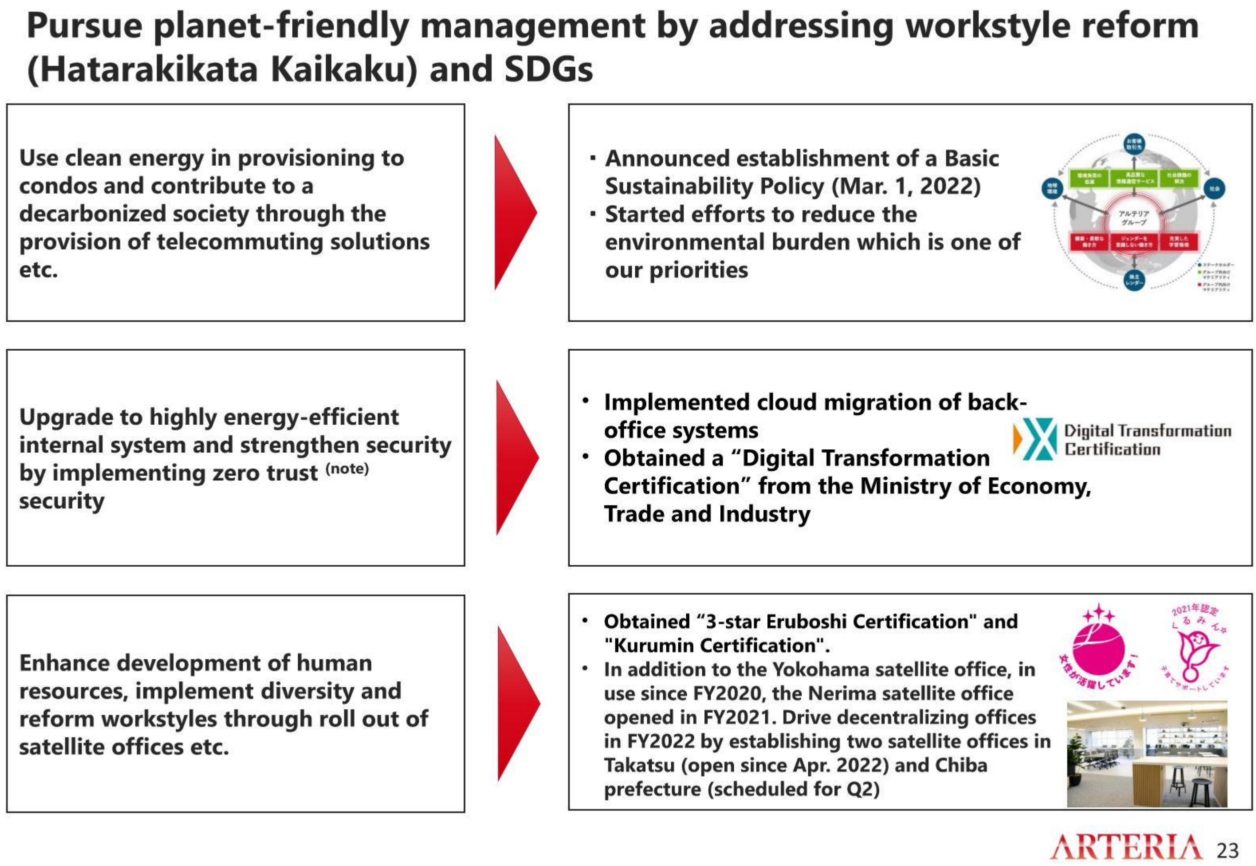
First, as mentioned earlier, our specialty telecommunication services include GameWith Hikari and Connectix. Connectix will further expand its service to include our Five.A service, which is a building-wide ISP for small apartment complexes, starting this June.

In this way, we will further expand our lineup of communication services. We believe that expanding the range of this product by expanding tie-ups for higher quality GameWith Hikari can be one direction we can follow.

As for the second platform, we are planning to launch a service on this type of platform under the name of PORTAS. In addition to the services we have just introduced, we are considering offering the services of other companies within this portal. These include videos, medical services, insurance, and many other services. We would like to make it possible for our customers to obtain a variety of services by accessing this PORTAS.

Finally, we are planning to further expand our non-communication services, such as GameWith ARTERIA, which is a studio operation and management service. In the game industry in particular, keywords such as "metaverse" and "NFT" have been gaining momentum recently, and we would like to consider new businesses in this area as well.

This is all for our initiatives of service portfolio.



Kabumoto: This will be the last page. We said that we are committed to management that contributes to the earth through work-style reforms and our response to the SDGs, as set forth in our medium-term business plan.

The first is to contribute to the decarbonized society through supply of electricity to condominiums using renewable energy and telework-related services. In this regard, we announced our basic sustainability policy last fiscal year. We made the announcement in March. One of the materialities is the reduction of environmental impact, and the Company has begun to address this issue. We are currently working with our employees on a concrete plan for how we will address social issues.

Next is about energy-efficient in-house system. We are introducing Zero Trust to strengthen security. Migration of internal systems to cloud is underway. We have been certified by the Ministry of Economy, Trade and Industry (METI) as a DX certified business.

Lastly, in the areas of human resource development, diversity, office dispersion, and work style reform, we have acquired the Eruboshi certification and Kurumin certification. Some satellite offices have been in operation since FY2020, and Yokohama started operation in FY2020. A satellite office in Nerima Ward has been in operation since FY2021, and another satellite office began operation in Takatsu in April of this year. We have opened another satellite office in Chiba in the second quarter. We are trying to promote decentralization of office to achieve work style transformation.

There are other parts described in Appendix. We hope you will refer to it.

This concludes my presentation. Thank you very much.

Question & Answer

Question: Thank you. I am Tokunaga from Daiwa Securities. I have three questions. The first point is regarding CapEx and communication costs. I was under the impression that the last fiscal year would be the peak of CapEx, but I have heard that CapEx will increase further this fiscal year, quite a bit. What was the impact for this increase in CapEx? Also, fortunately the cost of telecommunications is going down this fiscal year, but what are the factors here and how much will it affect profits quantitatively? I would first like to ask about these two points.

Kabumoto: I see. As for CapEx, we said on the mid-term plan that it would be 119 last fiscal year and 90 this fiscal year. The question was whether it would be the same again, as it was 113 this fiscal year. As you said, we did not reach the target last fiscal year, but the main reason for not reaching the target was ERP. We were not able to operate ERP in the previous fiscal year, and it has been postponed in this fiscal year.

Therefore, I think it is best to understand that this is the most significant factor that caused the increase in CapEx in the current fiscal year.

As for the telecommunication costs, it was again difficult due to congestion measures, partly due to COVID-19. We experienced that in the last fiscal year and the fiscal year before that, so we optimized it. We expect to reduce telecommunication costs this fiscal year due to the use of restructuring costs for this purpose. Overall costs will increase slightly due to an increase in depreciation expenses, but overall costs will be significantly reduced.

Please turn to page eight, which Tateishi explained earlier. It's clearly shown in the operating margin, which was 16.9 in FY2019 and dropped to 15.6 in FY2020, and further dropped to 15 in the last fiscal year. In essence, this means that costs have been inflated. This fiscal year, we expect to return it to 16.6, which we believe will be the result of our structural reforms.

Question: I have follow-up questions. The first, the CapEx increase, is mostly ERP. Is it correct to say that the current shortage of semiconductors and the rising unit prices of various telecommunications devices have been fully factored in, and that the plan is on track for procurement? this is my first question. Secondly, combining communication costs and depreciation expenses, should we expect them to remain flat from the previous fiscal year?

Kabumoto: I see. The first question is whether the impact of semiconductors, including price increases and delivery time, is fully considered. This is well thought out. We started taking measures quite early, from the beginning of the last fiscal year. Measures included making annual commitments with vendors to secure procurement and prices.

As a result, we are in a situation where we have been able to secure sufficient materials for this fiscal year, as we did in the previous fiscal year. There may be some delays, but we do not expect any major impact. The second question was about costs on whether or not we should assume that they will be roughly flat with an increase in depreciation and a decrease in communication costs. I think your understanding is correct.

Question: Thank you. Second question, please. Internet for condominiums is expected to increase in the current fiscal year. On the other hand, some of the competitors have complained about the market maturing. However, your company have a strong business portfolio also with internet for rented condominiums, so it may not be affected by such maturing market. Which is the stronger as the background for the increase in sales this fiscal year, sales for condominiums for sales or for rent? Or is your company's new service working to develop it? Do you plan to increase revenues from the previous fiscal year in such areas, and what is your confidence in this revenue increase? This is my second question.

Kabumoto: I see. I would like to ask a supplementary question from Mr. Ohashi, who was the President of the Company until the previous fiscal year. We believe that there is still room for further development.

I would say that we have a significant share of the market of condominiums for sale. The result in that is not as good as before, but it is still good. As for condominiums for rent, I mentioned earlier that there was a 25% increase, but in reality, we had aimed for a bit more. We receive quite a few comprehensive contracts, but in the case of rent, negotiations with the owner are done afterwards. There are some parts that were missed because of that. Therefore, we expect to win more this fiscal year.

Another point is Connectix. We sell Connectix itself, but there are also condominiums for sale and condominiums for rent that use our service because of Connectix. We believe that this goal is achievable from this perspective as well. Mr. Ohashi, can you comment?

Ohashi: Kabumoto covered everything. There are approximately 25 million condominium households in Japan today, of which only about 3 million have access to the building-wide internet services. The penetration rate is still less than 20%. In that sense, of course, it is certainly correct that there is a certain amount of headway, or lack of growth, with respect to new construction properties. However, there is considerable room for growth. As for this, as mentioned earlier, I think that the overall market will continue to grow in the future by introducing the service for small-scale customers called Five.A, for example.

Connectix is a differentiating factor, and although there is a lot of competition, we have received a lot of purchases. That's all from me.

Question: I understand very well. Thank you. My last question is, regarding DX, three services, or rather four, are listed on the slide on page 21. In the final period of this mid-term plan, please let me know if there are any strengths or weaknesses in the sales breakdown or profit breakdown of this DX, or which services are likely to become larger earlier. That's all from me.

Kabumoto: Is your question about FY2025 in the field of DX?

Ohashi: The goal is to reach JPY10 billion, but we are basically thinking of JPY5 billion to JPY6 billion overall, or more than half, with Connectix and other communication services. For example, if Connectix can get 100,000 units in total, the total would be JPY3 billion to JPY4 billion, and premium services such as GameWith Hikari would be JPY1 billion to JPY2 billion. So, this is more than half of the total. The remainder will be filled by the non-communication services that we are currently developing, as mentioned.

Question: My first question is about the previous period, the fiscal year ended March 2022. You show adjusted operating income on page eight. Please explain why adjusted operating income was flat in the previous fiscal year. Even with the increase in revenue, it does not appear to have led to an increase in profit at all, even on an adjusted operating income basis. What do you think about this?

Kabumoto: Ok. In the last fiscal year, adjusted operating income was 83, and the year before that, it was 83. We are spending for structural reforms, but costs have not fallen as of last year. We used restructuring costs to drop that, but we didn't see the effect, or should I say the results, of that last fiscal year. As a result, adjusted operating income for the last fiscal year was only 83.

However, this is not to say that we did not anticipate this in the beginning; we had planned for such a situation. So, I would appreciate it if you could understand that there was never a particularly large discrepancy there. Does this make sense?

Question: Thank you. I would like to ask my second question. This is about the current fiscal year, the fiscal year ending March 2023. Page eight shows adjusted operating income of JPY9.7 billion, which is a 16.9% increase over the previous fiscal year. It is forecasted for further increase in the fiscal year ending March 2024. Can you tell us whether it really makes sense to forecast that much increase in profit, with capital expenditures increasing and traffic growing exponentially?

Kabumoto: I see. We believe that this is precisely where our true value will be tested. As Tateishi mentioned earlier, it is 97 this fiscal year, and one of the factors is that the customers and orders acquired last year will contribute directly to the current fiscal year. And another factor is the portion that will be further built up in the current fiscal year. Considering this, what we need to accumulate this fiscal year is not much different from last year. We do not believe it is that big of a stretch.

On the other hand, how to keep costs down is where the true value of the Company with our own network is tested, as mentioned earlier. The point of owning networks is that we can control with our capital investment without buying and selling. We believe that our cost competitiveness will be determined by how we keep these costs down.

And if we can achieve these sales this fiscal year, we believe we will be able to achieve them next fiscal year without trying too hard. The other cost can also be adequately controlled by our own lines and does not require procurement. As you said, capital investment increases depreciation expenses, traffic also grows exponentially, but the reason we are extending traffic overseas is actually to reduce transit costs. Our strategy is to lower costs by such measures and become increasingly cost competitive.

Question: Thank you. As a final question, I would like to know if the effects of the cost reduction measures will be visible from around the first quarter, or from where, even though this is a bit short-term.

Kabumoto: The earliest ones will be seen during the first quarter. So, some of this is still a work in progress, or some of it is still ongoing, so there will be other ones that will come into effect in the second quarter, the third quarter, and the next fiscal year. To repeat once more, the first part will come into effect partially from the first quarter. Does this make sense?

Question: I have two questions, though they are minor points. For the first question, you mentioned in the previous quarter's interview that capital investment may be a bit behind schedule. You mentioned your concern that something like a construction cost might be incurred in the next first quarter. If I understand you correctly from what you just said, the cost of telecommunications will start to decline in the first quarter, so is it correct to say that, in the short term, the results of structural reforms are expected to be visible to a certain degree from the first quarter?

Kabumoto: We talked about the delay because of the ERP delay and the fact that CapEx was quite concentrated in the fourth quarter. And I think the effect will actually start to show from the first quarter of this fiscal year. Naturally, since sales are growing, there will inevitably be an increase in cost of sales in line with the growth in sales, but compared to this, the cost of sales should be effectively controlled.

Question: I understand. I am looking forward to it. Secondly, the Company expects to see an increase in revenues from new services this fiscal year. How much growth do you currently expect from VANILA, for example, or from the network this fiscal year, or how much growth do you expect from new measures rather than organic measures? That's all from me.

Kabumoto: With regard to VANILA, we have been in business since the end of last fiscal year, and inquiries have been accumulating steadily. However, this fiscal year, this part of the network, the VPN part of the network, will grow only by 0.3 billion compared to the last fiscal year. It is strange to say that it only extends that much, but that is how it is. Thus, we are not expecting so much from it. Regarding Connectix, Mr. Ohashi, would you comment?

Ohashi: As far as Connectix is concerned, we plan to increase the number of buildings to installed by about 100,000 units this fiscal year and to 120,000 units by the end of the year. Therefore, we believe that we will achieve sales with that.

Kabumoto: Regarding Connectix, I think we talked about 150,000 buildings to be installed. And the actual number of buildings installed last fiscal year was actually 50,000. There were some glitches that were found along the way, and we had to stop the project for a while, so we are a little behind schedule. We will be catching up this fiscal year for 120,000. The key will be how much it grows from there, and we are hoping that it will grow much.

Question: Thank you. I am sorry. I would like to ask additional question. You mentioned that you would like to include other companies' platforms in the PORTAS platform. What companies are you considering to make partnerships with? I am sorry. That's all from me.

Ohashi: I would like to refrain from giving specific names, but we are currently talking with companies that provide video services and other online businesses.

Kabumoto: We are thinking about offering a combination of video and Connectix, or something like that.

Kabumoto: Now that we have received some of your questions, I believe that your concerns and worries are focused on whether we can really achieve the targets in this fiscal year. We are not saying it will be easy, but we believe it is achievable. Sales are also 93% recurring, which were won in the last fiscal year. The accumulation to be made this fiscal year is not so large, as I mentioned earlier.

As for the costs, we believe that we can achieve this goal because we will strive to control the costs by utilizing our own network. We hope that we can somehow make this happen and show you the good results.