

ARTERIA

FY2022H1 Earnings Results Briefing

March 31, 2023

November 21, 2022

ARTERIA Networks Corporation

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FY2022H1 Earnings Results

FY2022H1 Highlights

- Recurring businesses are driving steady earnings.
- Achieved revenue growth rate of 7.0% YoY in core services ^{*1} in FY2022H1. Capture demand growth by responding to soaring needs for high-speed and secure network services, driven by expanded cloud usage and telecommuting.
- Recorded one-time costs relating to the establishment of investigation committee, earnings forecasts for FY2022 unchanged.
- D&A will increase as a result of higher CAPEX, the structural reorganization executed in FY2021 will allow us to control network costs. Adjusting for the disposal gain on partial transfer of a data center recorded in FY2021 and the one-time costs incurred in FY2022 operating income is expanding.

*1 Refers to "Internet", "Network", "Condo", "DX"

Financial Highlights

- Revenue growth but profit decline due to the disposal gain on transfer of data center recorded in FY2021H1.

(Billions of yen)

	FY2021H1	FY2022H1	Change	Ratio
Net sales	26.6	28.8	+2.2	+8.1%
Operating profit	5.1	4.2	△0.9	△17.2%
Profit before tax	4.9	4.0	△0.9	△18.8%
Profit	3.4	2.8	△0.6	△17.5%
Profit attributable to owners *	3.2	2.6	△0.6	△19.3%

*Profit attributable to owners of the parent

Forecasts

- Net sales progress approx. 50%, all profit levels showing progress of around 43%.
- No change in FY2022 forecast.

(Billions of yen)

	FY2022 (forecast)	FY2022H1	Progress
Net sales	58.0	28.8	49.6%
Core services sales	48.3	23.5	48.9%
Operating profit	9.7	4.2	43.4%
Profit before tax	9.3	4.0	43.1%
Profit	6.4	2.8	43.5%
Profit attributable to owners *	6.1	2.6	42.9%

*Profit attributable to owners of the parent

Analysis of FY2022H1

- Growth rate of core services*¹ was 7.0% YoY.
- FY2022 forecast remains unchanged; recurring revenue from orders received in FY2022 will contribute to sales in FY2022H2 and the structural reorganization (executed in FY2021) will allow us to control network costs.
- Investigation costs*² of approx. 0.3bn yen impacted operating profit. Adjusting for one-time gains and losses operating profit increased by approx. 0.6bn yen YoY.

(Billions of yen)

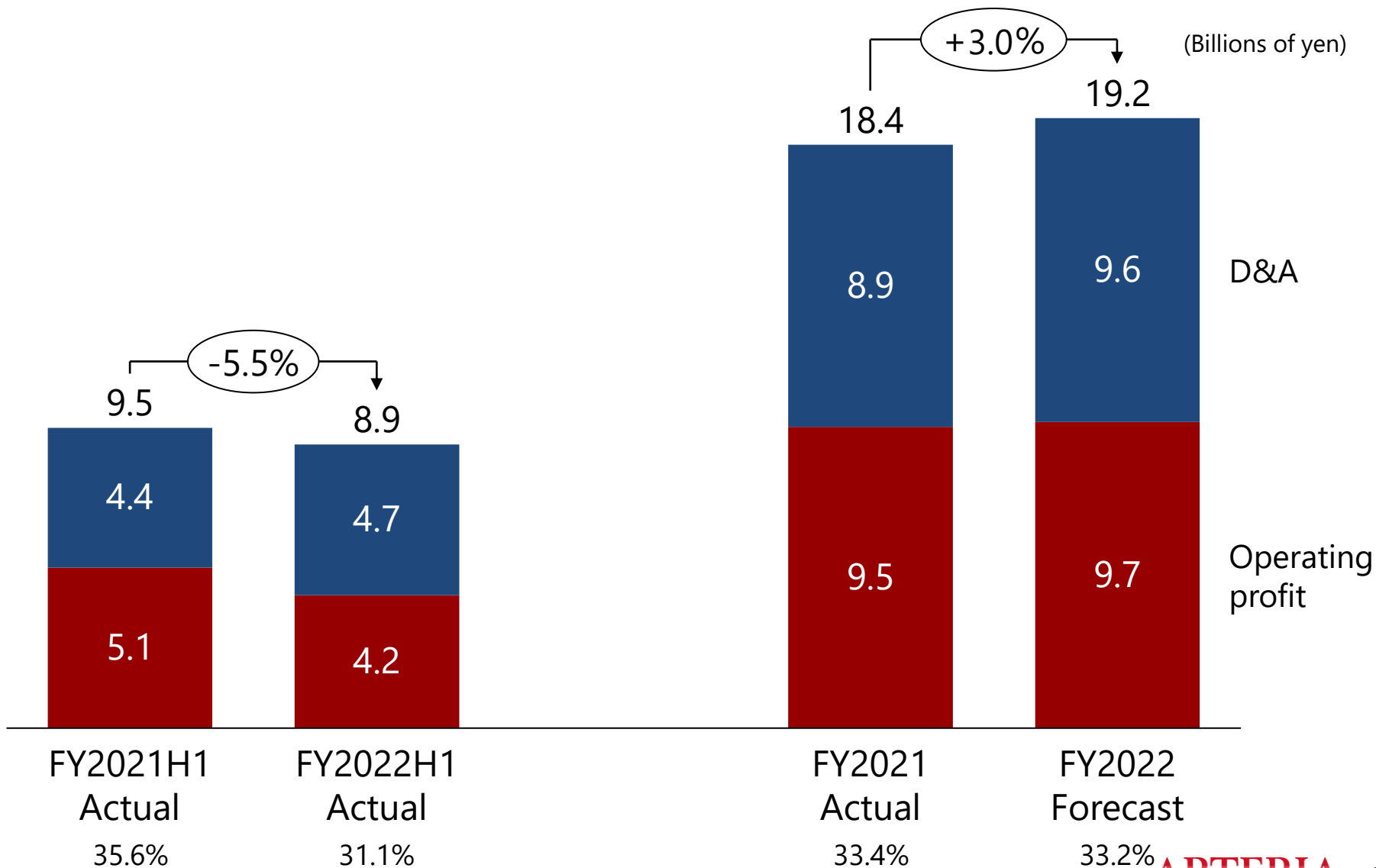
	FY2020H1 Actual	FY2021H1 Actual	FY2022H1 Actual
Sales	25.9	26.6	28.8
Revenue of core services	20.8	22.0	23.5
Revenue growth rate of core services	3.3%	5.5%	7.0%
Operating profit	4.2	5.1	4.2
Disposal gain on the partial transfer of the data center business		▲ 1.2	
Investigation costs			+0.3
Adjusted profit	4.2	3.9	4.5
Adjusted profit margin	16.1%	14.5%	15.6%

*1 Refers to "Internet", "Network", "Condo", "DX"

*2 Investigation and other costs relating to the establishment of an investigation committee, as per our disclosure on June 13, 2022

EBITDA

➤ EBITDA declined by 5.5%, to 8.9bn during FY2022H1, FY2022 forecast at 19.2bn.

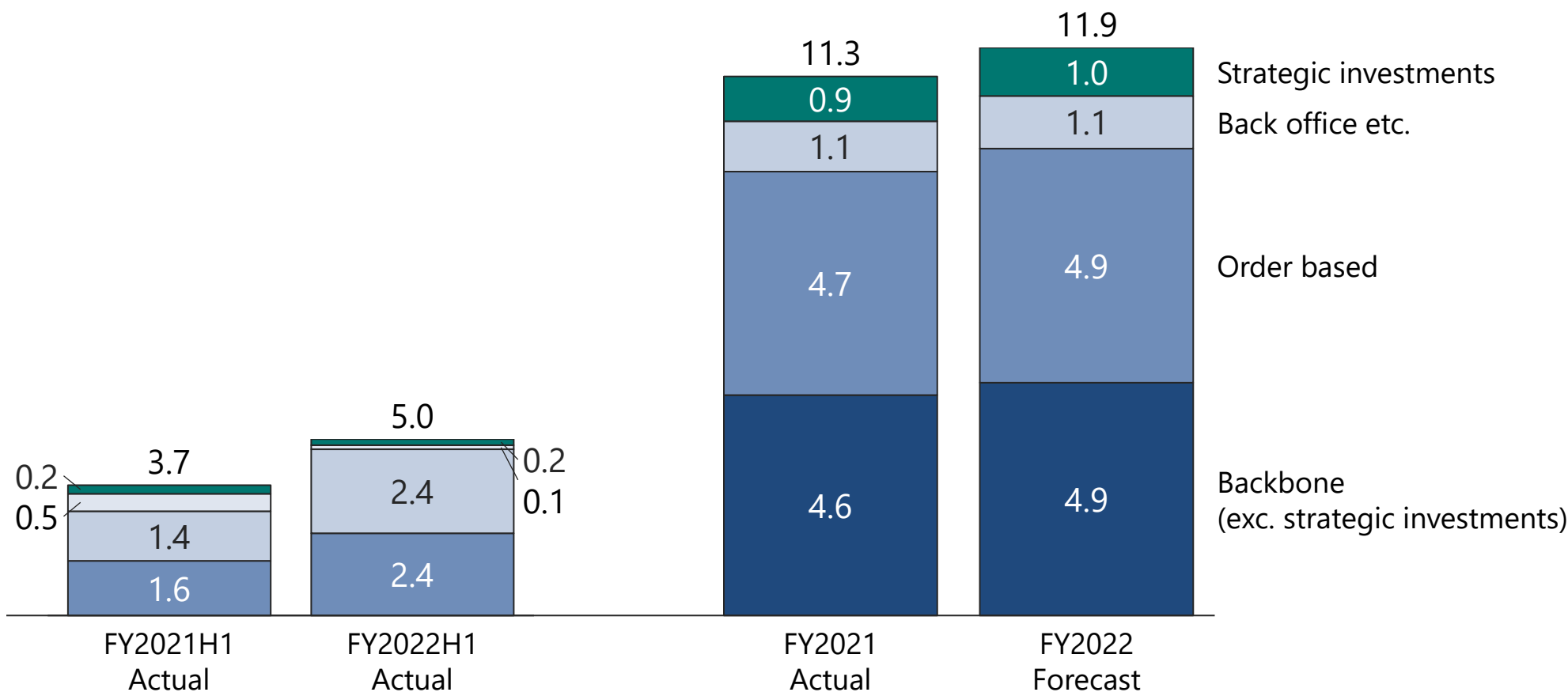


EBITDA
margin

CAPEX

- FY2022H1 CAPEX on track at 5.0bn (1.3bn increase YoY), mainly order based CAPEX and network enhancement.
- FY2022H2 forecast at 6.9bn

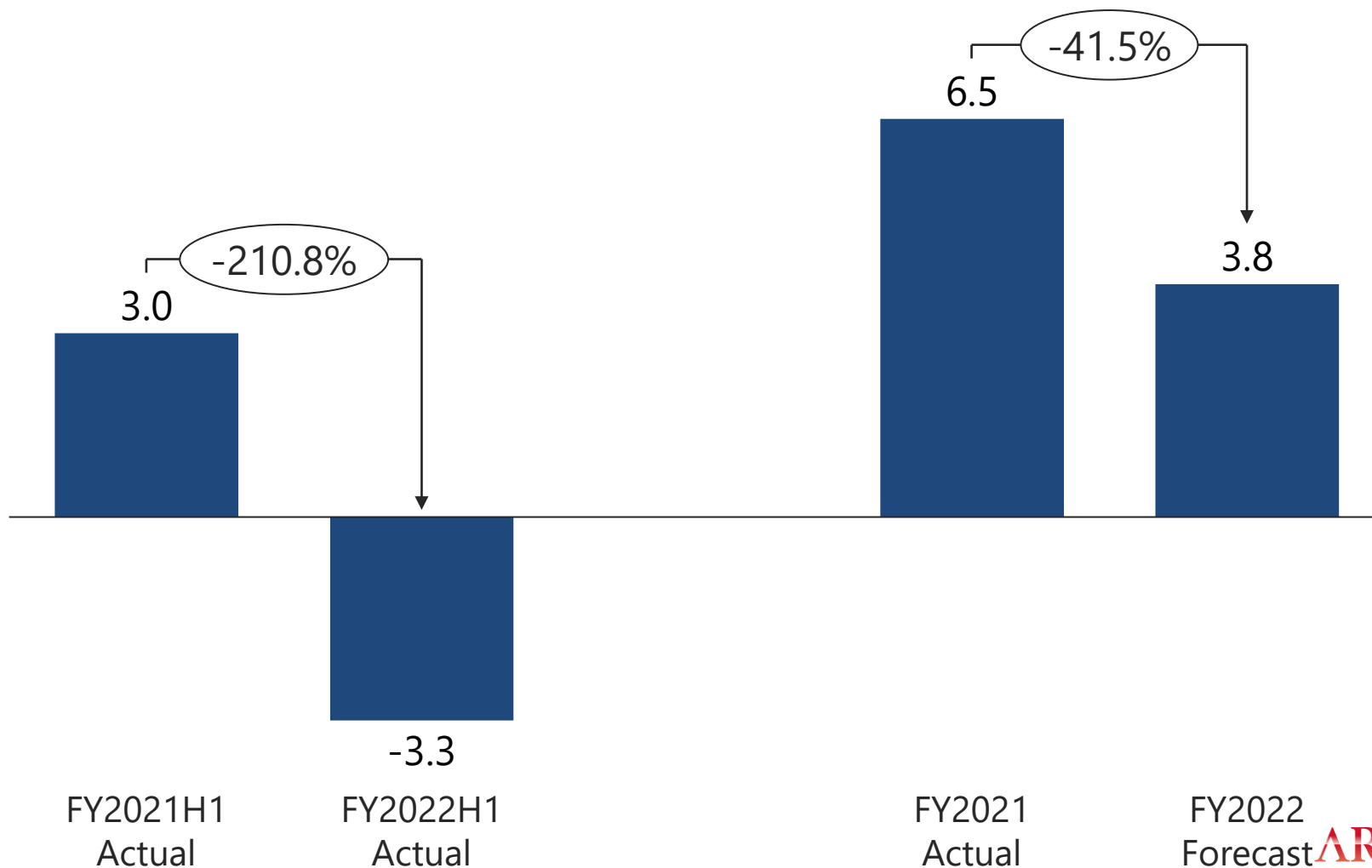
(Billions of yen)



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

FCF

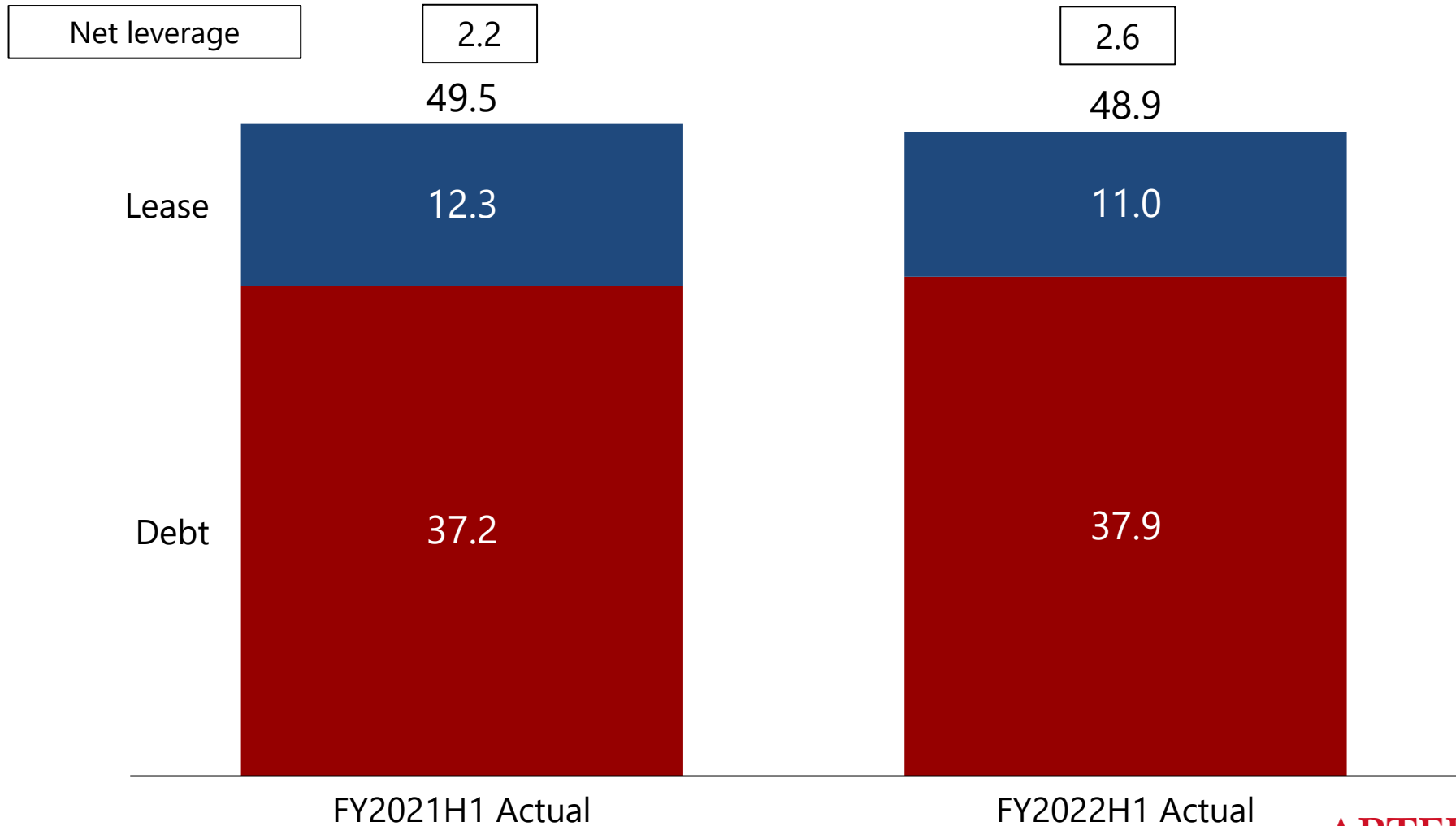
- FCF in FY2021H1 was approx. 3.0bn due to transfer of data center business, decreased to -3.3bn in FY2022H1 due to share acquisition of GameWith and taxes paid.
- FY2022 forecast at 3.8bn due to acquisition of GameWith shares. (Billions of yen)



Capital Structure

➤ Slight decrease in borrowings.

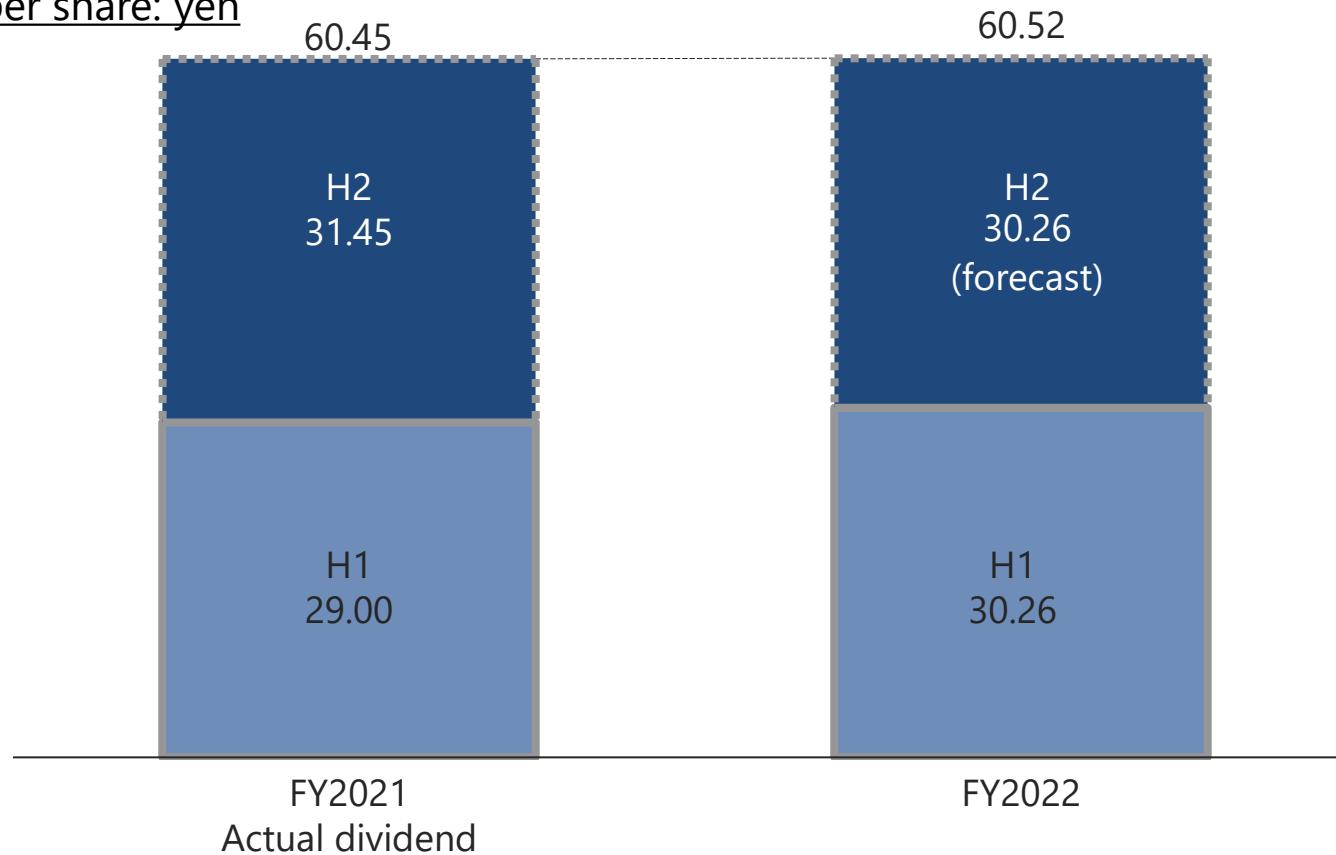
(Billions of yen)



Dividend Policy

- Forecasted minimum dividend for FY2022, paid out as interim and year-end.
- Dividend for FY2022H1 is scheduled to be 30.26 yen.
- Sustain 50% payout ratio.

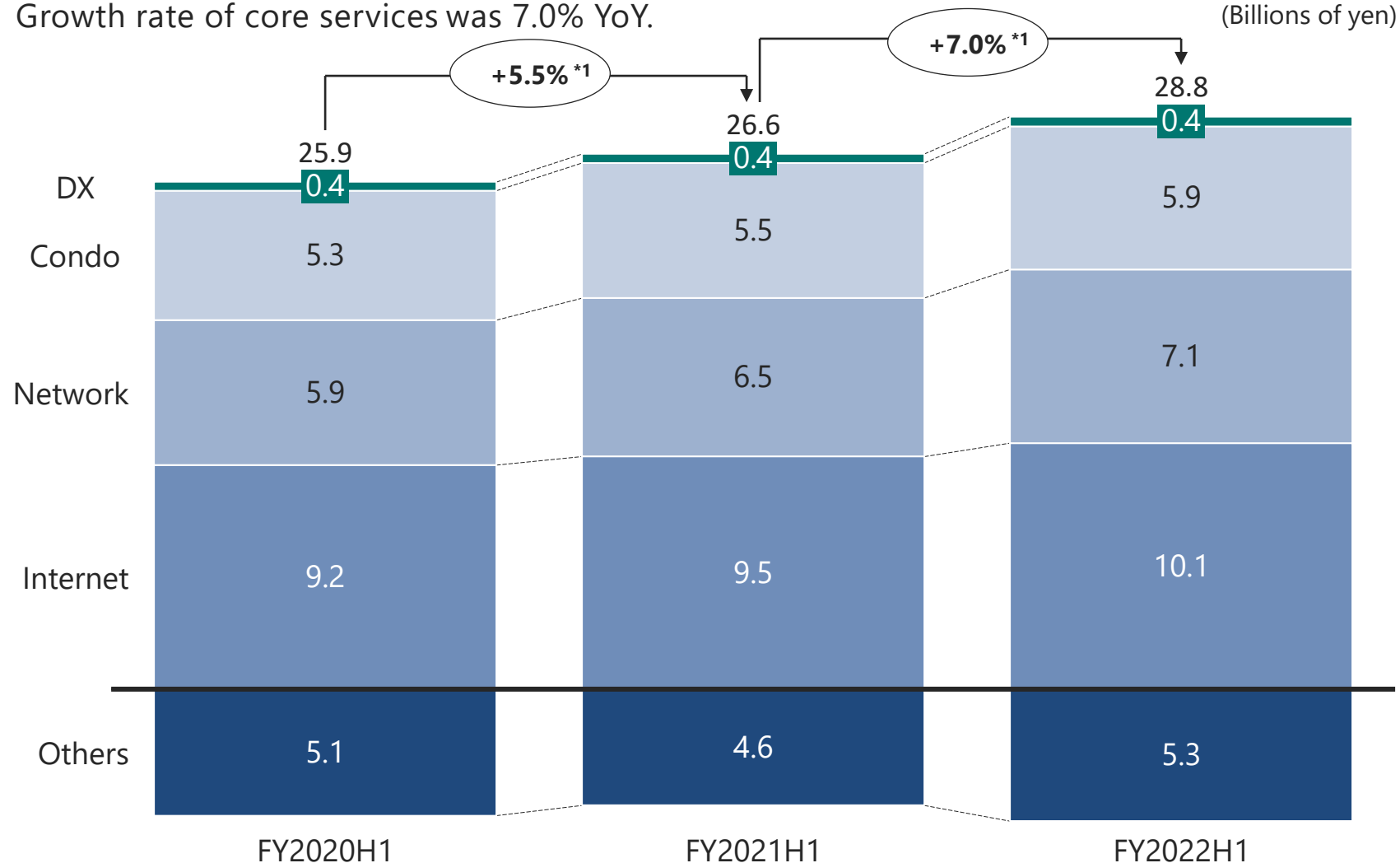
Dividends per share: yen



Core Services and Growth Strategy

Revenue by Service

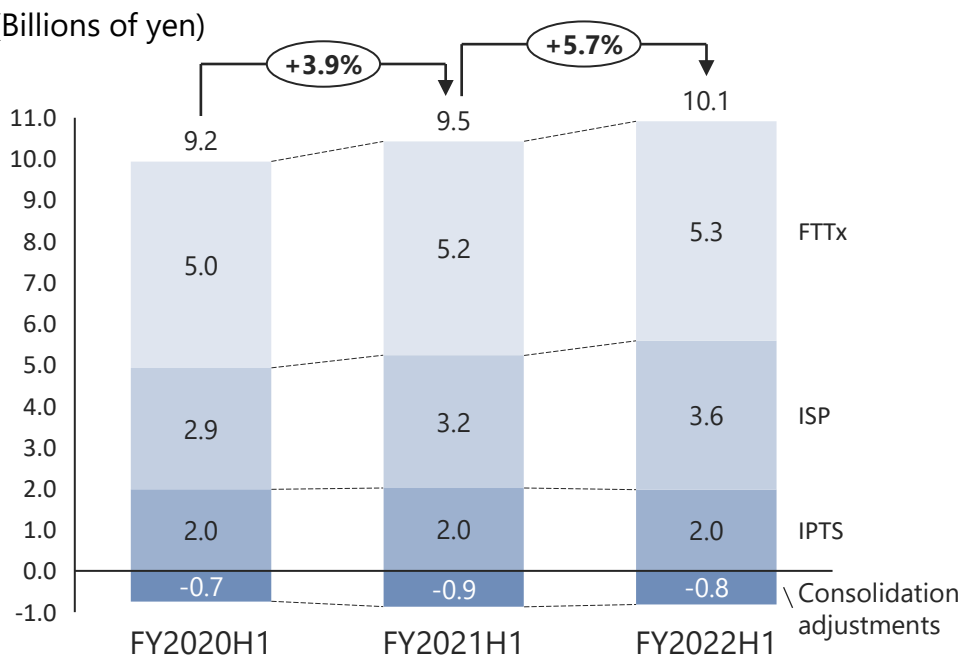
- Revenue of core services ^{*1} grew as sales activities progressed supported by growing demand for cloud-based services and increase in telecommuting.
- Growth rate of core services was 7.0% YoY.



*1 Growth rate of core services (excluding others)

Internet

(Billions of yen)



FTTx

- Cloud usage and the spread of telecommuting remain growth drivers and the expansion of our network areas is ongoing.

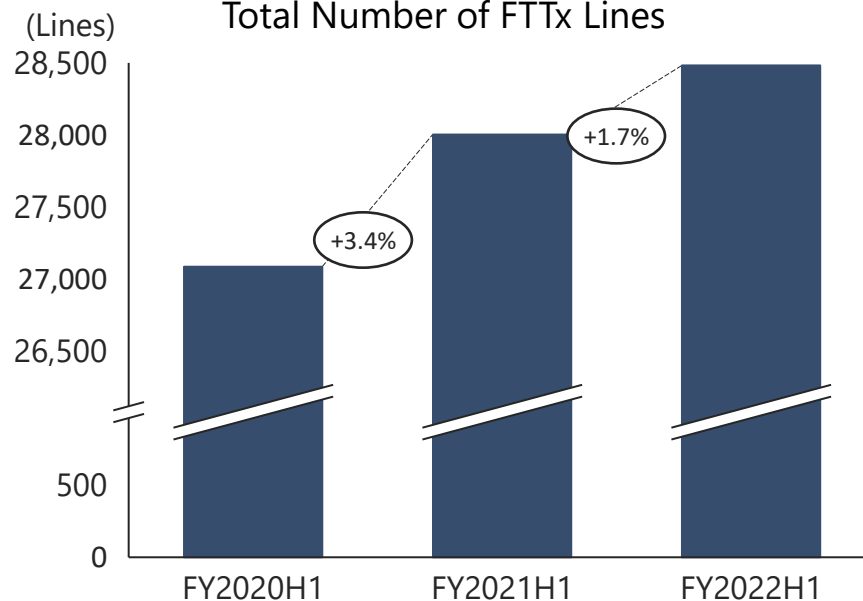
ISP

- Demand for high-quality services has increased, and take-up of our Cross Pass^(note) service has expanded.

IPTS

- Demand from cloud service providers ^(note) continues to expand.
- Decided to withdraw or downsize the incoming access charge business^(note)

Total Number of FTTx Lines

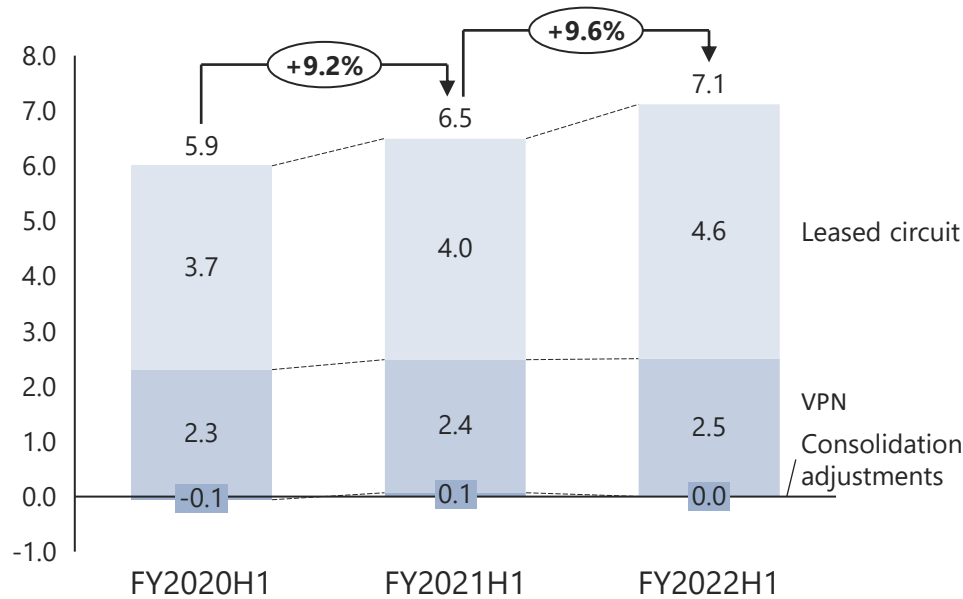


	FY2020H1	FY2021H1	FY2022H1
Total number of lines	27,084	28,003	28,484

The growth of the total number of lines has slowed down, but the demand for broadband services has increased, and the unit price per line has risen. Area expansion is expected to drive further growth in FY2023.

Network

(Billions of yen)



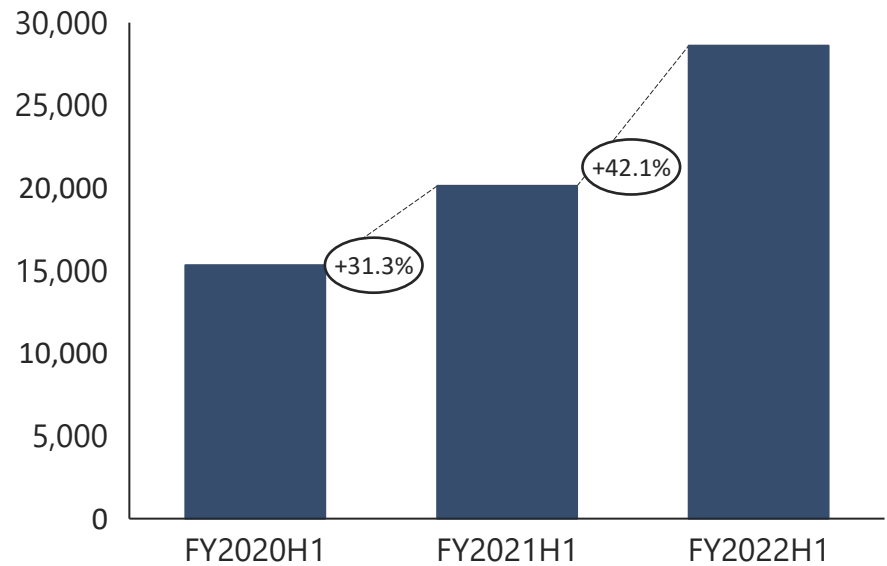
Leased circuit

- Driven by steady demand for reliable high-quality and secure services from corporates, OTTs and telecommunication providers, who are promoting the introduction of DX, leased circuit sales grew year on year.
- Proactively enhancing our network in areas where there is high demand, such as Tokyo-Nagoya-Osaka and data center parks.

VPN

- Supported by the expanded use of cloud services and mobile devices, sales of services such as cloud connectivity, our high-quality backbone network and mobile access are increasing.

(Gbps) Total Bandwidth of Ethernet Lines



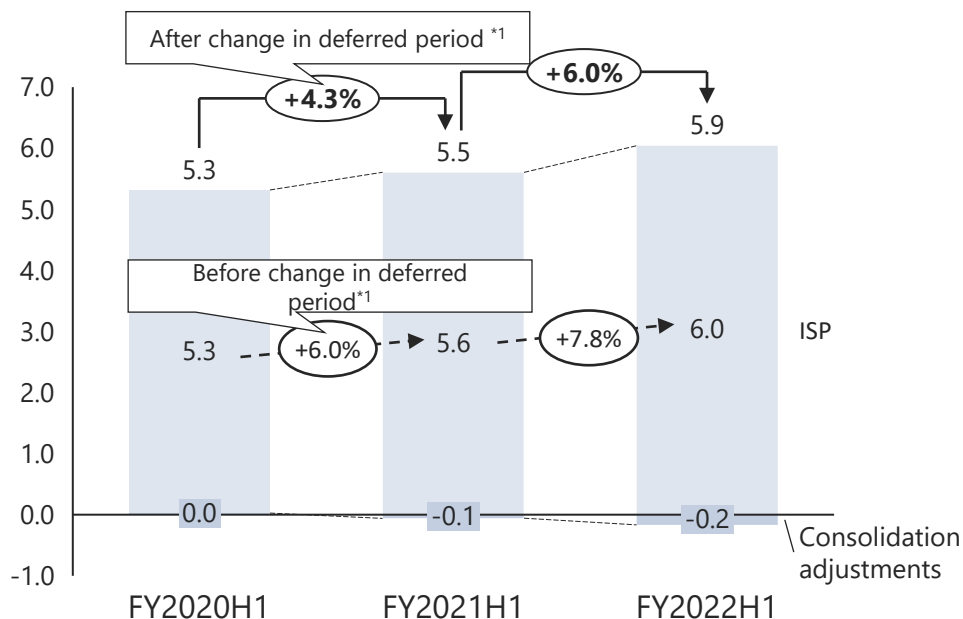
	FY2020H1	FY2021H1	FY2022H1
Total bandwidth*1 (Gbps)	15,333	20,124	28,602

The growth rate in FY2022H1 is 42.1% YoY due to sales to telecommunications carriers and the public sector.

*1 Total bandwidth = service bandwidth × number of lines

Condominium Internet

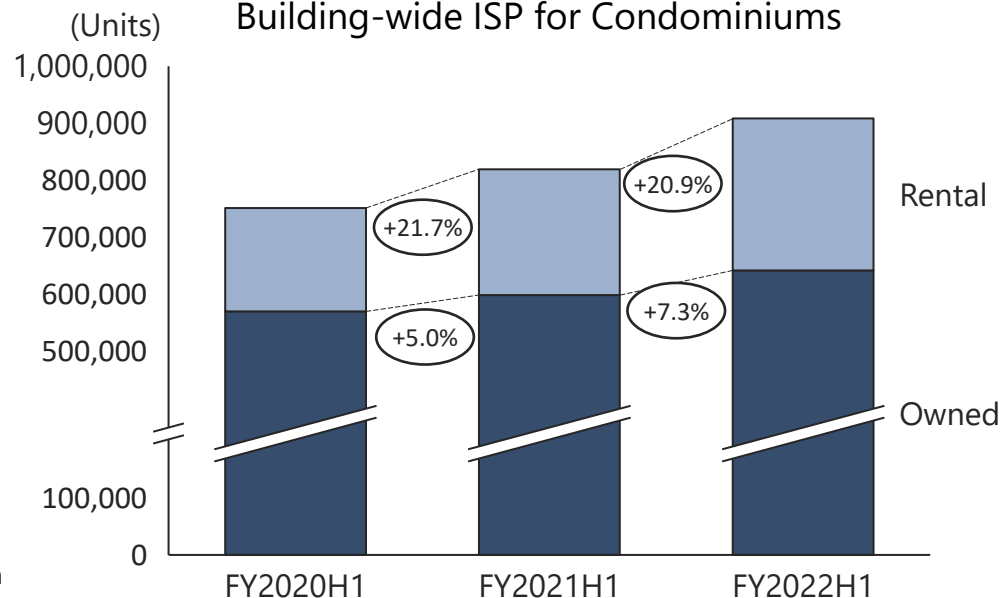
(Billions of yen)



Condo

- The number of paying units for both owned and rental are steadily increasing, and sales are also increasing.
- Demand for high-quality services is increasing due to telecommuting and the spread of video distribution services.
- In order to respond to the expected increase in demand for high-quality services, we introduced a new service with a maximum capacity of 10 Gbps that installs optical fiber to each unit.

Building-wide ISP for Condominiums



	FY2020H1	FY2021H1	FY2022H1
Rental	181,509	220,898	267,124
Owned	568,963	597,635	641,070

Owned is steadily growing supported by stable orders from major and small to medium-sized developers, as well as orders for large-scale buildings in central Tokyo and building refurbishments.

In rental, we are steadily accumulating orders for medium-sized buildings, mainly from partners such as management companies and developers, and we sustain a high growth rate.

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

Mid-Term Plan Review in FY2022H1

1. Measures for growing the core business

- Enhanced leased circuit rings in the Tokyo, Nagoya and Osaka areas, where demand is high. Update and area expansion of FTTx network.
- Expanded the service lineup of the NFV ^(note) service “VANILA” ^(note) and increased orders.
- Development Corporation “Far North Fiber, Inc.” was formed for Trans-Arctic Fiber Cable connecting Europe to Asia on October 3.
- Won first place in the customer satisfaction survey in the network service category of the Nikkei Computer Customer Satisfaction Survey 2022-2023 published on the September 1.
- Acquired leading market share for 9 consecutive years in “MM Research Institute, whole-building type ISP for condominiums in Japan (March 2022)”^{*1}

2. Measures for incorporating a new growth portfolio

- Service Platform for D2C service “Portas”^(note) launched in Q1.
- Executed a joint capital investment with GameWith, Inc. which operates largest game strategy site in Japan, and made into group company.
- Started providing GameWith Hikari, a high-quality service for eSports as the second communication service for D2C after “Connectix” ^(note) .

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

- Engaging in company-wide activities based on a Basic Sustainability Policy and published results of efforts from FY2021 on our corporate website.
- Completed launch of all planned satellite offices and started reforming headquarter to maximize productivity.

*1 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 2022) “. It concludes the results before the business integration with ARTERIA Networks Corporation, and it's the 5th consecutive year after the business integration.

*2 Refers to UCOM Hikari Residence (including Five.A) and e-mansion provided by group company TSUNAGU NETWORK NETWORK COMMUNICATIONS INC.

Measures for Incorporating a New Growth Portfolio

(Plans for DX services)

- In addition to developing and deploying communication services, full-scale entry into non-communication service by joint capital investment with GameWith, Inc.

Communication service

High-quality ISP service for eSports



Service enabling priority telecommunications to condo residents



Schedule from FY2022H2 onwards

- Aim to increase revenue by expanding the lineup of "GameWith Hikari" scheduled in Q4, FY2022.
- Continue to expand "Connectix" available condominiums as standard equipment with our building-wide ISP services.

Platform

Service Platform



- Enhance customer convenience by integrating existing service portals*1 and aim to expand subscribers.
- Scheduled to start selling services of other companies using "Portas" in Q4, FY2022.

Non-communication service

Enter eSports market with GameWith



- Expand DX business in eSports and NFT^(note) games, etc.

*1 Refers to portal sites, EC sites, etc. for condominium residents provided by our group

Appendix

Glossary

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.
Cloud Service Provider	Service that builds a PBX (private branch exchange) on the cloud and provides calls and communications over the Internet.
Incoming access charge business	Deal which pay incentives according to the number of incoming calls to the number granted by carrier.
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.
Portas	Our service platform which enable condominium residents to use various services.
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.
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.

Costs Breakdown

(Millions of yen)

	FY2021H1	FY2022H1
COGS	18,132	19,560
Communication costs	5,754	5,940
Outsourcing	2,741	2,798
Personnel expenses	1,383	1,625
D&A	3,568	3,940
Other	4,688	5,257
SG&A	4,515	5,045
Personnel expenses	2,048	2,149
D&A	714	723
Commissions and other fees	492	849
Outsourcing	548	578
Agent fee and promotion	215	218
Other	499	527

Connecting New Abilities

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