

ARTERIA

FY2022 Earnings Results Briefing

March 31, 2023

May 18, 2023

ARTERIA Networks Corporation

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FY2022 Earnings Results

FY2022 Highlights

- Core network and internet service sales are trending steadily supported by strong order trends.
- Progress of growth in the rental market condominiums and DX services, which were expected to accelerate in the Mid-Term Plan, lagging behind the assumptions made at the time it was formulated.
- As a result of recurring sales expansion and the structural reorganization executed in FY2021 gross profit continued to increase. The effect of one-time costs relating to the establishment of an investigation committee could not be recovered and operating and net income declined year on year.
- On October 11, 2022, we received an initial proposal regarding a tender offer for ARTERIA shares from our controlling shareholder Marubeni and SECOM. We have concluded that in order to further accelerate and strengthen the existing core services, while facing increasing capital investment needs, it is essential to strengthen and promote the alliance with the tender offerors by utilizing the combined management resources. As such, we have issued an opinion supporting the TOB.

Financial Highlights

- Sustained YoY sales growth, decline in operating profit and profit attributable to owners.
(Billions of yen)

	FY2021	FY2022	Change	Ratio
Net sales	55.4	59.5	+4.05	+7.3 %
Core services*1 sales	44.6	47.9	+3.25	+7.3 %
Operating profit	9.5	9.5	△0.07	△0.7 %
Profit before tax	9.2	9.0	△0.28	△3.0 %
Profit	6.4	6.3	△0.14	△2.1 %
Profit attributable to owners*2	6.0	5.9	△0.16	△2.6 %

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

*2 Profit attributable to owners of the parent

Forecasts

- Increase in sales and profit forecast for FY2023 driven by recurring revenue and cost savings.

	FY2022	FY2023	Change	Ratio
				(Billions of yen)
Net sales	59.5	62.5	+3.08	+5.2 %
Core services sales	47.9	52.3	+4.48	+9.4 %
Operating profit	9.5	9.9	+0.47	+4.9 %
Profit before tax	9.0	9.7	+0.71	+7.9 %
Profit	6.3	6.7	+0.39	+6.2 %
Profit attributable to owners *	5.9	6.2	+0.35	+5.9 %

*Profit attributable to owners of the parent

Analysis of FY2023 Forecasts

- Forecast 9.4% YoY increase in revenue of core services ^{*1} driven by stable recurring revenue.
- In FY2022, although one-time investigation costs ^{*2} of approx. 0.3bn yen occurred, operating profit (adjusted for one-time gains and losses) increased by approx. 1.5bn yen YoY.
- Forecast 9.9bn yen in operating profit including the impact of proactive investments and higher D&A. Forecast approx. 1.5bn yen YoY increase in EBITDA.

	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Forecast	(Billions of yen)
Sales	53.3	55.4	59.5	62.5	
Revenue of core services	42.5	44.6	47.9	52.3	
Revenue growth rate of core services	4.1%	5.0%	7.3%	9.4%	
Operating profit	8.9	9.5	9.5	9.9	
EBITDA	18.0	18.4	19.2	20.6	
Disposal gain on the partial transfer of the data center business	▲0.6	▲1.9			
One-time restructuring costs		+0.7			
Disposal gain on the partial transfer of the data center business			+0.3		
Adjusted profit	8.3	8.3	9.8	9.9	
Adjusted profit margin	15.6%	15.0%	16.5%	15.8%	

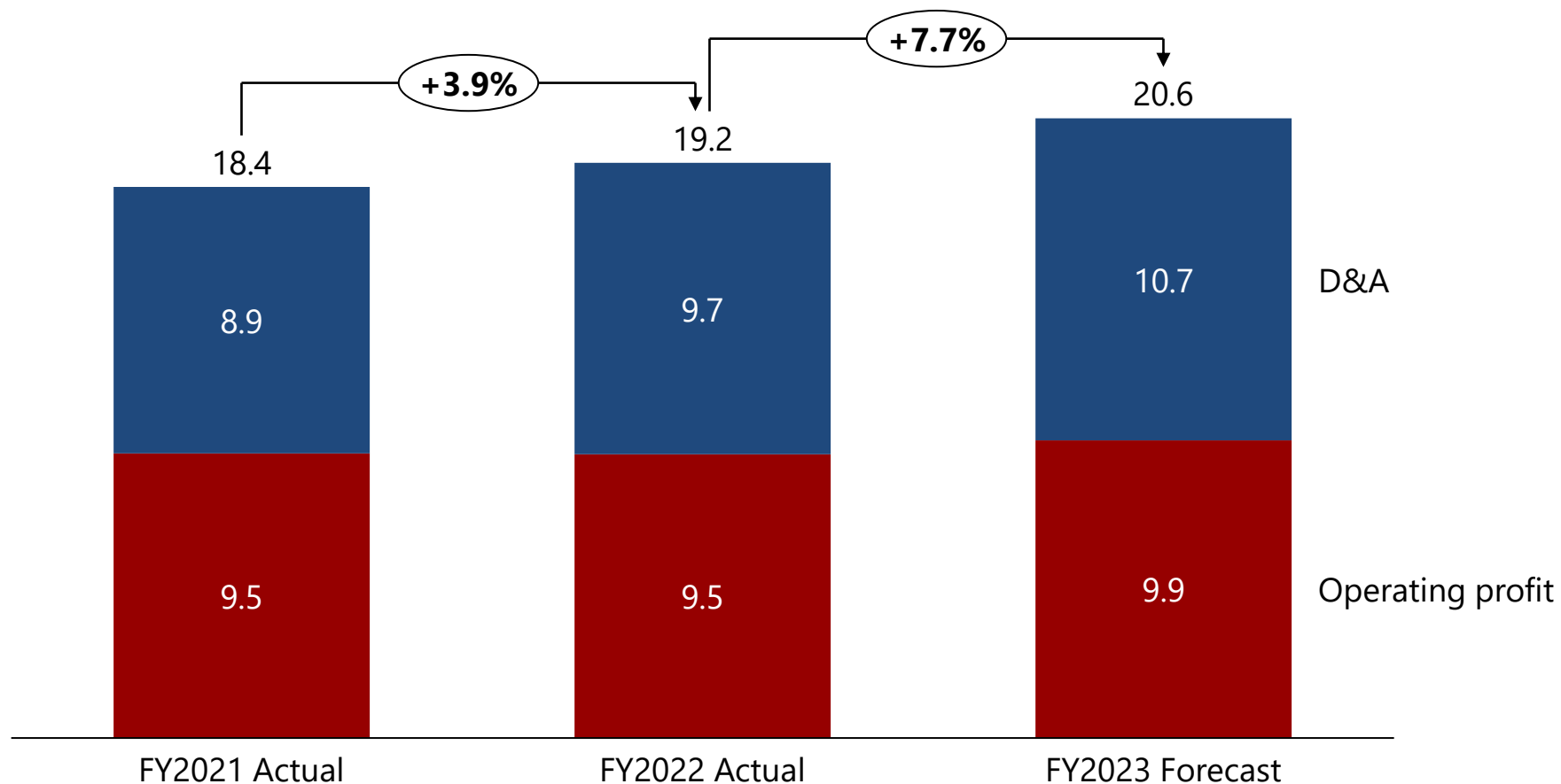
*1 Refers to "Internet", "Network", "Condo", "DX"

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

EBITDA

➤ EBITDA for FY2023 forecast at 20.6bn, a 7.7% increase YoY.

(Billions of yen)



33.4%

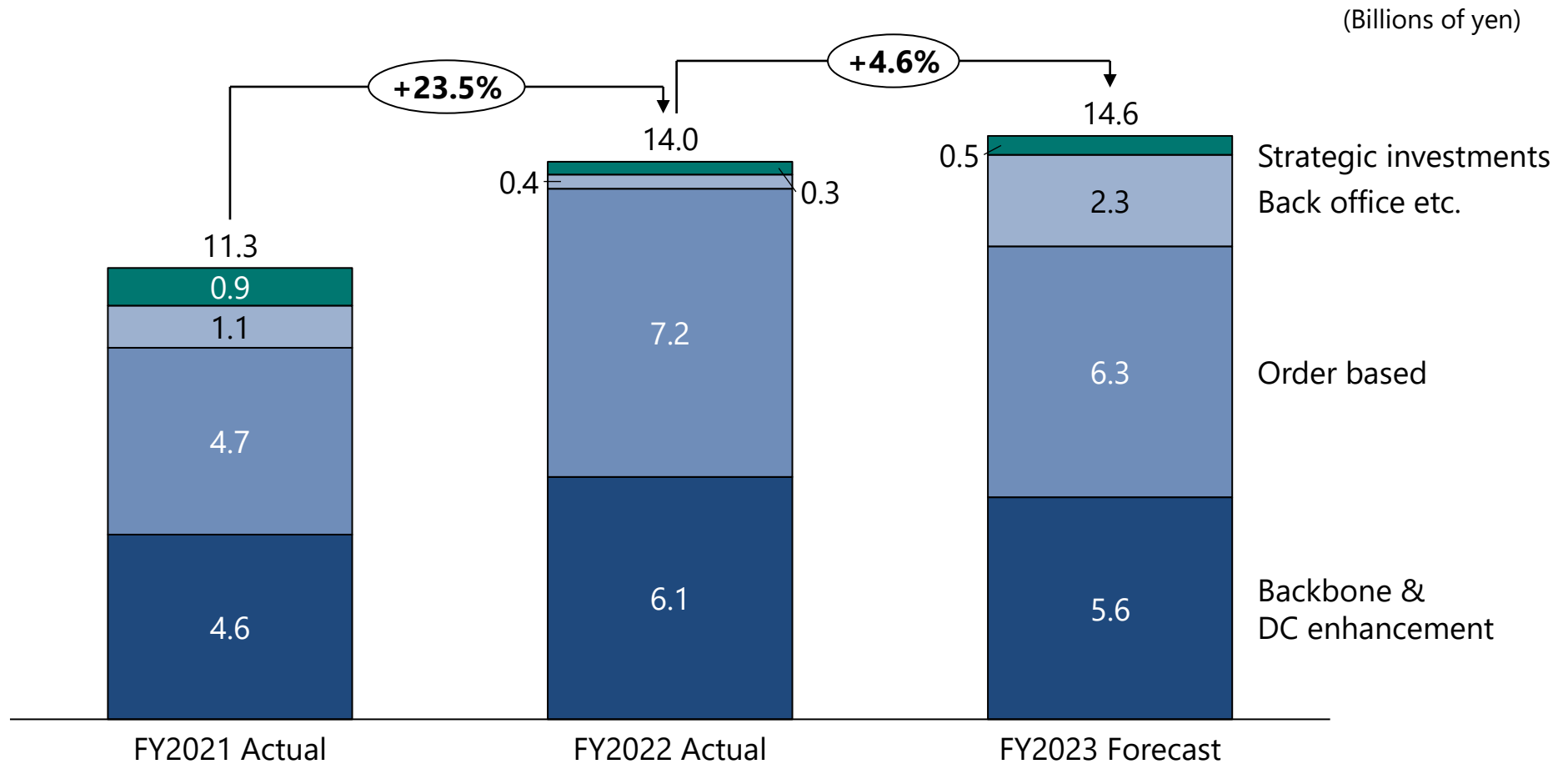
32.3%

33.1%

EBITDA
Margin

CAPEX

- FY2022 CAPEX increased by 23.5% (1.4bn YoY) due to order-based infrastructure built and network enhancements.
- FY2023 forecast at 14.6bn, a 4.6% increase YoY

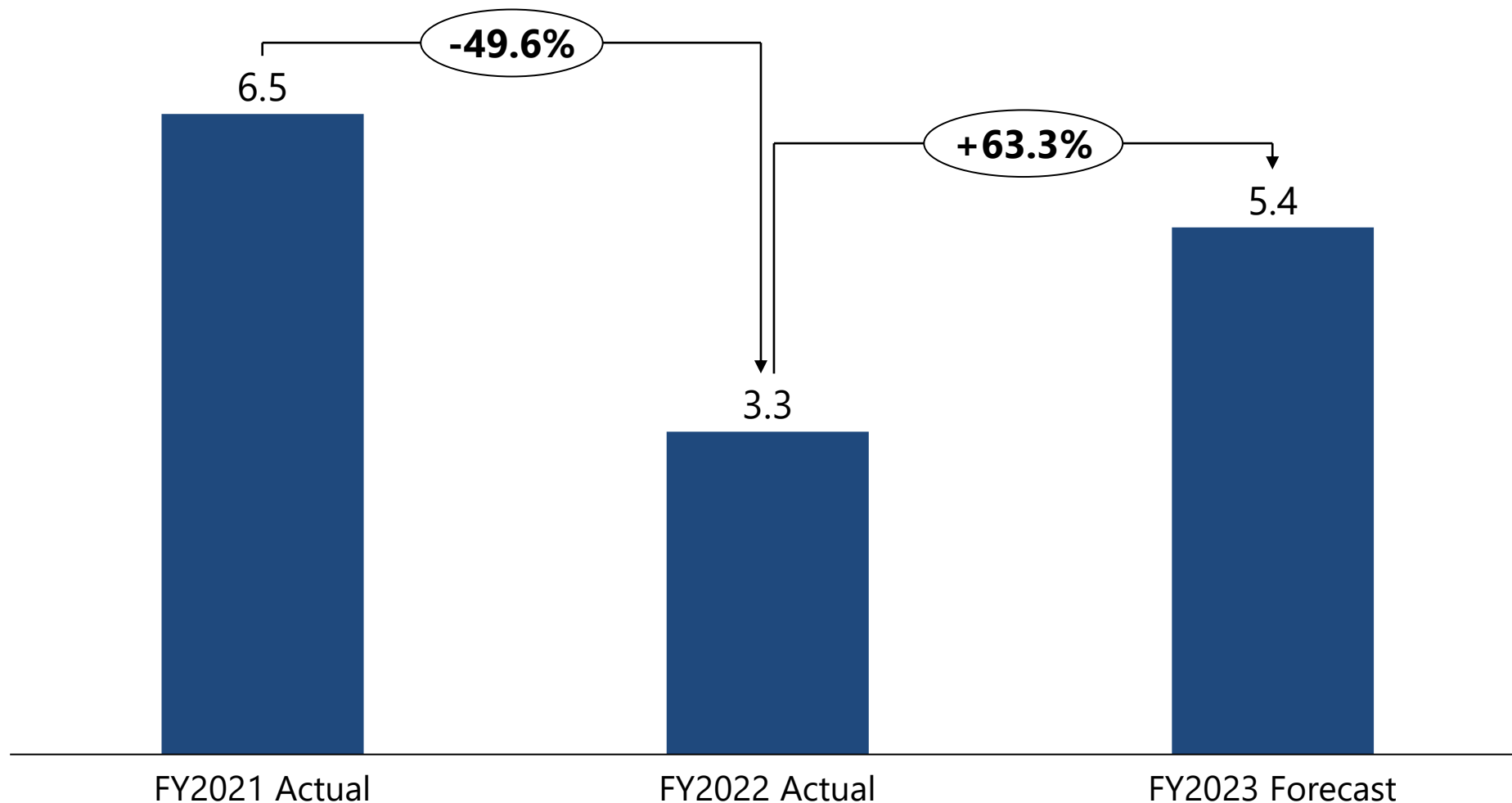


*Increases in assets due to the adoption of IFRS 16 and reclassification of inventory to fixed assets according to IFRS are excluded.

FCF

- FCF in FY2022 was 3.3bn due to outlays for acquisition of GameWith shares and increase in CAPEX
- Expect CAPEX level to remain high in FY2023, FCF forecast at 4.5bn.

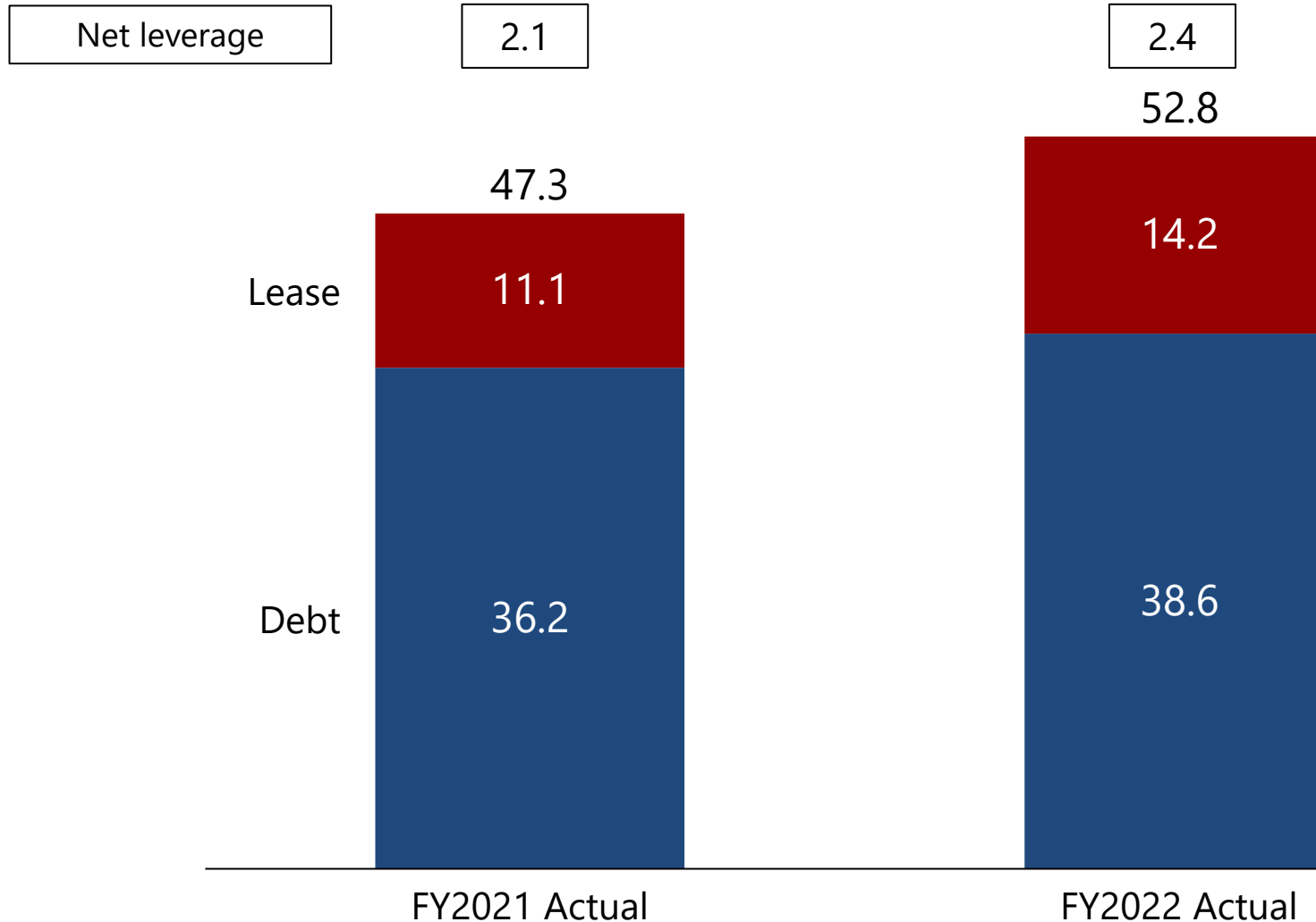
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Capital Structure

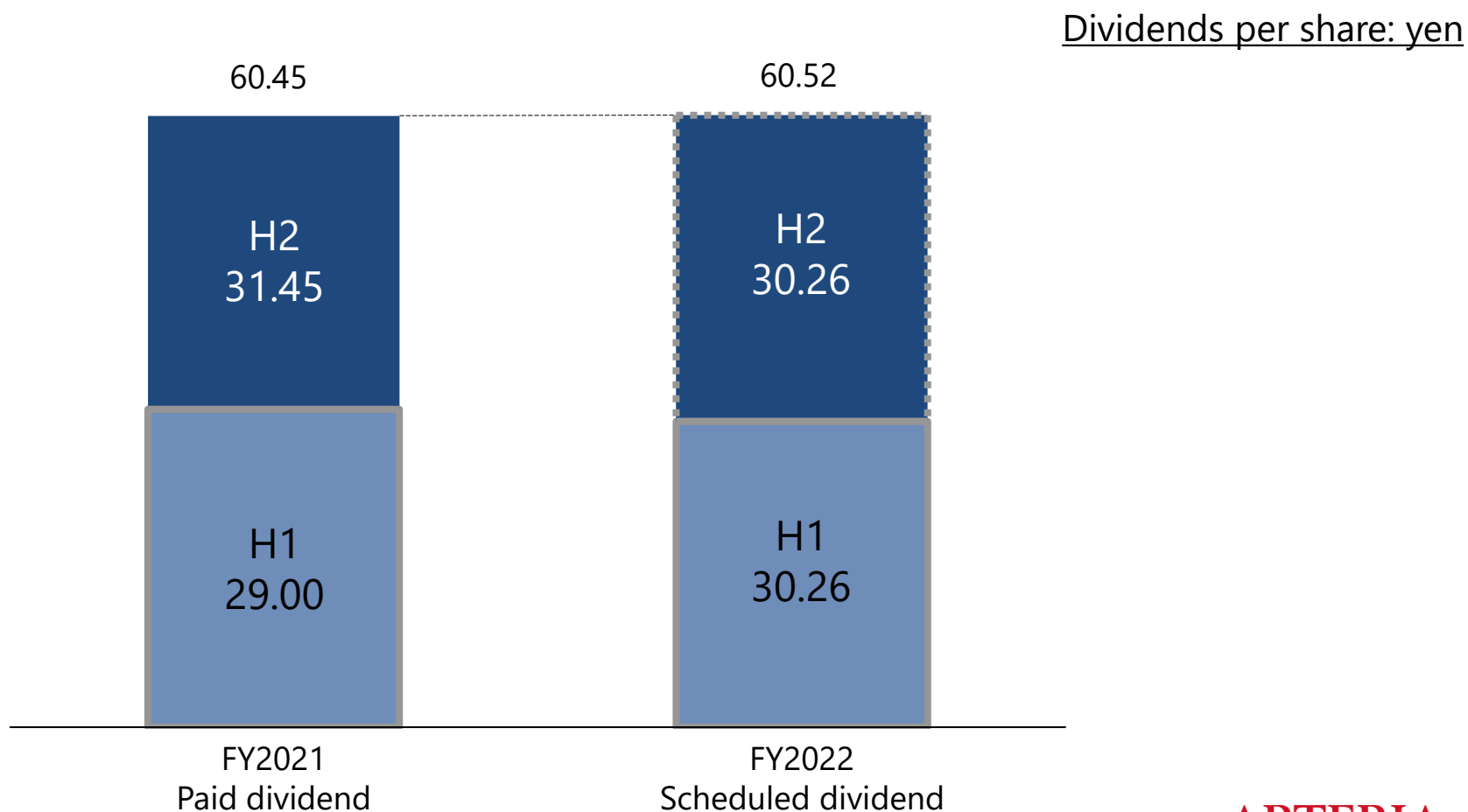
- EBITDA grew; borrowings increased due to refinancing and leases increased on high CAPEX demand resulting in slight deterioration of net leverage.

(Billions of yen)



Dividend Policy

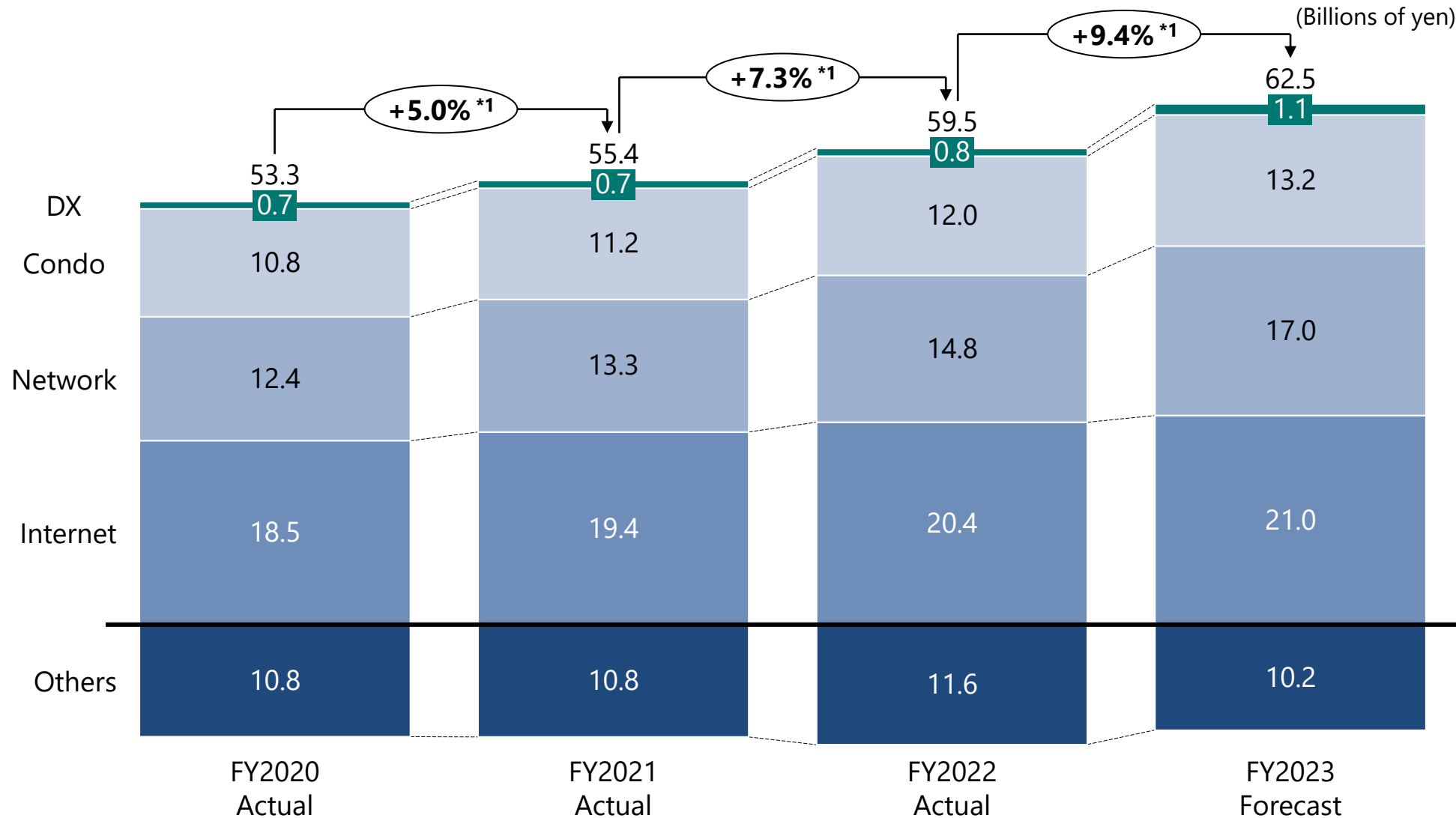
- Dividend for FY2022 paid out as forecasted at 60.52 yen.
- No dividends scheduled for FY2023.



Core Services and Growth Strategy

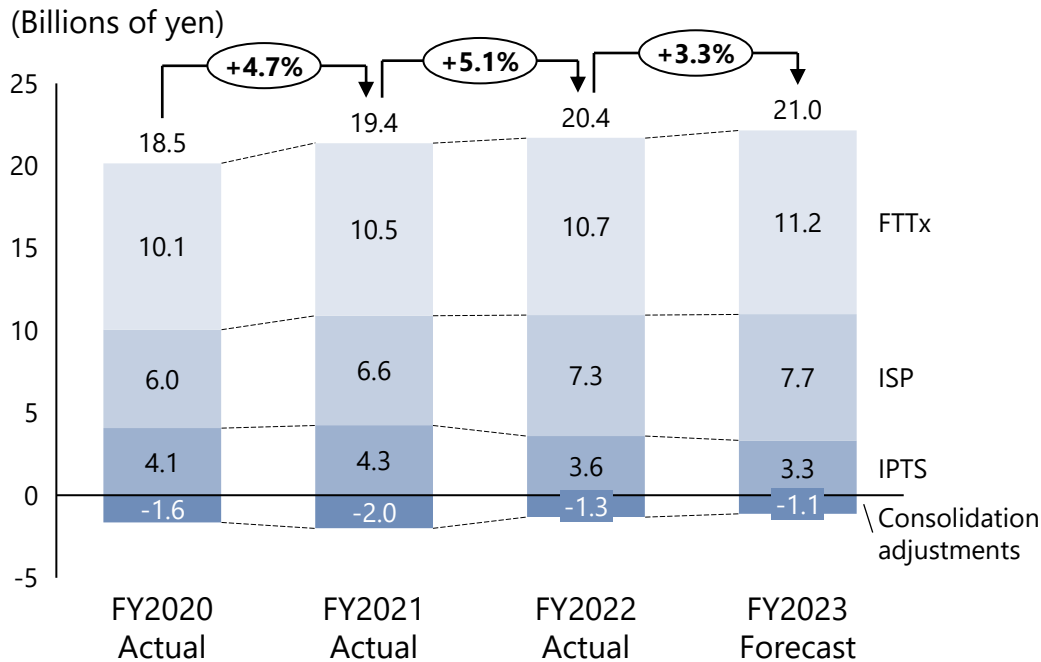
Revenue by Service

➤ YoY growth rate for core services in FY2022 was 7.3%. Forecast at 9.4% for FY2023.



*1 Growth rate of core services (excluding others)

Internet



FTTx

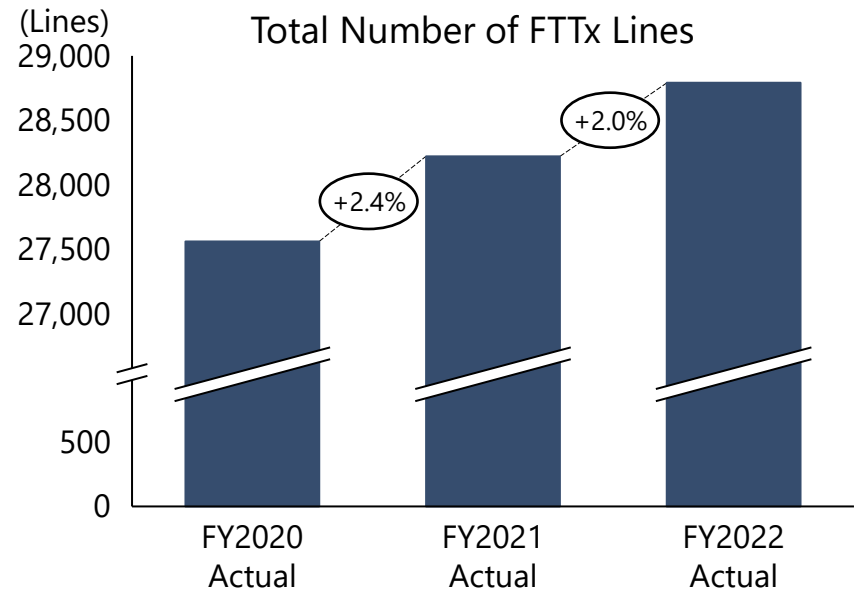
- While the needs for telecommuting have plateaued, cloud usage continues to expand and drives demand for broadband services.
- Growth expected to exceed the previous year in FY2023 through area expansion of 10 Gbps service.

ISP

- Demand for high-quality services has increased, and take-up of our Cross Pass ^(note) service has expanded.
- Promote the transition from PPPoE ^(note) and expand sales.

IPTS

- Sales expected to decline due to withdraw or downsize of the incoming access charge business. ^(note)

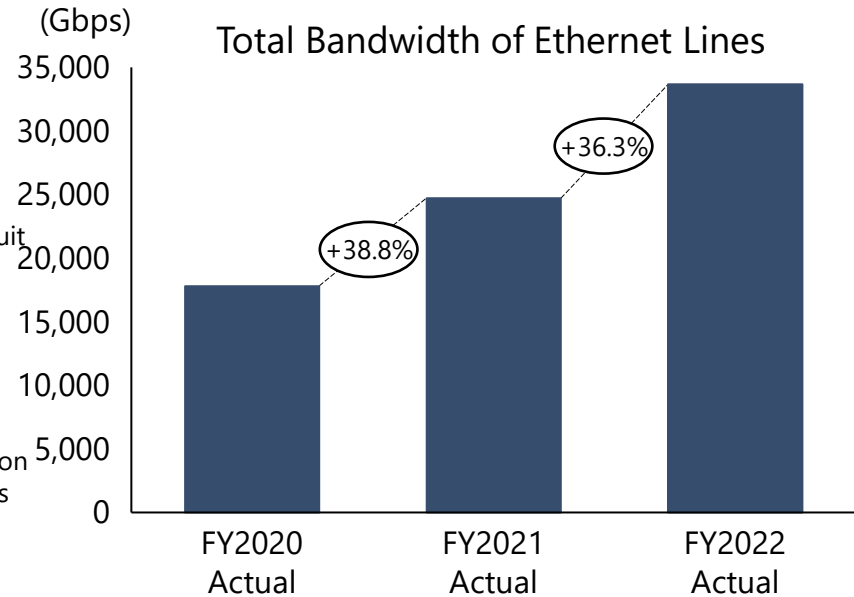
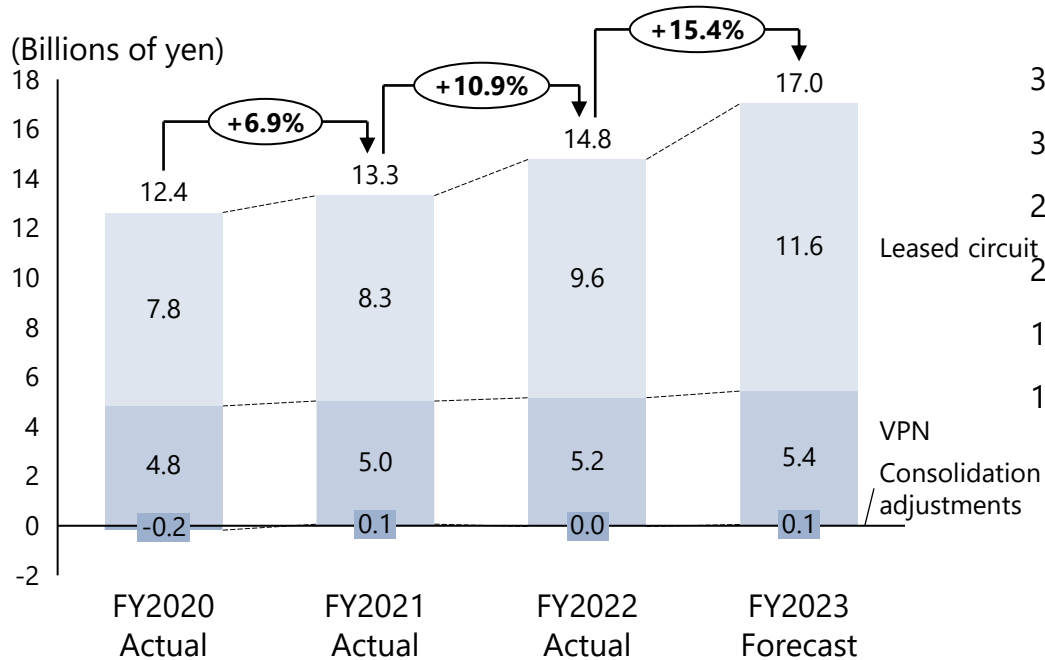


	FY2020	FY2021	FY2022
Total number of lines	27,561	28,221	28,791

The growth of the number of FTTx lines is stable at the 2% level.

Growing demand for high-quality/broadband FTTx services resulted in a higher ratio of broadband services, such as 10 Gbps services, and the price per unit has also increased.

Network



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 YoY.
- Expect significant growth in FY2023 by proactively enhancing our network in areas where there is high demand, such as Tokyo-Nagoya-Osaka and data center parks.

VPN

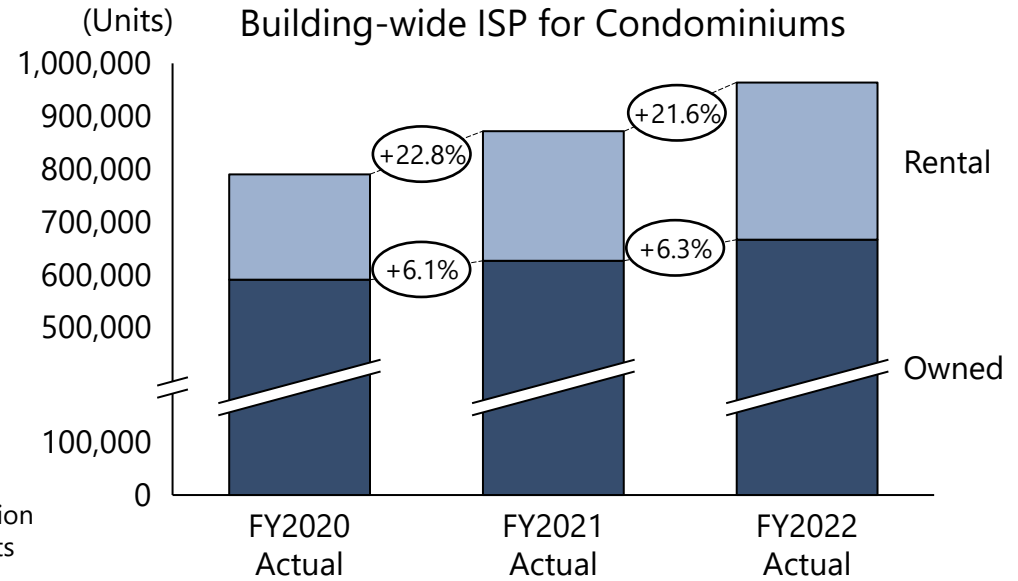
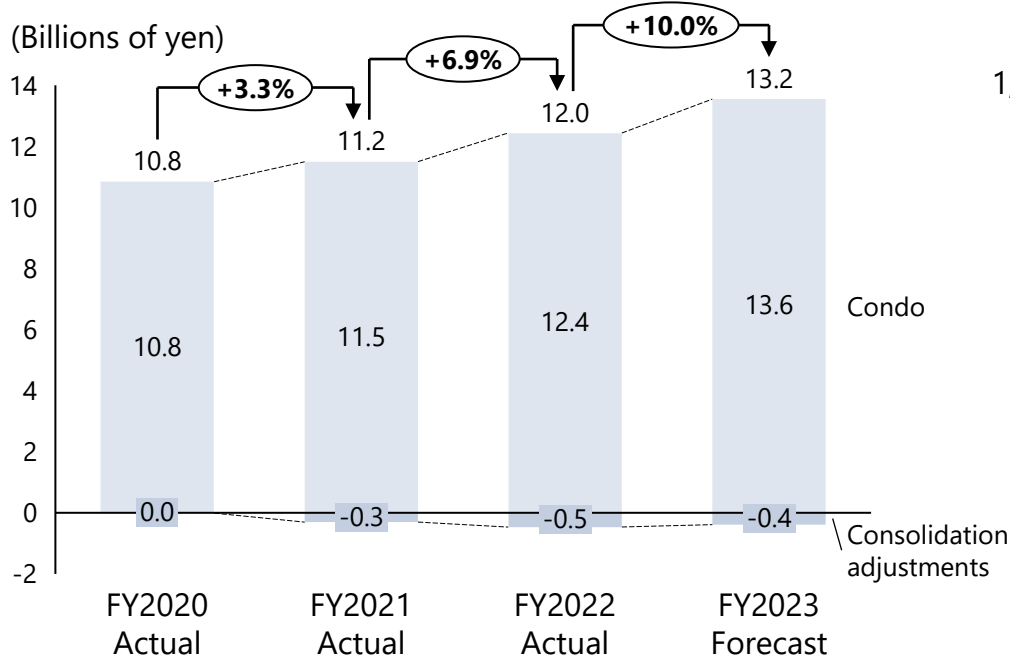
- Supported by the expanded use of cloud services and mobile devices, sales of services such as cloud connectivity and our high-quality backbone network are increasing.
- Orders for our VANILA ^(note) service, which uses NFV ^(note) technology has increased due to expanding lineup. Stable growth expected in FY2023.

	FY2020	FY2021	FY2022
Total bandwidth *1 (Gbps)	17,794	24,700	33,663

The growth rate of total bandwidth in FY2022 increased to 36.3% YoY and exceeds the 30% level due to strong sales to corporates, OTTs, public sector and telecommunications carriers.

*1 Total bandwidth = service bandwidth × number of lines

Condominium Internet



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 launched a new service with a maximum capacity of 10 Gbps that installs optical fiber to each unit.

	FY2020	FY2021	FY2022
Rental	199,556	245,151	298,004
Owned	590,250	626,232	665,870

Owned is steadily growing supported by stable orders from major developers.

Rental is also steadily growing supported by stable orders from comprehensive contract partners and maintains a high growth rate in the 20% level.

**FY2021-2025 Mid-Term Plan
Management Strategy Framework Progress
in FY2023**

Measures for Growing the Core Business

Gain further demand by optimizing and updating FTTx network



- Leased circuit ring expansion/construction in high demand area such as Tokyo-Nagoya-Osaka-Fukuoka is underway.
- Completed expansion of 10 Gbps line service coverage area to Kanagawa Prefecture and Tatebayashi City, Gunma Prefecture.
- Extension and expansion of IP backbone to London.



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



- Won first place in the network services category in the Nikkei Computer Customer Satisfaction Survey 2022-2023.
- Promoting the Arctic cable business through joint venture FNF^(note). Investigation of cable route started due to high interest from FNF customers and investors.



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



- Acquired leading market share for 9 consecutive years in “MM Research Institute, whole-building type ISP for condominiums in Japan (March 2022)”^{*1}.
- Number of paying units for rental condo increased by 21.6% YoY.



^{*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.

Measures for Incorporating a New Growth Portfolio

(Plans for DX services)

- Sales growth is slower than originally targeted in the mid-term plan, but various initiatives are underway to achieve the targets for FY25.

FY22

Plans after FY23

Communication service

High-quality ISP service for eSports



*1

- Demand for high-quality ISP services from e-sports players is high, and we achieved more applications than planned.
- 10Gbps service added to lineup to capture demand for high-quality ISP service (FY22/Q4).

Service enabling priority telecommunications to condo residents



(note)

- Available as standard on properties where the service is launched. The number of available units exceeded 100K and promotion costs improved.
- The acquisition cost has been improved, so the price has been reduced.

Plan to double subscribers based on measures in FY22.

⇒ Significantly expand sales to improve profit margins and create a foothold for FY25.

Platform

service platform



- Integrated our existing service site*2.
- Various services can be used seamlessly with single sign-on.

Improve customer convenience by enabling sales of other companies' services and products during the first half of FY24. (ex.: video distribution services, IT equipment, IT insurance, temporary storage of parcels delivered to residents of condominiums, etc.)

*1 GameWith Hikari is a communication service provided by GameWith, Inc.

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

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.



- Some departments have acquired environmental management system (EMS) certification that complies with ISO14001. Aiming to expand the scope to the entire group in FY25.
- Promote sustainability activities. Publish results of initiatives from FY21 on the corporate website.



Upgrade to highly energy-efficient internal system and strengthen security by implementing zero trust ^(note) security



- Migrate in-house data to a highly convenient and secure cloud storage service.
- Promote zero trust for business terminals, improving convenience and strengthening security.



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



- Completed construction of four satellite offices. Implemented relocation of the Sapporo office with the theme of SDGs.
- Promote diversity with the aim of obtaining Platinum "Eruboshi" certification in 2026.



Tender Offer for Company Shares by Marubeni and SECOM

Tender Offer for Company Shares by Marubeni and SECOM

Announced tender offer by controlling shareholder Marubeni Corporation and SECOM CO., LTD. on May 11th.

- Tender offer price: 1,980 yen per share
Premium on the closing market price
 - Previous day: 54.33%
 - 1 month average: 54.45%
 - 3 months average: 54.09%
 - 6 months average : 56.65%
- Tender offer start: around August 2023 (when the competition procedures at the domestic and foreign authorities are completed)
- Minimum number of shares: 8,293,500 shares / maximum number of shares: not set
- Expected to create various synergies which will enhance corporate value and shareholders' return, resolved to recommend that shareholders accept the tender offer.

*Notice of Opinion Regarding Planned Commencement of Tender Offer for Shares of ARTERIA Networks Corporation by the Controlling Shareholders Marubeni Corporation and SECOM CO., LTD.

https://www.arteria-net.com/files/topics/2360_ext_28_en_0.pdf

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.
PPPoE	Stands for Point-to-Point Protocol over Ethernet. The method that enables the function of protocol PPP (Point-to-Point) over Ethernet.
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.
FNF	Abbreviation for Far North Fiber Inc.
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.
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)

	FY2021	FY2022
COGS	38,543	41,109
Communication costs	11,737	11,928
Outsourcing	5,672	5,948
Personnel expenses	2,891	3,374
D&A	7,285	8,059
Other	10,958	11,800
SG&A	9,316	9,944
Personnel expenses	4,266	4,224
D&A	1,422	1,442
Commissions and other fees	961	1,397
Outsourcing	1,153	1,238
Agent fee and promotion	467	474
Other	1,047	1,170

Connecting New Abilities

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