

ARTERIA

FY2021-2025 Mid-Term Plan

May 21, 2021

ARTERIA Networks Corporation

Disclaimer

Plans, forecasts and strategies which are shown in this presentation are assumptions which are based on information currently available and views except historical facts.

Any forward-looking statements in this document are based on the current assumptions and beliefs of ARTERIA in light of the information currently available to it, and involve known and unknown risks, uncertainties and other factors. Such risks, uncertainties and other factors may cause ARTERIA's actual results, performance, achievements or financial position to be materially different from any future results, performance, achievements or financial position expressed or implied by such forward-looking information.

The Company accepts no responsibility for any damage or other problems caused by the use of information in this presentation.

In addition, the Company has no obligation to update statements in this presentation.

ARTERIA Group New Tag Line

Connecting New Abilities

ARTERIA Group Manifesto

We have reached a turning point in workstyles and lifestyles.

Today's world relies on the availability of safe, reliable communications at all times and in every situation.

Networks are becoming ever more important as the infrastructure supporting 5G, IoT, and society.

The world is moving into a new era.

ARTERIA is taking the first step towards opening up the networks and services it has developed and refined to all people.

For business, for life. For companies, and for individuals.

By expanding our networks beyond our current domains, making these vital arteries of the world even bigger and faster, and

extending them to even further extremities, we will excite the world with a new heartbeat.

ARTERIA will pursue a sustainable world through networks.

The future where everything is connected as one starts today.

ARTERIA Networks Group FY21-FY25 Mid-Term Plan

Main measures for FY21-25 and earnings targets for FY25 (excl. M&A)

Aim for market capitalization of over 200bn yen through continued investments towards sustainable growth

	FY21	FY23	FY25
Net sales	54.5bn yen	65.0bn yen +	80.0bn yen +(*)
Operating profit	9.3bn yen	11.5bn yen +	15.0bn yen +
EBITDA margin	30.0% or higher		
Dividend payout ratio	Target 50% (biannual dividends)		

*Targeting sales of 100.0bn yen including M&A

FY21-FY25 management strategy framework

Measures for growing the core business

- Gain further demand by optimizing and updating FTTx network
- Enhance customization capabilities to generate added value and aim to capture more network demand from OTTs (note)
- Accelerate growth in the rental market in addition to the owned condo market and further consolidate leading position

Measures for incorporating a new growth portfolio

- Respond to soaring demand for telecommuting by building a D2C(note) service platform for condominium residents
- Use the D2C service platform to expand the range of customers to SOHOs, and corporations
- Capture growth domains through M&A or business alliances, accelerate expansion of the non-telecommunications business

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.
- Upgrade to highly energy-efficient internal system and strengthen security by implementing zero trust (note) security
- Enhance development of human resources, implement diversity and reform workstyles through roll out of satellite offices etc.

* For a definition of the terms with notes added please refer to the glossary included at the end of this document,

**Fiscal 2020" or FY2020 refers to the fiscal year ended March 31, 2021, and other fiscal years are referred to in a corresponding manner in this document.

FY2018-2020 Mid-Term Plan Review

FY2018-2020 Mid-Term Plan Review

Business Results

All core services grew as planned, and the mid-term plan was broadly achieved

- Used network assets and specialized in growth markets to achieve growth outpacing the market overall
- Released highspeed broadband services ahead of other companies
- Won major projects by responding flexibly to customer needs
- Full-scale entry into the rental market for condominium internet services
- Carried out structural reform of non-core businesses

KPI	Target (FY17-20 CAGR)	Results (FY17-20 CAGR)
Sales growth	Circa 2.5-3.0%	3.9%
EBIT growth	Circa 5.5-6.0%	4.7%
EBITDA margin	Maintain 30% level	30.5% (FY18) 33.6% (FY19) 33.8% (FY20)

計画

Used network assets and specialized in growth markets to achieve growth outpacing the market

- In expected growth markets (central cities and B2B), concentration of management resources achieved sales growth of 2.5%-3.0%, equivalent to three times the growth of the fixed-line telecommunications market.
- Use of network assets and application of operating leverage achieved growth in operating profit of 5.5%-6.0%, double the growth in sales.

Results

Mid-term plan targets achieved

- Achieved sales targets through significant growth in each business field. Impacted by the spread of COVID-19 cost of sales increased resulting in EBIT growth falling short of the original target.
- Offered high-speed broadband services (400 Gbps leased circuit, 10 Gbps internet, IPoE^(note), 10 Gbps condo internet) ahead of other companies in response to the continuing increase in data traffic
- Won major orders for OTTs and MNOs^(note) by responding flexibly to customer needs
- Maintained growth in the owned-condo internet service market while making full-scale entry into the rental market
- Restructured non-core (data center) business and paved the way to carbon neutral operations

Issues

Further market expansion driven by the spread of cloud computing and telecommuting

- Capture further customer demand driven by the spread of cloud computing and telecommuting
- Attempt to enter new markets and domains by catering to needs for high quality and increased security awareness

FY2021-2025 Mid-Term Plan

Milestones to Achieving Targets

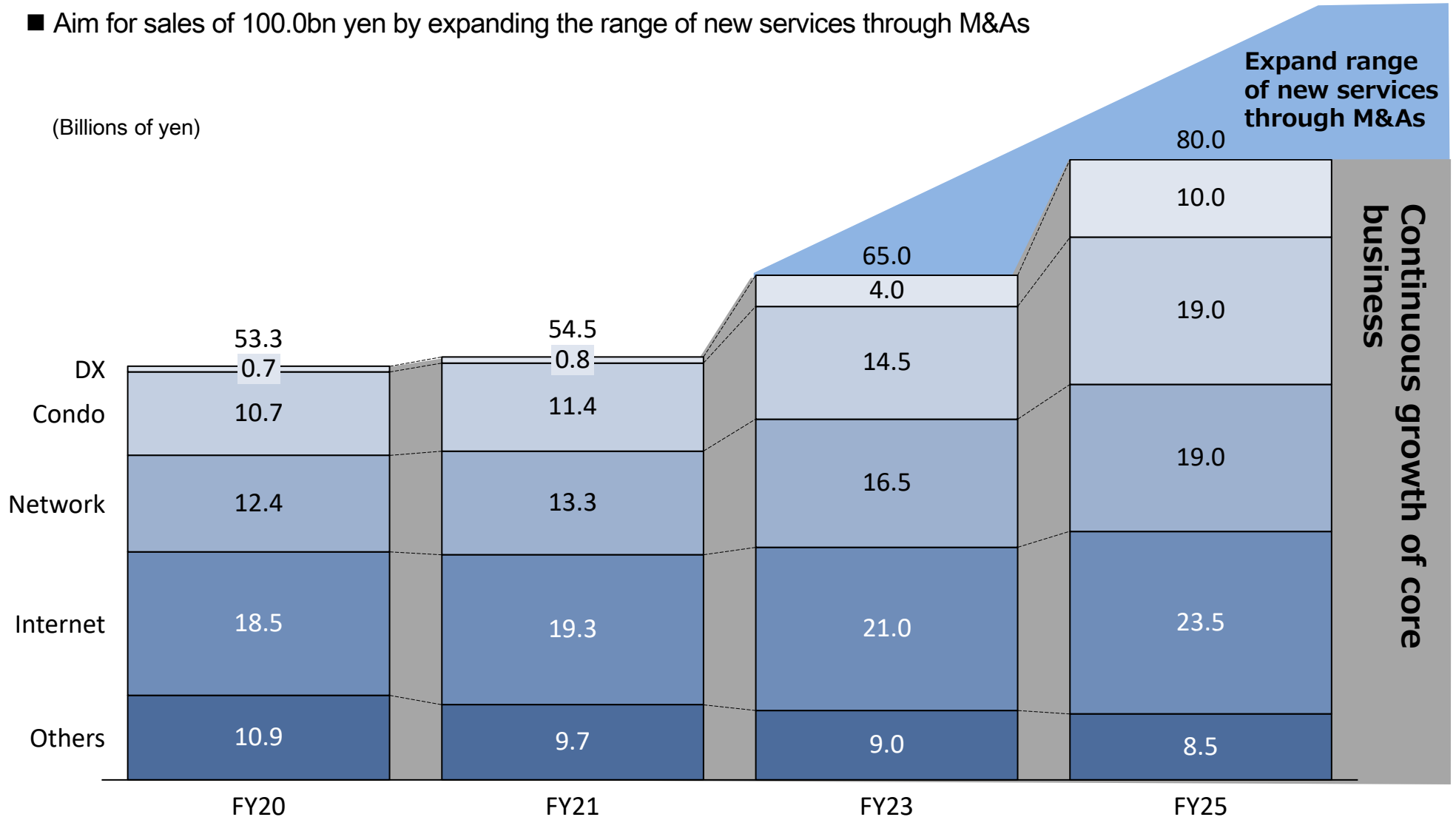
	FY20	FY21	FY23	FY25
Sales	53.3bn yen	54.5bn yen (excl. M&A)	65.0bn yen or higher (excl. M&A)	80.0bn yen or higher (excl. M&A)
Operating profit	8.9bn yen	9.3bn yen	11.5bn yen or higher	15.0bn yen or higher
EBITDA margin	33.8%	+ 30% or higher		
Market capitalization	80.0bn yen	~ 200.0bn yen or higher		
Customers/sales	Develop broadband services	Capture network and condominium internet demand		Capture growth domains
Internet	Continue to provide high-speed broadband services	Optimize and update services		
KPI	27,561 lines	Cumulative number of FTTx ^(note) lines		
Network	Provide broadband services ahead of other companies	Securely capture network demand, expand and enhance comprehensive proposal capabilities		
KPI	17,794 Gbps	Total bandwidth of Ethernet lines		
Condo	Maintain position as leader	Strengthen position as leader/Start up DX business and expand services		
KPI	Owned: 590,250 units Rental: 199,556 units	Number of paying units in building-wide ISP for condominiums		
Investment	8.7bn yen	12.0bn yen^(*)	9.0bn yen/year^(*)	
Growth investment	5.0bn yen	8.0bn yen	5.0bn yen/year	
Streamlining investments	0.7bn yen	2.0bn yen	1.0bn yen/year	
Investment for enhancing and increasing installations	3.0bn yen	2.0bn yen	3.0bn yen/year	
M&A			Capture growth domains	
Sales scale			Around 20.0bn yen	

*Excluding investment in large business deals

Revenue Milestones

- Start up DX business using condominium internet as a base, and accelerate growth of core business
- Aim for sales of 100.0bn yen by expanding the range of new services through M&As

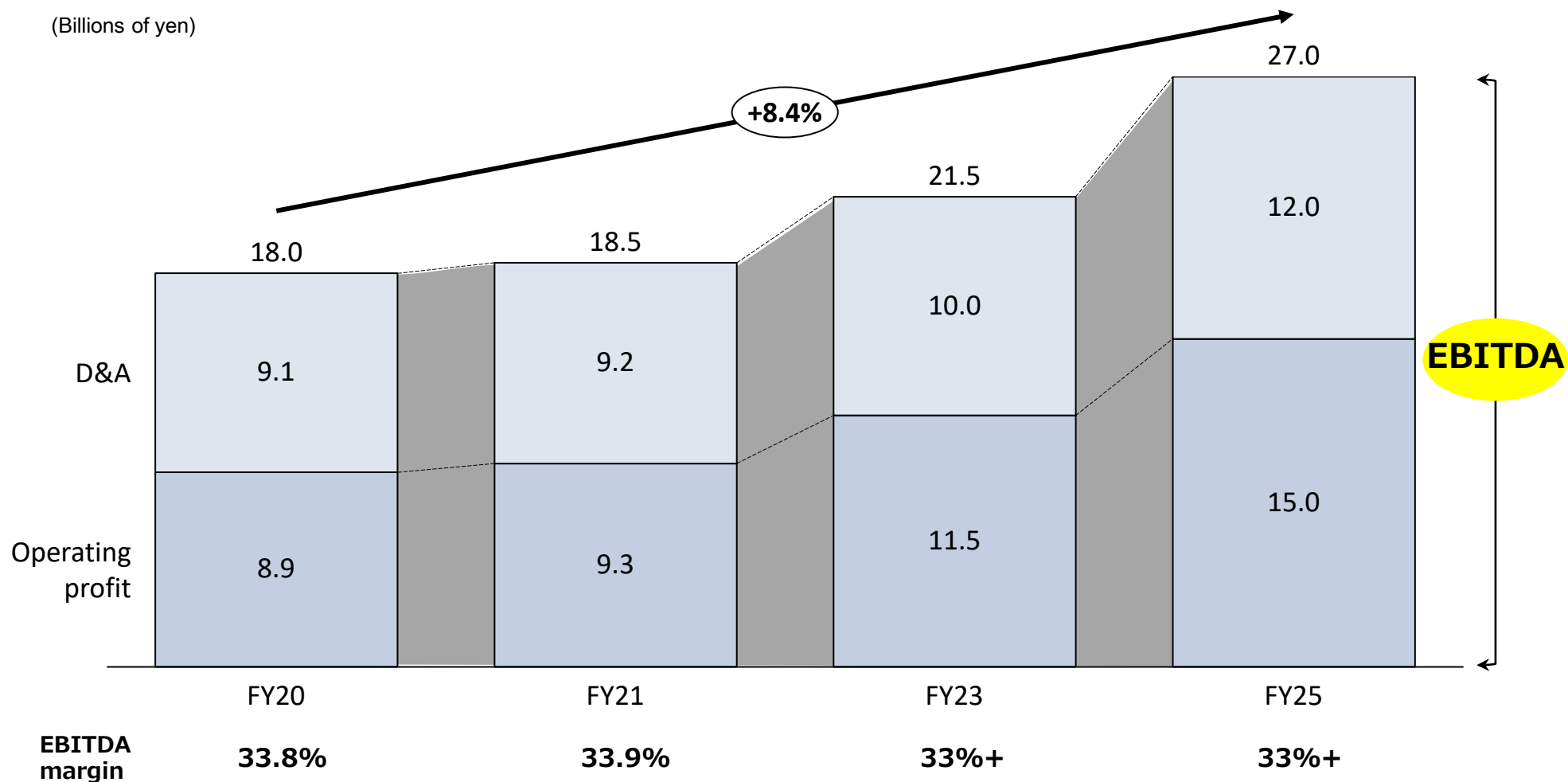
(Billions of yen)



*FY20 sales numbers shown retroactively reclassified according to FY21 core service classifications

Operating Profit Milestones

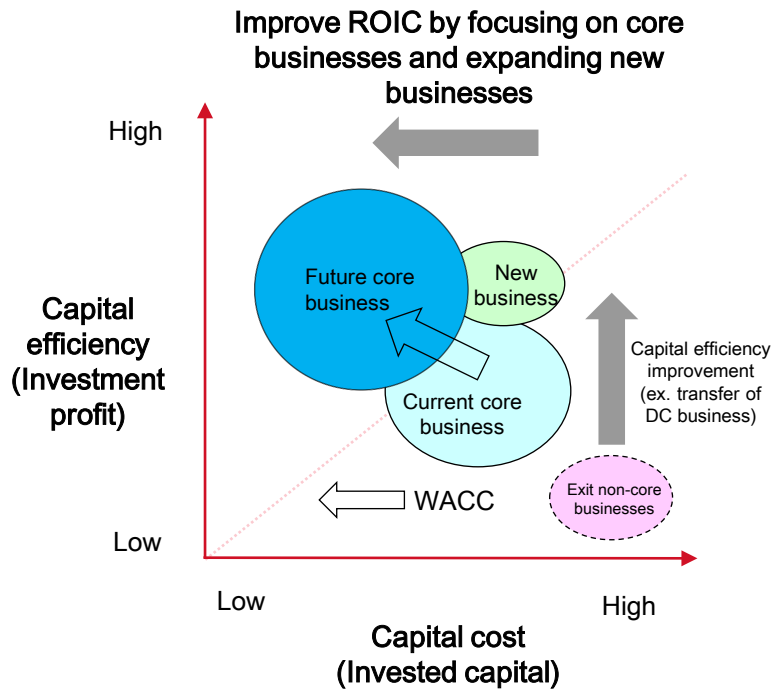
- Optimize and update network assets, aim for operating profit of 11.5bn yen in FY23, 15.0bn yen in FY25



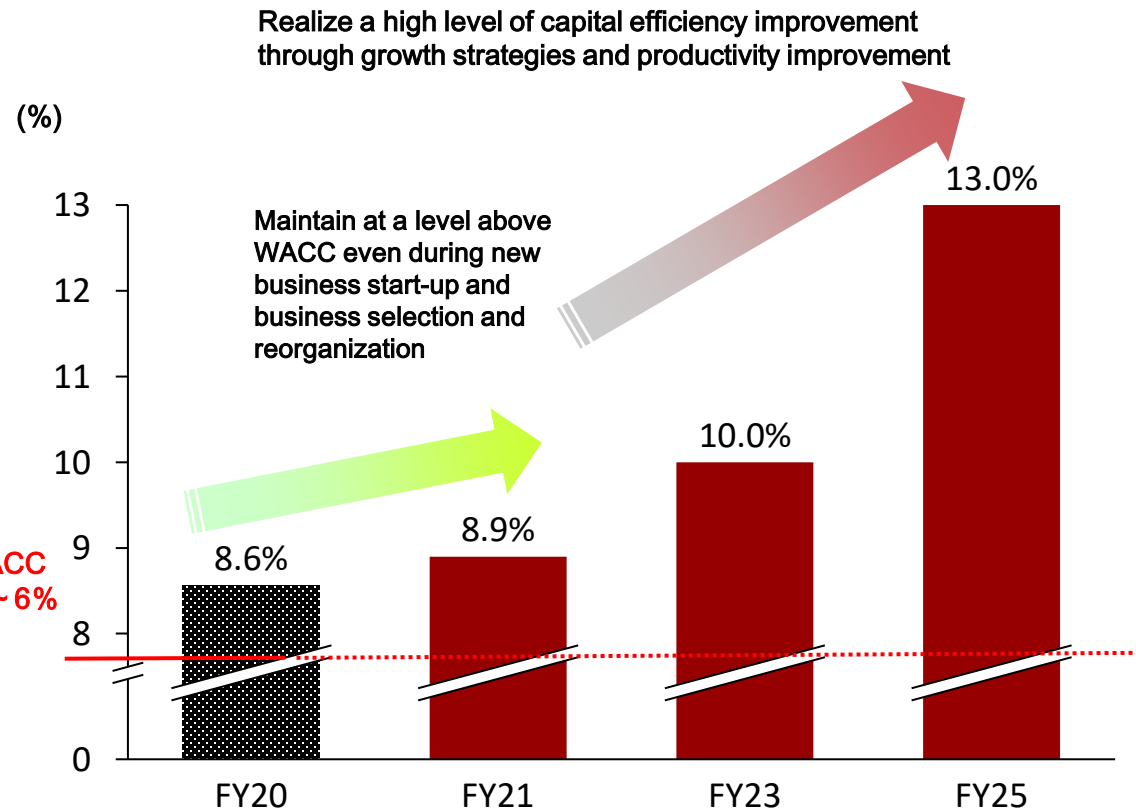
Capital Policy: ROIC

- Improve capital efficiency by increasing the utilization of network assets and concentrating investment on key businesses.
- Maintain ROIC at a level above WACC, even during new business start-up and structural reforms, increasing it to the 10% level from FY23 onward.

Map of Increased Capital Efficiency

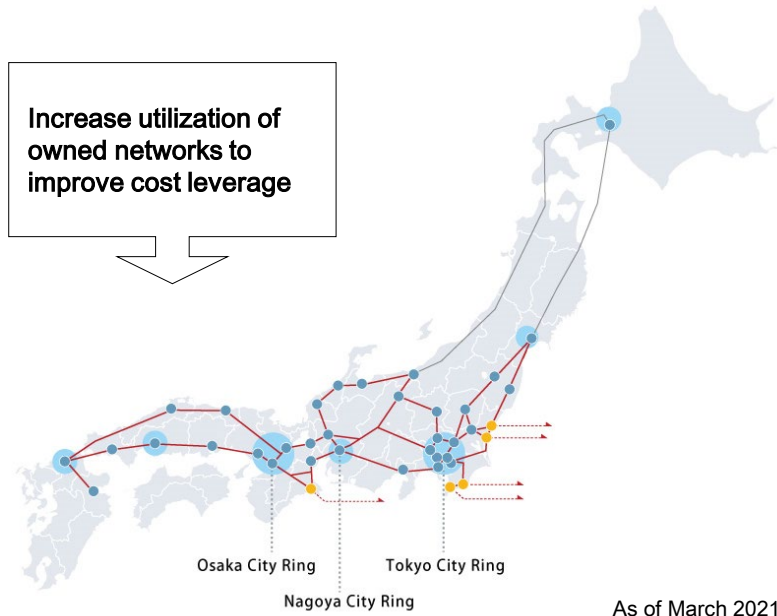


ROIC Improvement Plan (Organic growth)



Capital Policy: FCF

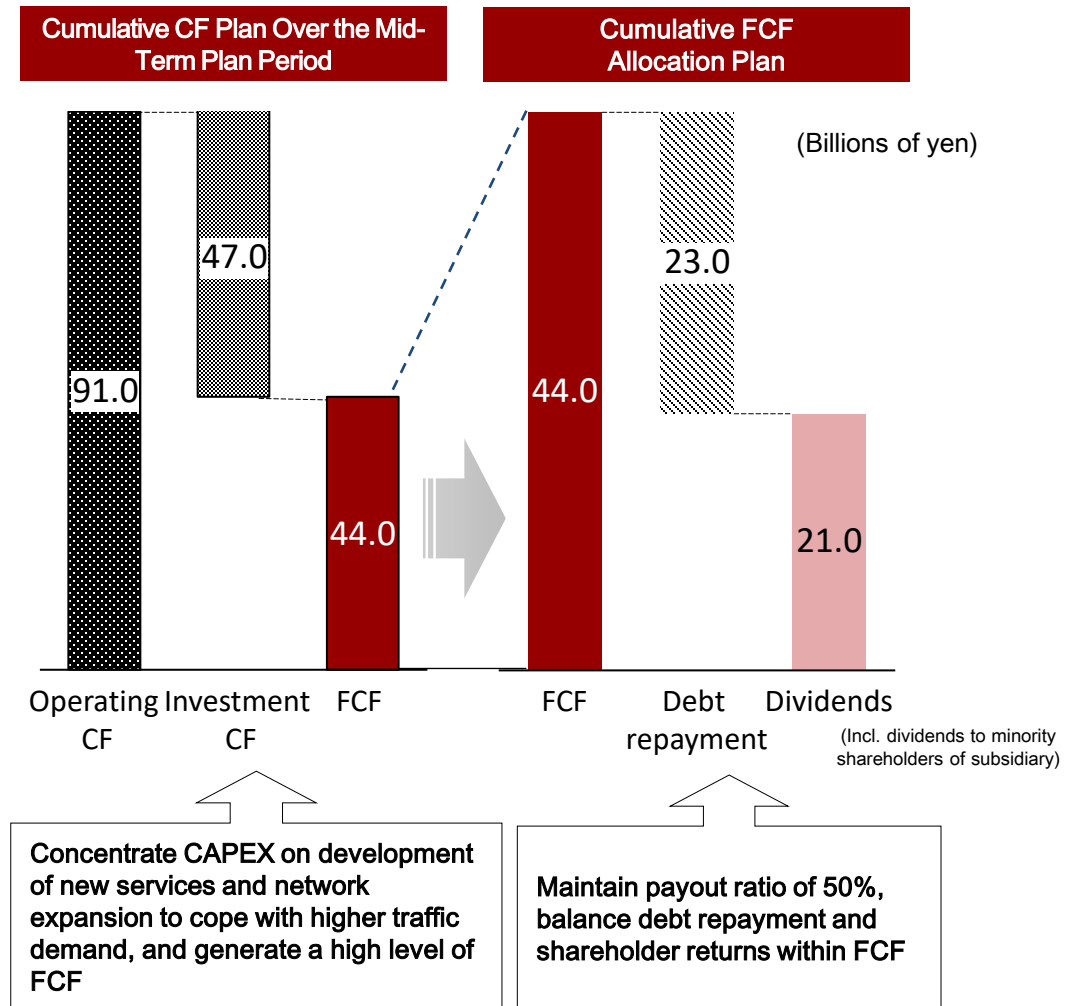
- To improve ROIC leverage the advantages of our network assets to increase ROA
- Balanced use of cash flows between investment in growth domains and shareholder returns
- Maintain a high dividend payout ratio (50% target)



ROA
FY20 results
6.1%



FY23 ~ 25 targets
Approx. 8% ~ 9%
(Organic growth only)



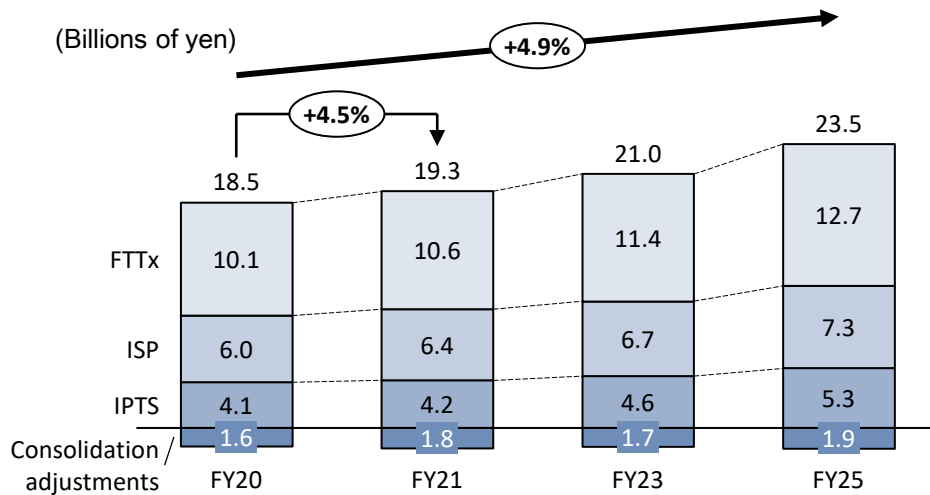
Initiatives: Internet

Capture demand for high-quality internet driven by the adaptation of cloud and zero trust.

Sales

CAGR: 4.9% (FY20-25)

(Billions of yen)



Macro and Customer Trends

- Demand for high quality without congestion^(note) or lag, and secure internet environments tailored to purpose

Initiatives

FTTx

- Expand area of services exceeding 10Gbps

- Eyeing the spread of zero-trust security, propose comprehensive solutions combining cyber security, etc.

ISP

- Promote a shift from the PPPoE^(note) protocol to our own operated IPoE protocol, and strengthen quality and cost control with a focus on wholesale ISP^(note)

IPTS

- Examine alliances with unified communication^(note) service provider

KPI

- Cumulative number of FTTx lines

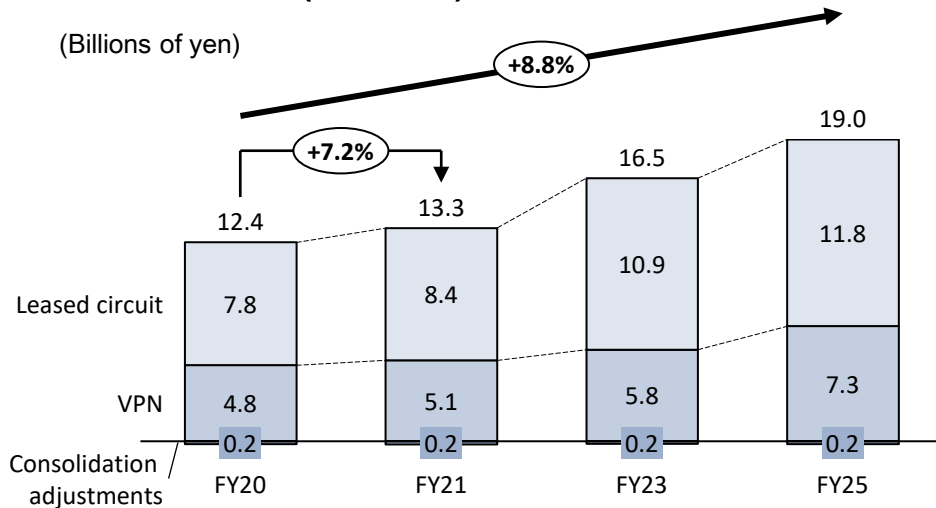
Initiatives: Network

Work to securely capture network demand against a background of telecommuting and digital transformation

Sales

CAGR: 8.8% (FY20-25)

(Billions of yen)



Macro and Customer Trends

- Expanding network demand with an emphasis on security and resilience^(note) against a background of telecommuting and digital transformation

Initiatives

Leased circuit

- Aim to expand business opportunities by renewing backbone network and aggressively expanding into new data center areas
- With geographical dispersion of data centers expected as part of the government's regional revitalization strategy, capture emergent demand for new lines
- Capture growth in demand arising from an expected move among overseas OTTs to relocate their domestic data centers against a background trend in data localization

VPN

- Propose comprehensive solutions with added services such as software-based virtualization technologies and cyber security

KPI

- Total bandwidth of Ethernet lines

*FY20 services shown retroactively reclassified according to FY21 classifications

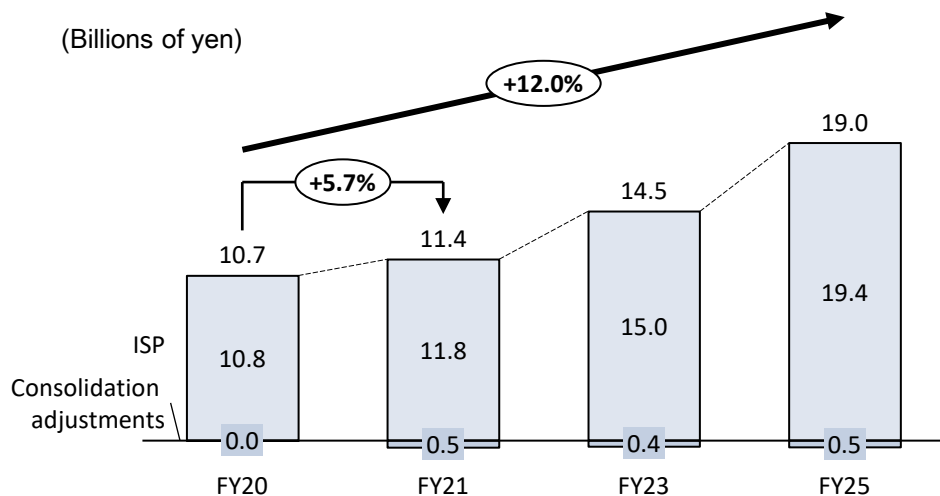
Initiatives: Condominium Internet

Enter the rental market in addition to the owned market and further consolidate position as leader in the condominium internet market

Sales

CAGR: 12.0% (FY20-25)

(Billions of yen)



Initiatives

- Leverage strength as a telecommunications provider with own lines and technological capabilities to provide services differentiated from other companies and capture more comprehensive service contracts
- In addition to the owned condominium market, where we have a high share, strive to maintain and expand leading market share in all directions by providing services to meet demand for services in small condominiums
- Expand optional services such as smart keys and portal services (Mcloud), to differentiate, prevent cancellations, and increase the unit price.

KPI

- Number of paying units in building-wide ISP for condominiums

Macro and Customer Trends

- With market entry by providers of dedicated services, CATV, and FTTH, competition with other companies is increasing. Winning projects that prioritize scale by cooperating with major developers and condominium operators is key.
- Against a backdrop of widespread telecommuting, high quality movie streaming, and the spread of eSports, demand for safe, secure, high-speed internet environments is growing.

DX: DX Business Strategy – Start Up of D2C Services Business Using DX

Initiatives

- Start by providing fast track services for condo residents
- Build a service platform to enable provision of D2C services
- Use the D2C service platform to expand the range of customers from condo residents to individuals, SOHOs, and corporations

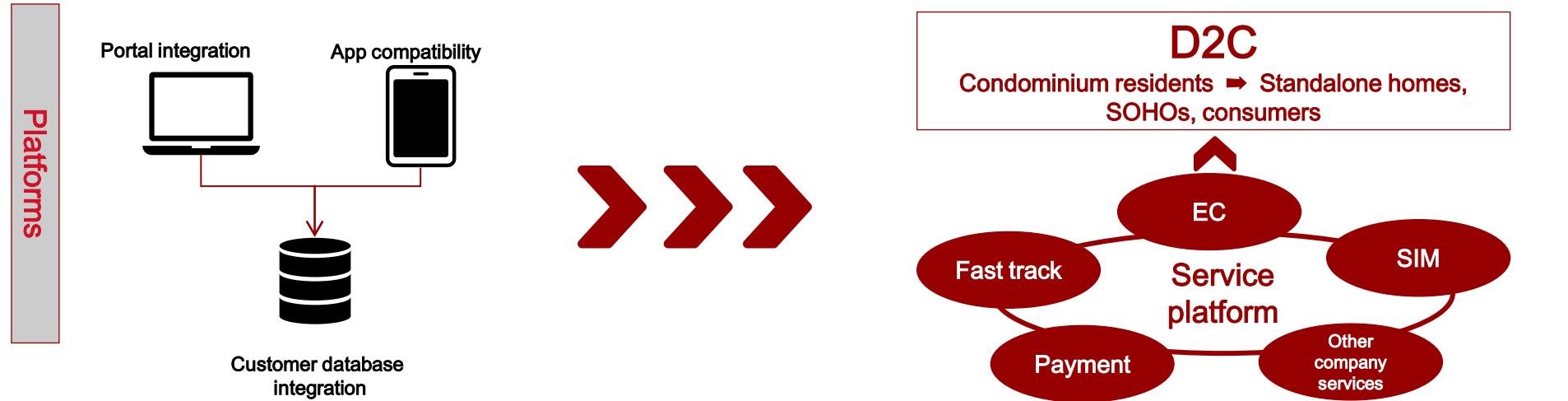


Services

- ★ Development of D2C services for SOHOs and corporations
- ★ Alliances with content partners such as video streaming and eSports
- ★ Fast track and cyber security solutions

Start by providing various services

Services for condominium residents such as telephone and internet options → Expand through use of integrated portal



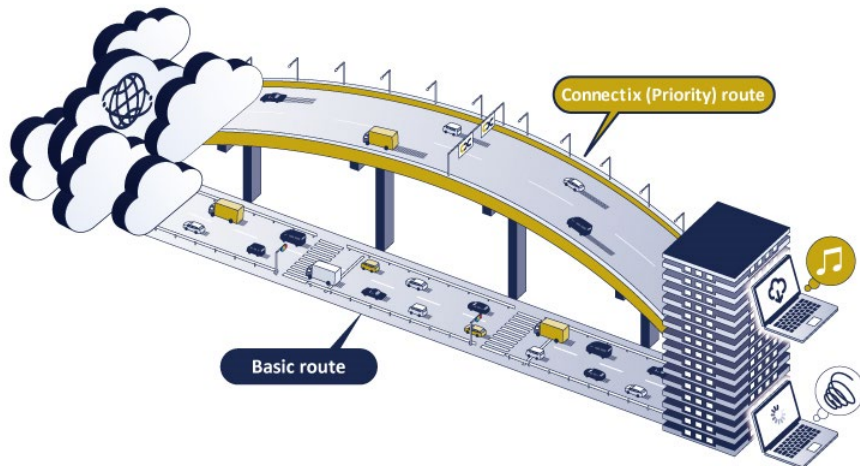
DX: Overview of Connectix – Provision to Start in FY21 H1

Outline

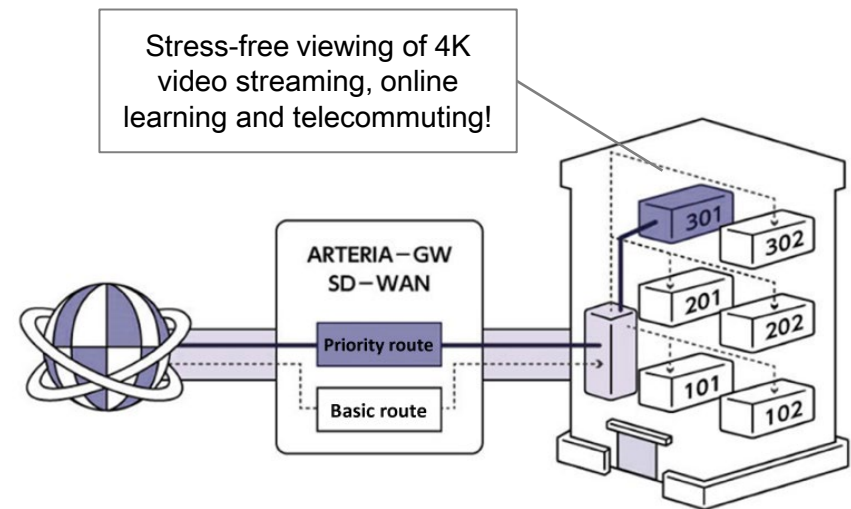
- Provide Connectix from August 2021: a service enabling priority telecommunications to residents at a condominium using ARTERIA's condominium ISP services (patent pending)
- Connectix uses SD-WAN (note) technology to control the quality of telecommunications in each condo via a virtual network. It is an option service instantly available to users upon online application at an additional charge.



Connectix Service Image



Subscribing to Connectix the route switches from the basic route to a priority route



Merit 1

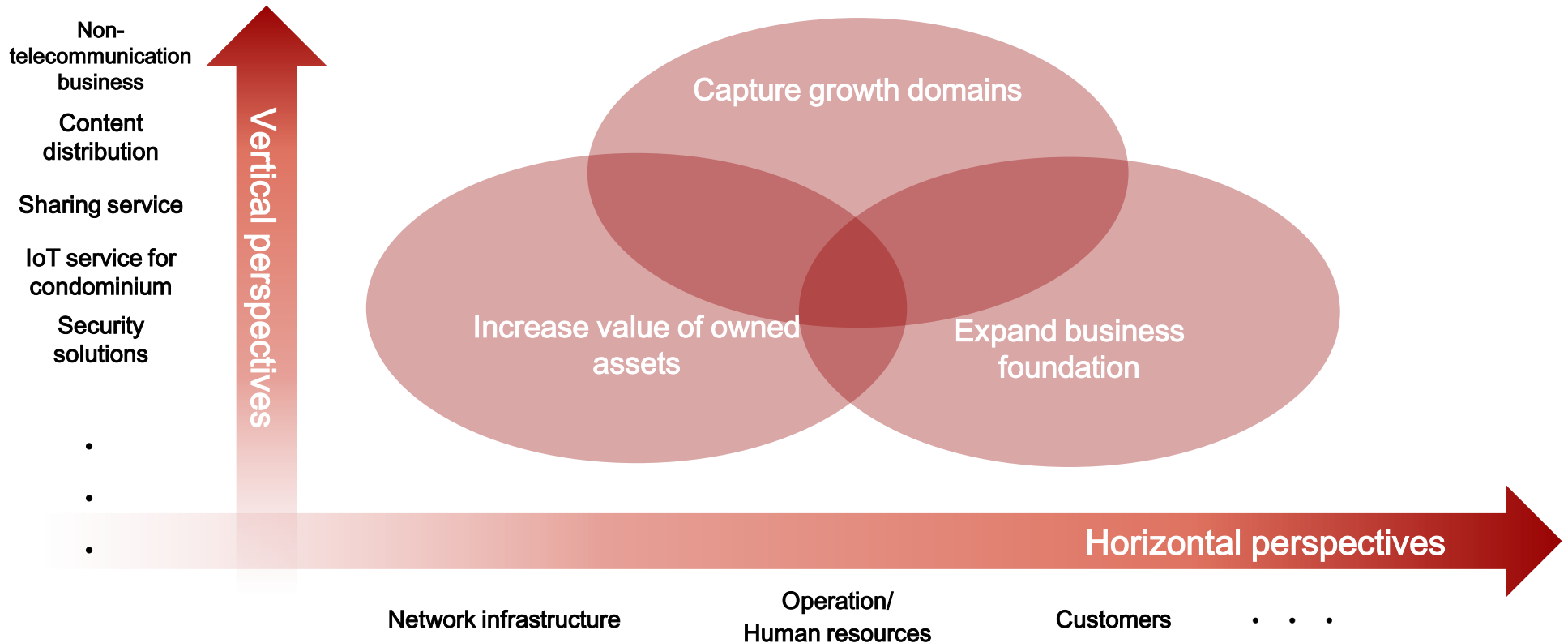
Saves significantly on time and costs compared to a separate internet connection

Merit 2

One can subscribe to a higher quality connection during the required time interval

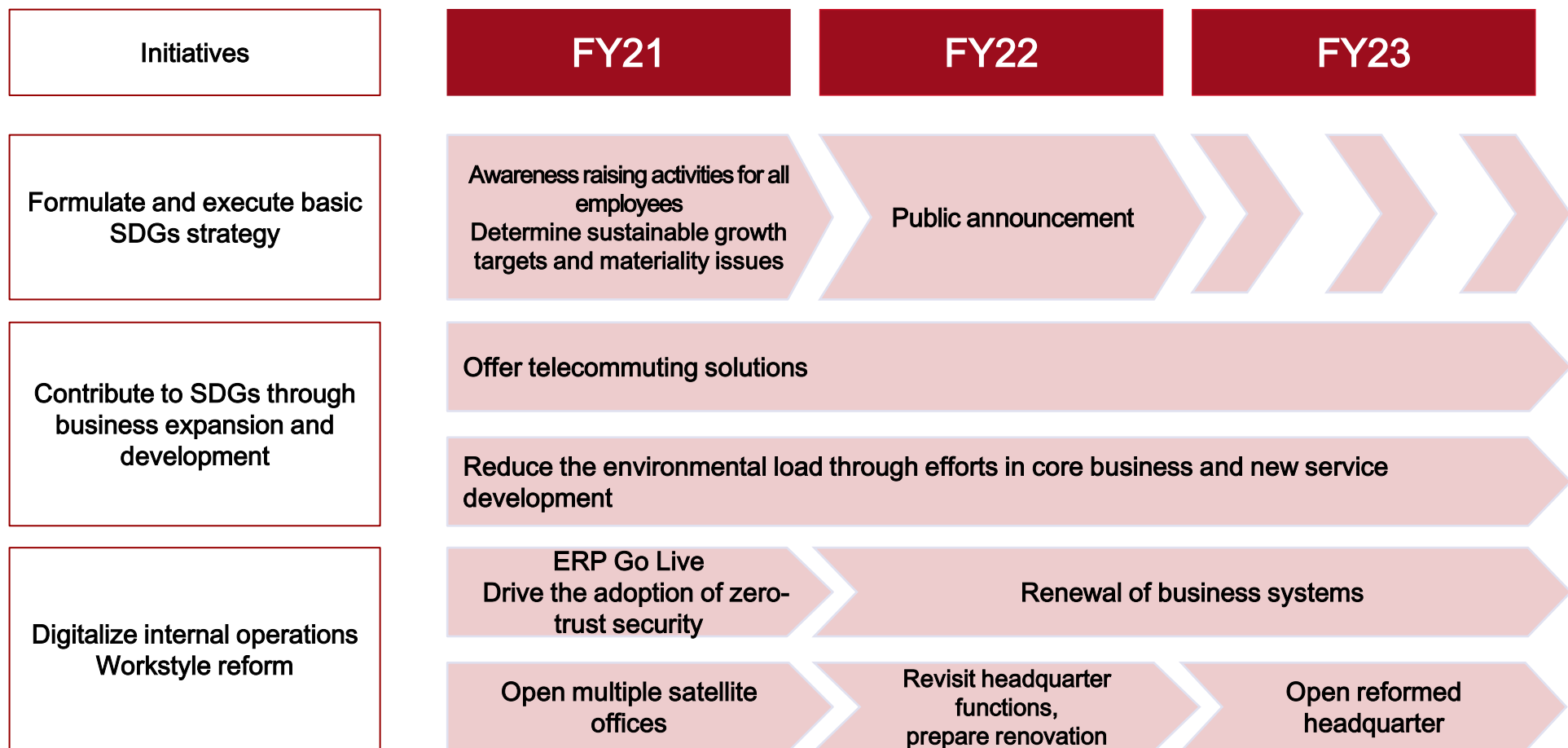
Criteria for Considerations of M&A/alliances

- Examine M&A and alliances from horizontal and vertical perspectives to increase value of network assets
- Narrow down from the perspectives of both portfolio growth potential and synergy effects
- In the short term, consider in areas which contribute to the start up of D2C Services Business



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.
- Upgrade to highly energy-efficient internal system and strengthen security by implementing zero-trust security
- Enhance development of human resources, implement diversity and reform workstyles through roll out of satellite offices etc.



Appendix

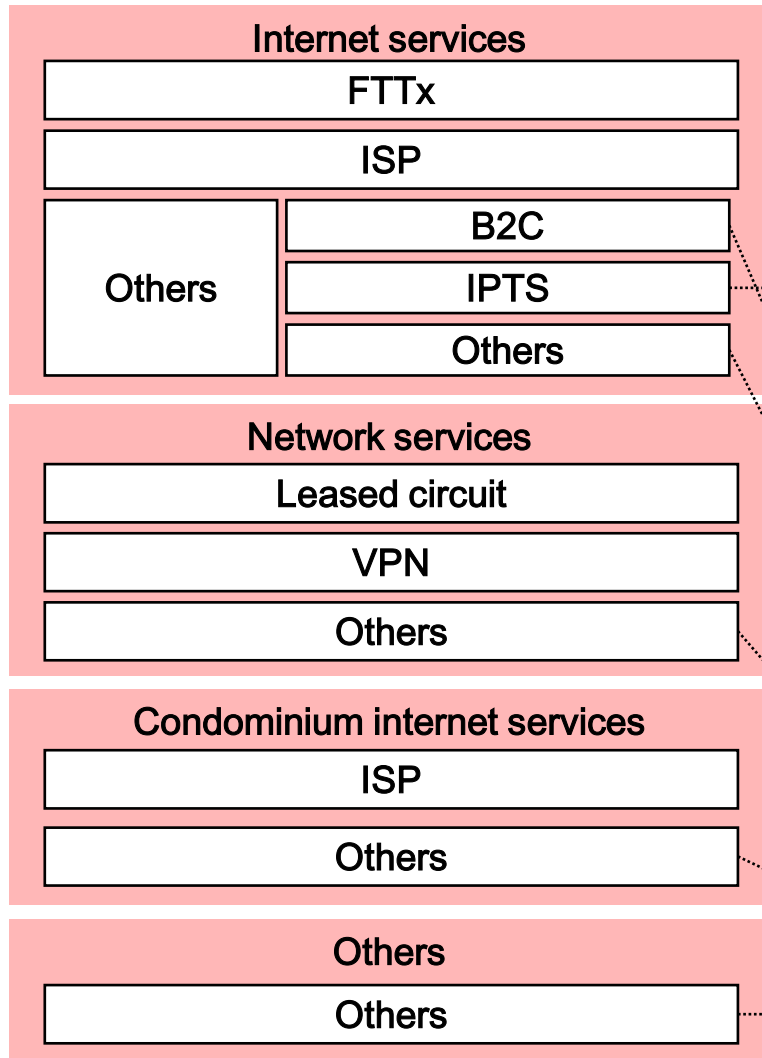
Glossary

OTT	Stands for Over The Top. Service providers who provide content such as video and audio over internet lines.
D2C	Stands for Direct To Consumer. Scheme to provide services directly to users through EC sites, etc.
Zero trust	A network security environment that constantly monitors and checks users and devices on the premise that all network traffic is not trusted.
IPoE	Stands for Internet Protocol over Ethernet. A method for transmitting IP packets using Ethernet as a telecommunication route.
MNO	Stands for Mobile Network Operator. MNOs establish and operate their own wireless base stations to provide mobile telecommunication services.
FTTx	Stands for Fiber To The Home. A service that provides super-high-speed internet access between tens of Mbps to up to several Gbps by optical fiber cable connections to each home. The term FTTx is used to refer to include services for offices as well as households.
Congestion	Poor connection performance and lag caused by crowded networks due to recent expansion in internet use, such as viewing videos over the internet.
PPPoE	Stands for Point-to-Point Protocol over Ethernet. The method that enables the function of protocol PPP (Point-to-Point) over Ethernet.
Wholesale ISP	Wholesale services to ISPs.
Unified communication	Systems that integrate various communication tools such as phone, email, chat and online meeting system, etc.
Security and resilience	The capability and systems for minimizing the impact of cyber attacks on systems and networks and restoring them to their original state.
SD-WAN	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.

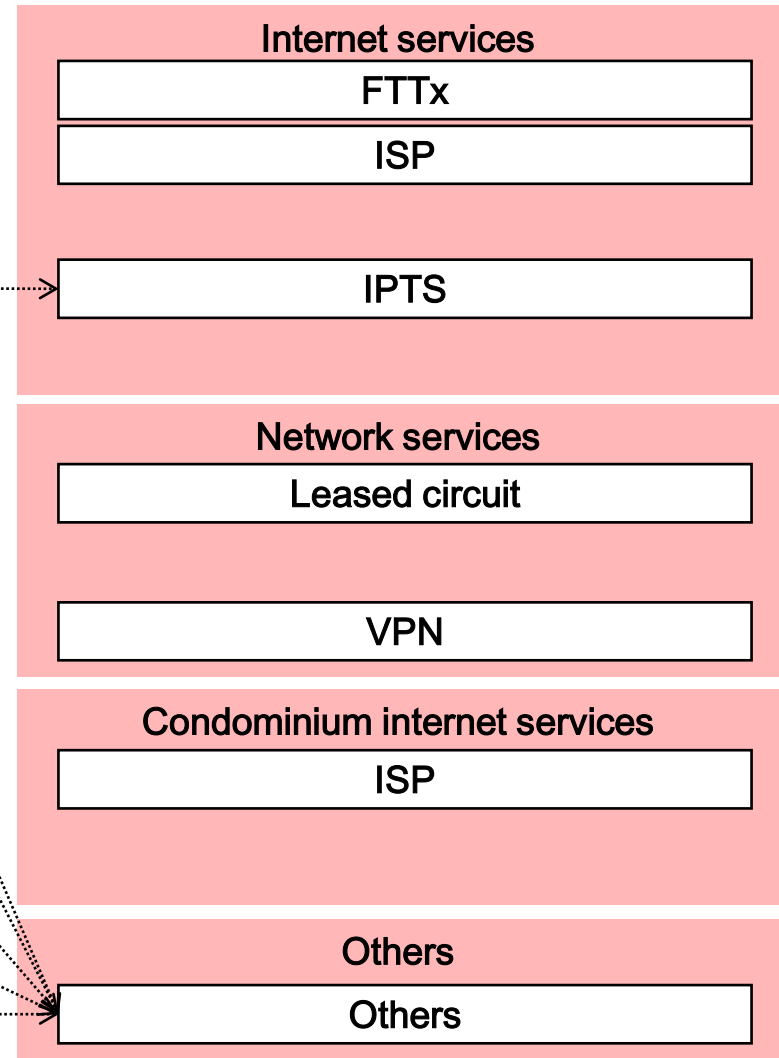
Change in Core Services Classifications

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

Up to FY2020



From FY2021 onward



*Consolidated adjustment amount is included in each segment

Connecting New Abilities

ARTERIA