ARTERIA

FY2022 Earnings Results Briefing
March 31, 2023

May 18, 2023
ARTERIA Networks Corporation

FY2022 Earnings Results Briefing

Date
May 18, 2023

Meeting Participants

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

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.

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Kabumoto: Now, the first slide here highlights the full-year results. Sales of mainstay network services and Internet services for corporate clients remained steady thanks to the favorable volume of received orders.

In addition, sales of Internet service for condominiums are expanding compared to the previous fiscal year, so I would say that sales are going well. We believe that there has been a delay in accelerating growth in the rental market and capturing new growth centered on DX services, which is a part of the medium-term management plan.

The Company has continued to increase gross profit while expanding monthly subscription revenues and reducing network costs as an effect of the structural reforms implemented in the previous fiscal year.

However, as you all know, we incurred one-time expenses for the investigation costs associated with the establishment of the Special Investigation Committee, and although we tried, we were unable to recoup sales to fully compensate for these expenses. The operating profit decreased in comparison to the previous fiscal term.

Last, on October 11, 2022, we received a joint proposal from our controlling shareholders, Marubeni and SECOM, regarding a tender offer for our shares.

We provided our statement that in order to accelerate growth in new business while meeting the increasing demand for capital investment, it is important to promote our business for future success by utilizing the management resources of both companies, not limited to those of our company alone.

This is a summary of the financial results, and Mr. Tateishi, CFO, will discuss the detailed figures. Thank you.

Tateishi: This is Tateishi. Thank you for joining us today. I would like to review our financial results for the fiscal year ending March 2023.

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

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First, this page is the financial highlights.

It's a summary of profit and loss. Net sales increased 7.3% YoY to JPY59.5 billion, with steady growth centered on monthly billing. However, as Mr. Kabumoto mentioned earlier, we were unable to cover the costs of the investigation of the incident that occurred in H1 of the previous fiscal year, resulting in a slight decrease in operating profit including the subset category.

I will discuss later how the recurring profit is trending, excluding one-time expenses.

Forecasts

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

(Billions of yen)

	FY2022	FY2023	Change	Ratio
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

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Please move on to the next slide.

This is a consolidated forecast. For the fiscal year ending March 2024, we are forecasting net sales of JPY62.5 billion and operating profit of JPY9.9 billion. The plan is to return to the trend of increased revenues and profits.

We will continue to expand sales with a focus on monthly billing, and we will also continue our efforts to curb costs. We forecast an operating profit of JPY9.9 billion, 4.9%.

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.

(Billions of yen)

	FY2020 Actual	FY2021 Actual	FY2022 Actual	FY2023 Forecast
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

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Please see the next page.

This table looks slightly packed, but it shows the results for the past three fiscal years plus the current forecast at a glance.

The one-time gains and expenses are highlighted in gray. The adjusted operating profits are also presented.

First, in terms of the top line, we are forecasting JPY52.3 billion in Internet, network, condominium, DX, and main services sales for the current fiscal year, and we expect the trend of revenue growth in the area of monthly billing to continue. 9.4%, a very high growth rate, is projected.

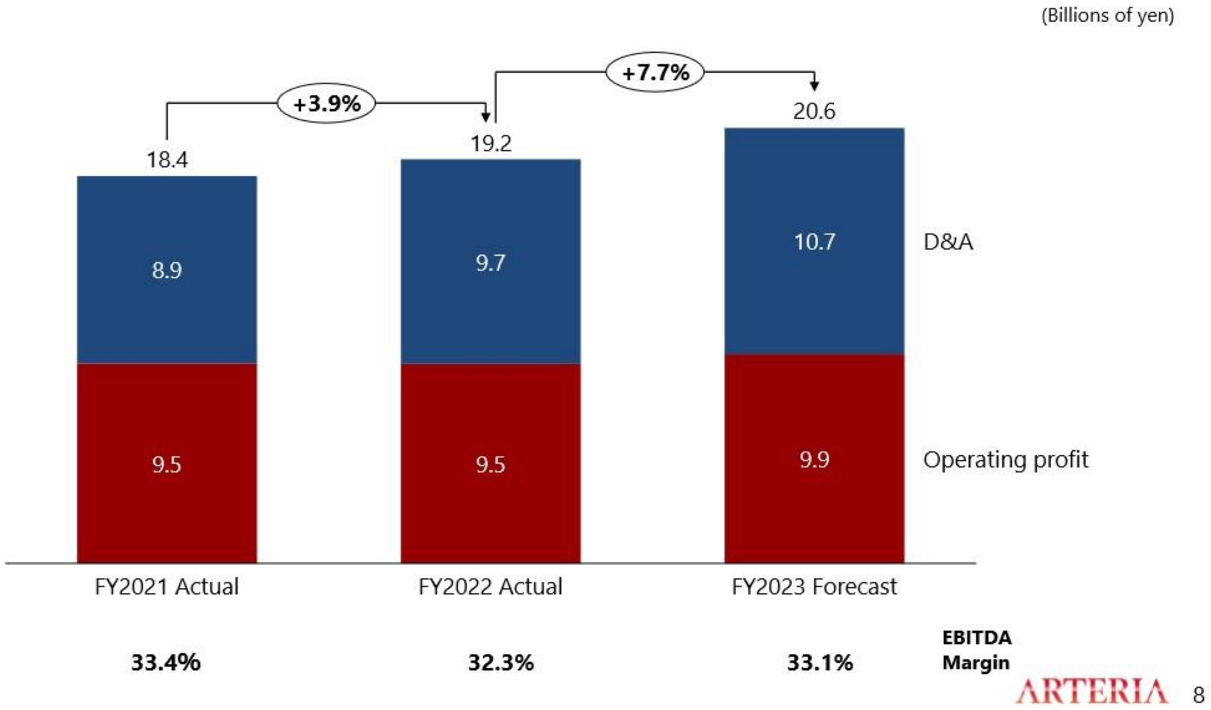
However, the forecast for operating profit is actually JPY9.9 billion. If you look at the operating profit after adjustment, we spent about JPY300 million on research and other expenses in the previous fiscal year, so the actual is JPY9.8 billion. Compared to the fiscal year ending March 2022, profit increased by approximately JPY1.5 billion, however, when it comes to this term, the lift will be smaller.

This will be discussed later, but we maintain capital investment at a fairly high level. The impact of increased depreciation and amortization expenses and other factors means that operating profit is expected to be JPY9.9 billion for the current fiscal year.

However, we forecast an increase of JPY1.5 billion in EBITDA after adding back depreciation and amortization. I will discuss the details of this later.

EBITDA

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



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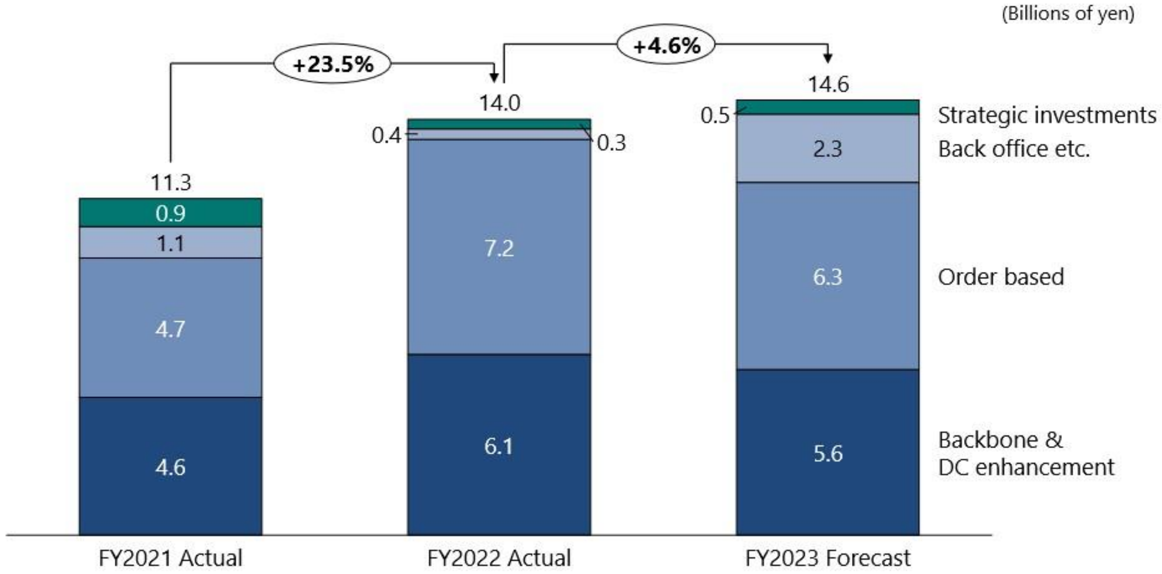
This is the breakdown of EBITDA that I mentioned earlier. The bottom line is operating profit and the top line is depreciation. As you can see, operating profit growth was limited, but EBITDA, after adding back depreciation and amortization, showed solid progress. Adding 7.7% or JPY20.6 billion. EBITDA margin forecast at approx. 33%.

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.

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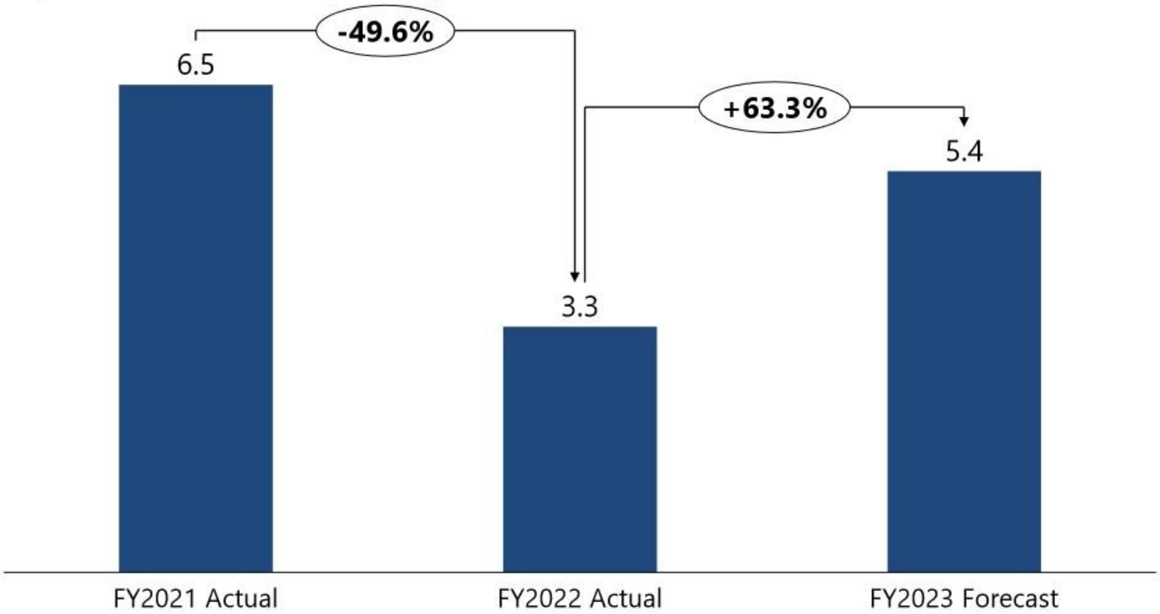
This is the actual and projected capital expenditures. In the fiscal year ending March 2023, we invested a considerable amount of CapEx in large-scale sales projects and network enhancement. This is a 23.5% increase to JPY14 billion.

We expect this trend to continue in the current fiscal year. We expect to invest JPY14.6 billion, focusing on capital investment to meet orders received and to meet strong traffic demand.

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.

(Billions of yen)



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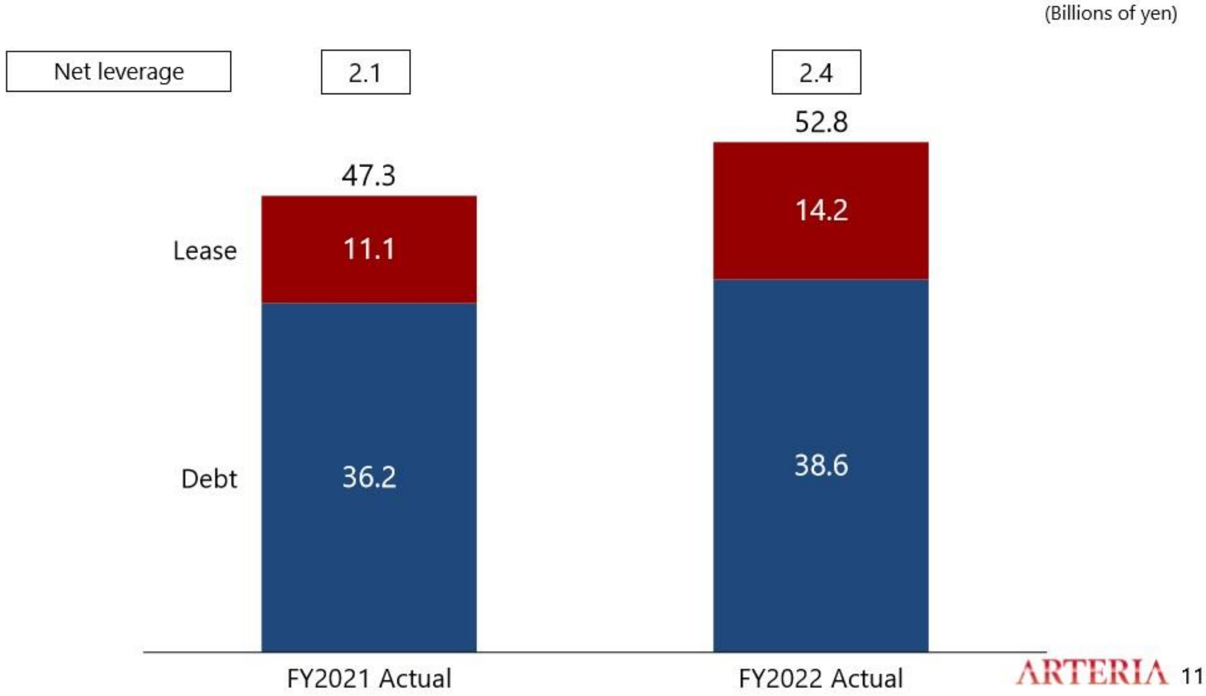
Next slide, please.

This is free cash flow. In the fiscal year ending March 2023, the Company acquired a 20% stake in GameWith, making it an equity method investee. The related expenditures and aforementioned high capital investment impacted a decrease of 49.6% or JPY3.3 billion. We will work to improve working capital this fiscal year, but we expect a 63.3% increase, or JPY5.4 billion, due to the continued high level of capital investment.

Capital Structure

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

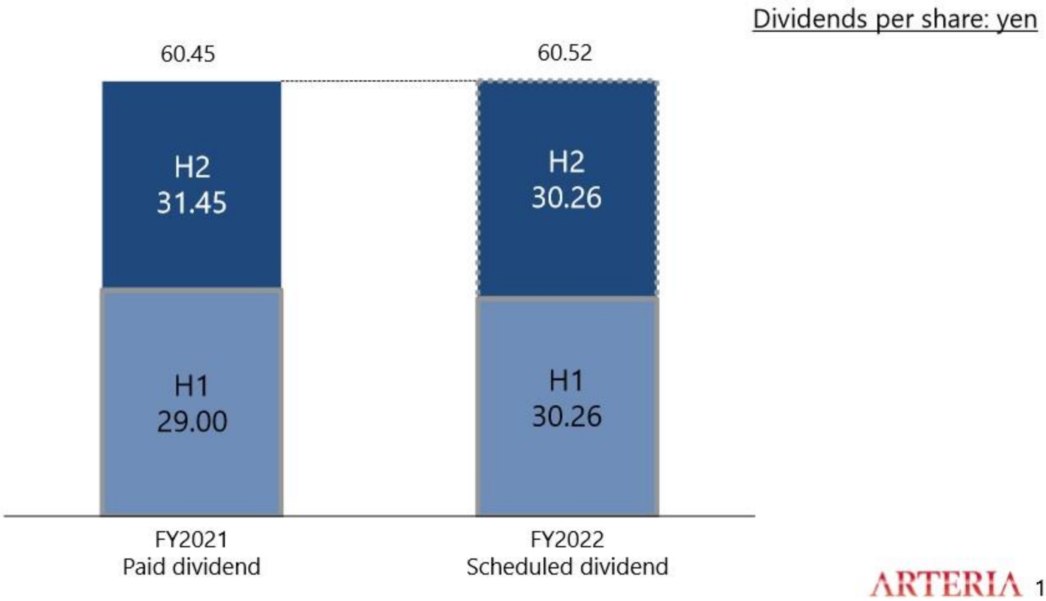


This is a capital structure.

Net leverage increased slightly to 2.4 times compared to 2.1 times in the previous period. This is the amount of debt to cover capital investment demand, mainly interest-bearing debt, and the amount of gross debt. While EBITDA has risen, the leverage has deteriorated slightly.

Dividend Policy

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



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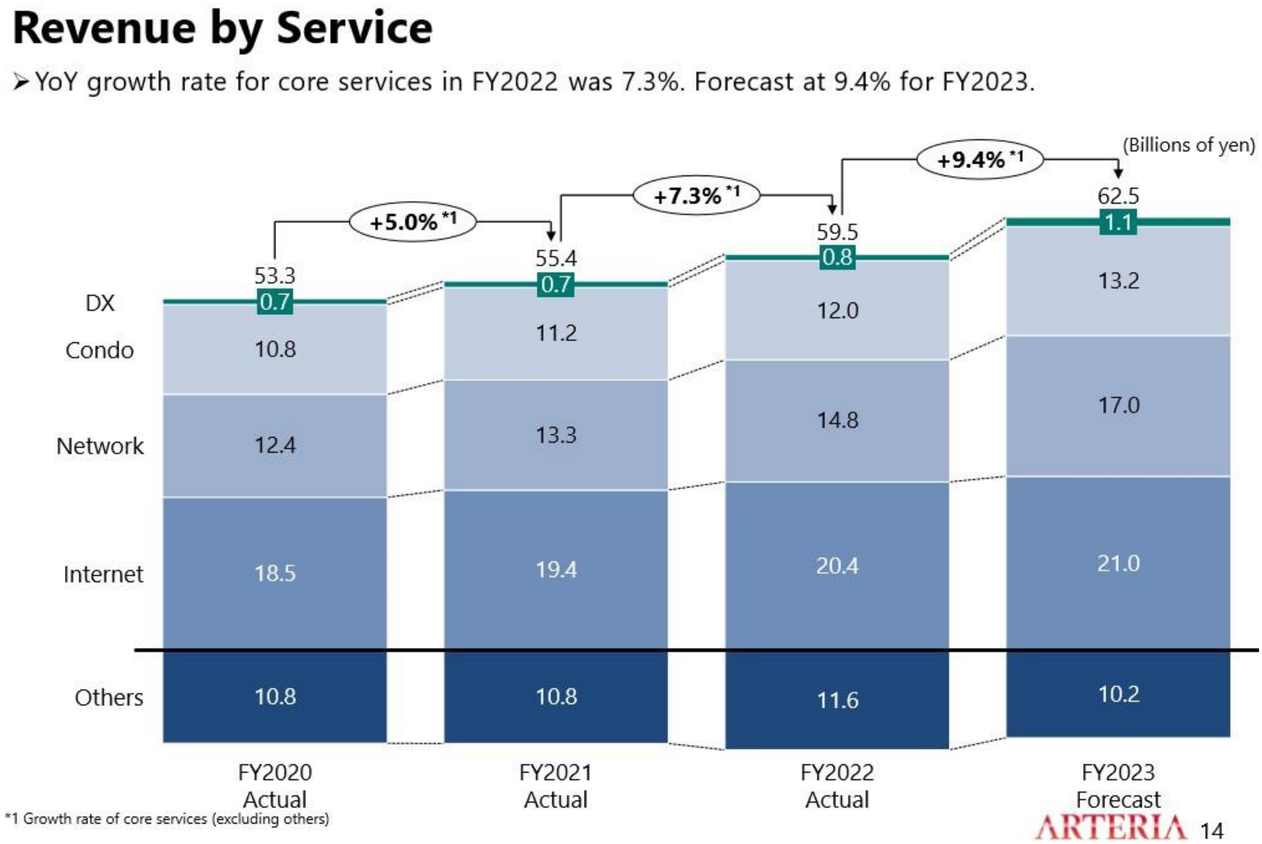
This is a dividend policy.

For the fiscal year ending March 2023, we plan to pay a dividend of JPY60.52 per share, as forecasted at the beginning of the fiscal year.

The dividend payout ratio will be 51.4%. For the current fiscal year, we plan to pay no dividend in response to the announcement of the planned tender offer by Marubeni and SECOM.

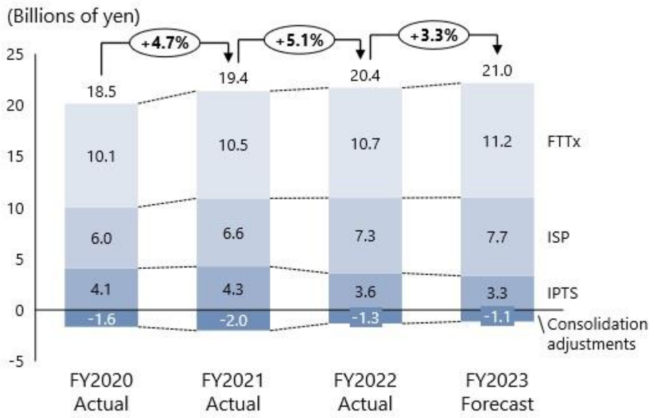
This is the end of my brief summary.

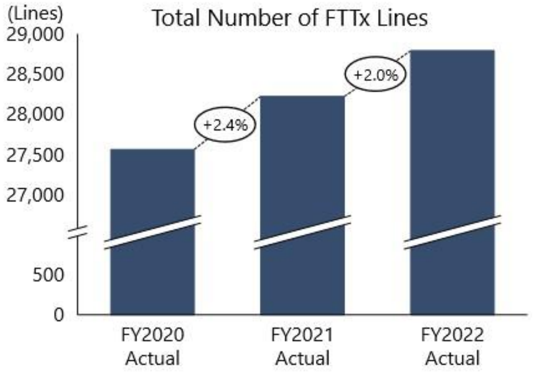


Kabumoto: Next, I will discuss the sales by business segment.

As you will see in more detail on the next page, the overall target for the previous fiscal year was JPY59.5 billion, up 7.3% from the JPY58 billion target for the previous fiscal year. For the current fiscal year, we forecast a 9.4% increase over the previous year, to JPY62.5 billion overall.

Internet





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

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)

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.

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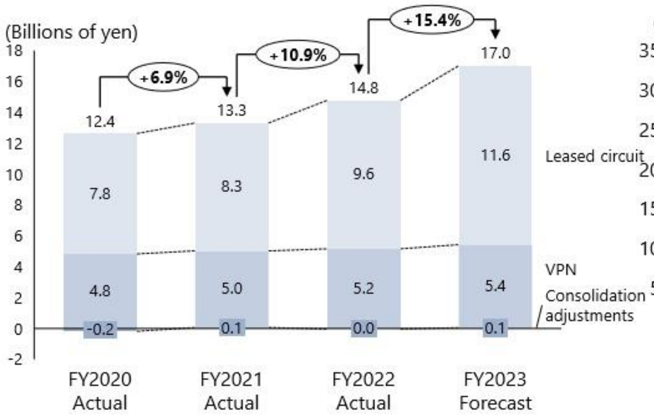
From the next page, we will provide an explanation by field.

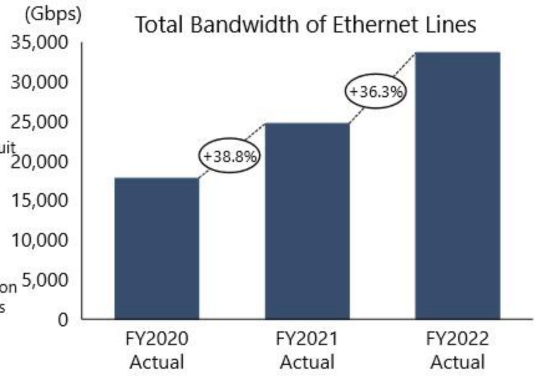
First, in Internet services, both FTTx and ISP grew steadily compared to the previous year. As for FTTx, continuously from previous, sales of high-quality, high-bandwidth services have been favorable, given the expansion of cloud computing and the promotion of remote work.

The growth of the cumulative total of serviced lines, which is one of our KPIs, has remained stable at around 2%. In the current fiscal year, we expect growth to exceed that of the previous year as we expand the offering of high-bandwidth services in addition to the existing services.

ISP is another field where high bandwidth and high quality are in demand, just like FTTx. Sales are also expected to see an increase thanks to the migration of proprietary IPoE services, which we call Cross Pass.

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

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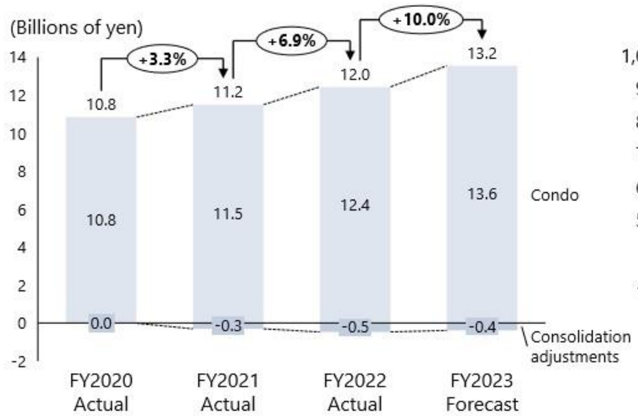
In network services, sales of both leased lines and VPN increased compared to the previous year, as did Internet sales. Sales of leased line services have expanded the most, but sales to enterprises, OTTs, and telecommunications carriers that are promoting DX have been very strong.

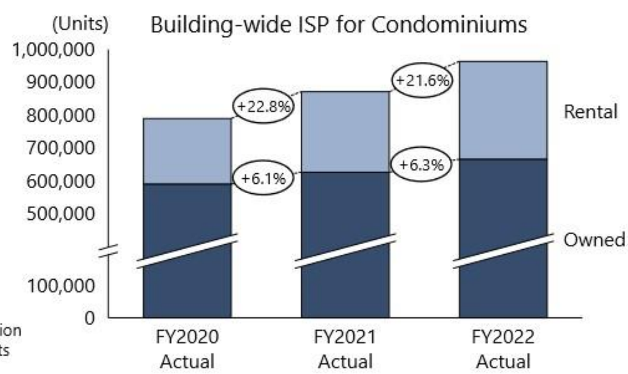
We expect significant growth this fiscal year as we continue to expand our network in areas with high demand, such as Tokyo, Nagoya, and Osaka, as well as in data center clusters.

Sales of VPN services also continued to grow, with increased sales of cloud connection services and high-quality services for our own lines.

We expect stable growth in the current fiscal year as well by expanding the service lineup of “VANILA,” a new service that utilizes NFV technology, which has already been released.

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.

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In the condominium Internet service, the growth rate was 6.9% compared to the previous fiscal year. Demand for high-quality services has been increasing for our main services, such as telecommuting and video viewing, and our sales have been growing steadily.

In terms of the number of units sold, which we set as a KPI, we have maintained high growth thanks to stable orders from major developers and orders from comprehensive leasing contractors.

In terms of high-quality services for which demand is expected to increase, we have begun offering a 10-gigabit Internet service that connects to the inside of the dwelling unit via optical fiber.

Measures for Growing the Core Business

Measure	Progress
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.

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I will now discuss the progress of the medium-term management plan that covers March 2022 through March 2026, as well as the strategic framework.

Regarding the first point of growing our business base, the optimization and modernization of our network, we are expanding our service lineup by constructing a ring of leased lines in the Tokyo, Nagoya, and Osaka areas.

Regarding FTTx, we are in the process of expanding the service area for 10-gigabit Internet services.

The IP backbone has been extended and expanded overseas, enabling us to provide Internet access services and cloud services providers with even higher quality connectivity services with lower latency.

Second, as for customer evaluations, we were ranked first in the network service category in the Nikkei Computer Satisfaction Survey released in the previous fiscal year.

In addition, we have been studying the possibility of laying a fiber-optic submarine project connecting Japan and Europe via the Arctic Ocean, and have established a joint venture company, FNF. We have started researching specific cable routes, and are now in the process of meeting with investors and others.

In terms of the third point, condominium Internet, we have had the number one market share for nine consecutive years, and I believe that we have established a solid leading position. Although I mentioned that we are slightly behind in this area compared to rental properties and medium-sized companies, we are steadily increasing the number of units billed and are maintaining high growth with a 20% increase over the previous term.

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 GAMEWITH 光	• 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).	**Plan to double subscribers based on measures in FY22.** **⇒ Significantly expand sales to improve profit margins and create a foothold for FY25.**
	Service enabling priority telecommunications to condo residents (note) CONNECTIX	• 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.	
Platform	service platform PORTAS ポルタス	• 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

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As for initiatives for the new growth portfolio, we are moving forward with various initiatives, although they are slightly behind the projected in the medium-term management plan.

D2C's core services are consumer-oriented services that utilize our network assets and are being developed as high-grade premium services. Together with GameWith, with whom we concluded a capital and business alliance agreement, we have started providing GameWith Hikari to e-sports players who desire higher-quality communication, and the results have been better than planned.

To further capture this demand, we added a broadband 10-gigabit service to our lineup at the end of last fiscal year. We are planning to further expand sales.

We are now selling GameWith Hikari, which is an online service, and Yodobashi has just started selling the service in their stores.

Connectix, which is provided as a service option for condominium internet network, was available for 100,000 units at the end of the previous fiscal year. We are reviewing our prices and aggressively promoting our services, and the number of monthly subscribers is now several times higher than before. The number of users has been increasing rapidly.

Last, we have established a system Portas, which allows users to link with other companies' services. It enables single sign-on for video, e-commerce, and other programs and offerings. We expect to expand this system in the future.

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.**

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Regarding work style reforms and SDGs, some departments have already obtained environmental management system certification, and we are planning to expand the scope of certification to the entire Group. We also announce the results of our sustainability activities on our corporate website, which we hope you will visit.

We are diligently promoting initiatives to reform our way of life and the SDGs, such as shifting internal data to cloud services, promoting “zero trust,” strengthening security, and establishing satellite offices.

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

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Last, as I mentioned at the beginning of this report, we have announced a tender offer proposed by Marubeni and SECOM. As you have already been informed, we have been able to obtain a sufficient premium for the takeover bid (TOB), but since we need to clear competition laws in China, TOB is carried out as a preliminary notice for the time being. We expect to be able to commence the purchase in August or so.

The Company has expressed its support for the tender offer and recommends applications as we evaluate that the event will foster synergy that helps enhance corporate value and ultimately shareholders' benefits.

This concludes my remarks.

Question & Answer

Question: Thank you. I have three questions.

The first question is, simply, about your management performance. Looking back, your company went through quite a lot since the stocks listed on the market. How would you sum up your years in office? I would like to hear your candid opinions. Thank you for joining us today.

Kabumoto: You are right about the many hardships we experienced. We have caused a lot of inconvenience and concern to our shareholders because of the incidents in 2019 and last year. I'm truly sorry about this.

Also, since we are here, TOB, we have had two continuation meetings in three years, and then TOB, so there have really been a lot of things going on. I believe that the share price did not reach the level we had expected due to such incidents and some concerns about the Company's performance.

In our mid-term management plan, we announced that we were aiming for JPY4,000 by March 2026, and we have been working hard to achieve this goal. Although the sales performance is lagging, I had an impression that we are getting closer. However, the stock market did not give us much recognition. I believe that this is solely our responsibility.

Under such circumstances, we received the TOB proposal and have been negotiating, confirming, and advancing in various areas for about eight months. We believe that this price is sufficient for the future growth of our company and for our minority shareholders, and we are recommending approval and subscription.

Unfortunately, the stock market did not appreciate it that much. Marubeni and SECOM are halfway to our value of JPY4,000, so we have concluded that JPY2,000 is a price that we can adequately evaluate at this stage.

I am sorry for causing you so much concern, but at the same time, I think we have finally found a company that appreciates us and we have been able to respond to the needs of our minority shareholders.

Question: Very clear. Thank you very much. I'm sorry, I'm afraid my second question is also a negative question. I think the guidance indicated that this current fiscal year results missed the operating profit set in the FY2024 medium-term management plan.

What was the reason for the severe operating profit in the middle of this medium-term management plan period, and what was the discrepancy in assumptions from when the medium-term management plan was set? Also, I think you are just now becoming more confident about the medium-term management plan for the year ending March 2026. Where does this increased confidence come from? Please give us a look back at the medium-term management plan. That is my second question.

Kabumoto : As you mentioned, the sales and profits projected for the fiscal year ending March 2024 are behind the medium-term management plan. One of the major discrepancies is that first, in terms of sales, in the Internet market for condominiums, we are growing by more than 20% in the rental market, but in the medium-term management plan we had set a higher growth target, and there is a discrepancy here. In addition, there are still delays in the DX area, including Connectix, and these two factors are the main reasons for sales.

In addition, the recent strong demand for telecommunications has led to an expansion of capital investment. As a result, depreciation expenses have increased. I believe that the strong demand for telecommunications has led to an increase in capital investment, depreciation, and telecommunication costs, and that this has resulted in a delay compared to the medium-term management plan.

However, as I have told you before, telecommunications will still grow in the future. Therefore, as long as we can keep up with this, sales are sure to increase. At the same time, we have been saying that we can control costs because we are using our own lines. Although there are some delays, we are confident that we will be able to manage our costs well in the face of growing demand for telecommunications.

In addition, we have announced, as I mentioned earlier, a submarine cable in the Arctic Ocean and other submarine cable projects. We are planning to capture these areas and link them to domestic demand for telecommunications, and we believe that we can further grow our business.

Question: Thank you very much. I just want to follow up on two questions. As for depreciation, is it correct to say that this will be mainly capital expenditures at the network?

Also, sorry, but it comes down to two things. As for inviting an increase in telecommunication costs, was there a slight delay in the kind of telecommunication cost improvements that were made last year, or was the telecommunication cost improvement in line with expectations but slightly behind the medium-term management plan because of the growth in demand?

Kabumoto: Regarding depreciation, as you said, it is the network part. We have also sold the data center, and that is the biggest part. I forgot to mention earlier that employee labor costs have also been rising, so in addition to what I mentioned earlier, labor costs have also been rising.

As for telecommunication expenses, we have been trying to reduce telecommunication expenses through structural reforms, but as you mentioned, as a result, telecommunication expenses have increased.

I hope you understand that we have grown more than we have done in structural reforms. If we had not done this, I think we would be in an even more difficult situation, but we are still in the process of trying to further reduce the growth of communication costs, or rather, the communication costs.

Question: Thank you very much. Third and final question, I would very much like to hear about the bright future. You mentioned the need for more capital like this one to capture new growth areas, but is this new area limited to the new growth portfolio as described on page 20, or do you expect further acceleration in the existing condominium internet network, internet, and so on as described on earlier pages? I would appreciate it if you could discuss what your expectations are for this new area. That's all from me.

Kabumoto: Thank you very much. In terms of new growth areas, there has been some delay in the DX area. This time, with the TOB, especially with the participation of SECOM, for example, in the field of cyber security. Service development in this field. SECOM owns data centers, including their own, and AT TOKYO. We are especially looking forward to reaching out to security and network customers, as there are many financial institutions in this area.

SECOM is also expanding its business into medical care and other areas, so we believe that there are areas where we can work with SECOM in the area of condominium monitoring and IoT.

In addition, as I mentioned earlier, Marubeni has knowledge of submarine cables and other projects, which is a very big deal. I believe that if we work together with Marubeni, and in addition to the overseas business, we can expect even greater growth in this area.

Question: Thank you very much. Just one more question, in terms of your company's service segment, where is the security segment of your business that you are doing right now? Sorry, I don’t know much about this topic. That's all from me.

Kabumoto: The VPN is a secure network, and we have added security and VANILA, which was released in the previous fiscal year, and have added various functions to the VPN. For example, we are not capable of network security monitoring operations, and I believe that there are many areas where we can work together with SECOM to add various functions to VANILA.

Question: Very clear. Thank you very much for your always courteous response at the information sessions so far. That's all from me.

Thank you very much today.