

# **ARTERIA Networks Corporation**

The 6<sup>th</sup> Annual General Meeting of Shareholders

June 25, 2021

**Moderator:** Thank you very much for attending the 6<sup>th</sup> Annual General Meeting of Shareholders of ARTERIA Networks Corporation.

Due to concern about the spread of COVID-19, all speakers and staff at this General Meeting are wearing masks. We would also like to ask all participating shareholders to wear masks and to be mindful of coughing manner. In some cases, speakers may take off their masks to speak at the Chairperson's seat or the seat for reply, but we have installed partitions to prevent infection. We ask for your understanding and cooperation.

Ladies and gentlemen, thank you for waiting. CEO Kabumoto, please.

**Kabumoto:** Hello, everyone. I am Koji Kabumoto, President and CEO. Thank you for taking the time out of your busy schedules to attend this Annual General Meeting of Shareholders today.

In accordance with the provisions of the Articles of Incorporation of the Company, I will take the Chair of this General Meeting of Shareholders.

We will start the 6<sup>th</sup> Annual General Meeting of Shareholders of ARTERIA Networks Corporation.

The agenda items for this General Meeting are as shown on page 2 of the Notice of the Meeting.

I would like to ask for everyone's cooperation in following my instructions as Chairman, in the conduct of the proceedings of this General Meeting.

In addition, as a countermeasure against the spread of COVID-19, we will shorten the time for the Meeting as long as we can, giving priority to the safety and security of shareholders. I would like to ask for your cooperation, in order to ensure the smooth proceedings of the Meeting.

Please note that shareholders who are coughing, or otherwise showing obvious signs of ill health, may be asked to leave the venue by some of the Meeting staff.

At this General Meeting of Shareholders, we would like to accept questions and other comments from shareholders at once, after we have completed the presentation of the Proposal for Resolution and the explanation of the details of the Proposal.

In order to prevent COVID-19, we would like to limit the number of questions from shareholders to 1 at a time.

Finally, we have installed video cameras at the rear and on both sides to record the proceedings of this Meeting. We appreciate your understanding and cooperation in this matter.

We will now begin the proceedings.

In order to save time, I will not report the number of shareholders attending this General Meeting of Shareholders, and other matters. However, the quorum required for the deliberation of the proposal has been met, including the voting rights exercised by yesterday.

In addition, the reports on the audit results of the consolidated and non-consolidated financial statements are as shown on pages 46 to 51 of the Notice of the Meeting.

Now, among the matters to be reported today, I would like to report on the contents of the business report, consolidated financial statements, and the Company's financial statements for the 6th term.

The contents are as described on pages 17 to 45 of the Notice of the Meeting. Today we would like to present an overview of the contents through video, so please look at the screen in front of you.

[Video Begins]

In Japan, the creation of new businesses and transformation of the existing ones using digital technology is ongoing. Impacted by the spread of COVID-19, the digital shift has accelerated further. In the information and telecommunications market, where the Group operates, we have seen a rise in network traffic due to the usage of big data and cloud solutions, online video consumption, and an increase in telecommuting and people refraining from going out. In this context, this business is becoming even more important.

Internet, Network, and Condominium Internet services are the 3 businesses that the ARTERIA Group operates over its own proprietary fiber network.

In FY2020, that ended on March 31, 2021, while we experienced temporary impact from COVID-19, our network traffic increased and demand for high-speed, large capacity telecommunication, and highly secure services grew even stronger.

In the Internet business, our core products, ISP, and FTTx services continued to experience strong demand.

In services for ISPs, we launched the VNE service “Cross Pass” in April 2020, and sales have been favorable. We have seen increasing use among our OEM FLET’s partners and corporate customers.

Our FTTx services continued to experience strong demand for high quality broadband services. We have expanded the service areas for our best-effort based services, offering maximum uplink and downlink speed of 10 gbps, sustaining solid orders.

In the Network business, orders for leased circuits and VPNs, our core services, sustained a steady trend.

Leased circuit services continued to grow, with demand from OTTs and mobile operators who are actively strengthening their own backbone networks.

We extended and expanded the fiber network in the Inzai region in Chiba prefecture and the Saito region in Osaka prefecture, where there is a concentration of data centers, to cater to the generated demand.

In our VPN services, the demand for highly secure network services is growing steadily.

In the Condominium Internet business, sales of building-wide ISP services to condominiums are steadily expanding in both the owned and rental markets. We specialize in medium- and large-scale condominiums, and in June 2020 we released the UCOM Hikari Residence “Five.A” service for small-scale residences, which is also contributing to sales.

We captured the top market share for a 7th consecutive year in the “whole building package type ISP for condominiums in Japan, as of March 31, 2020,” published by MM Research Institute.

Furthermore, we have fully revamped our condominium management association support service, Mcloud. With added functions to support association activities in the COVID-19 era using IT, the product is seeing an increase in new users.

Going forward, through offering new services in combination with IoT services, such as the smart key, we plan to create new sales.

ARTERIA Networks aims to contribute to the growth of its customers and other stakeholders and the progress of society. We will continue working to provide even more comfortable services.

Here is a summary of our consolidated financial results for FY2020.

In FY2020, net sales rose 3.6% YoY to JPY53.3 billion. Operating profit rose 2.3% YoY to JPY8.9 billion. Profit attributable to owners of the parent continued to grow, rising 4.5% YoY to JPY5.5 billion.

While we experienced temporary impact from COVID-19, sales of our core services continued to grow, and our consolidated operating results grew YoY and exceeded our earnings forecast.

EBITDA grew 4% YoY to JPY18 billion, and we successfully maintained the EBITDA margin at the 30% level, as targeted in our Mid-Term Plan.

Free cash flow decreased JPY1.6 billion YoY to positive FCF of JPY6.6 billion. Borrowings and lease liabilities were JPY45.1 billion for FY2020, and the net leverage ratio improved YoY to 1.9 times, maintaining an appropriate level.

Looking at sales by service, network services and condominium internet services led sales growth, and overall, the Group has achieved high growth YoY.

Please look at our earnings forecast for FY2021 ending March 2022.

In our Internet business, optimization and renewal of our Internet services will generate new opportunities. In our Network business, we will expand sales of leased circuits for OTTs and work to expand sales to the rental market in the Condominium Internet business.

As a result of these efforts, consolidated forecast for FY2021 is for continued growth in sales and profits, with net sales rising 2.2% YoY to JPY54.5 billion and other earnings also increasing.

We plan to pay a year-end dividend of JPY55.37 for FY2020.

We recognize that one of our important duties as a company is to continue to distribute a stable dividend to our shareholders, targeting a dividend payout ratio of around 50% over the medium to long term.

For FY2021, we plan to pay a dividend of at least JPY58 per share as an initial forecast. The dividend will be made in 2 payments for the year.

ARTERIA Networks is connecting new abilities through its proprietary network as we work to realize a sustainable world. Through the development of information and telecommunications networks, we will contribute to the growth of our customers and progress of society around the world.

[Video Ends]

**Kabumoto:** This concludes our report on the business report, consolidated financial statements, and the Company's financial statements for the 6th term.

Next, I will explain our Mid-Term Plan, which is one of the items to be reported today.

In May this year, we announced our Mid-Term Plan for the period from fiscal year ending March 2022 to the fiscal year ending March 2026. In conjunction with the new Mid-Term Plan, we announced a new tag line of our Group.

To begin with, please look at the screen in front of you as we explain the new tag line and brand image using images.

## ARTERIA Group New Tag Line

# Connecting New Abilities

[Image Explanation Begins]

In 2021, we 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 even more important. 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. 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. Connecting New Abilities. ARTERIA.

[Image Explanation Ends]

**Kabumoto:** We have been developing services that support the foundation of activities by many companies and individuals according to the Group's management philosophy.

With the aim of further engaging in solving social issues, we have set our new key message: "Connecting New Abilities." With this, we aim to lead social changes centered on communication services and become a company that creates a world that is connected, with new abilities.

# ARTERIA Networks Group FY21-FY25 Mid-Term Plan

**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 + <sup>(*)</sup>
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**

I would now like to explain our 5-year Mid-Term Plan, from the fiscal year ending March 2022 to the fiscal year ending March 2026.

In recent years, the expectations and importance of the information and telecommunications industry have been increasing in society, with the expansion of cloud computing and the realization of new ways of working through telework and satellite offices.

In this environment, the Group has been specializing in the markets where growth is expected and concentrating its management resources on these markets. As a result, we have achieved a high growth rate, which is 3 times higher than the market average.

Going forward, we will continue growth investments during the new 5-year Mid-Term Plan, aiming to achieve a market capitalization of JPY200 billion in the final year of FY2025, further increasing our corporate value.

For the fiscal year ending March 2026, i.e., FY2025, we aim to achieve net sales of JPY80 billion or more and operating profit of JPY15 billion or more, about 1.7 times the level in FY2020, on an organic basis, not including M&A.

As for dividends, we will make 2-time payments a year, as requested by many of our shareholders.

# ARTERIA Networks Group FY21-FY25 Mid-Term Plan

## ① 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
- Accelerate growth in the rental market in addition to the owned condo market and further consolidate leading position

Next, I will explain the outline of our 5-year management strategy.

The first is to grow our core businesses.

In the core businesses of the Internet, Network, and Condominium Internet businesses, we will strive to optimize and modernize our assets and enhance our lineup to ensure that we can meet demand steadily.



# ARTERIA Networks Group FY21-FY25 Mid-Term Plan

## ② Measures for incorporating a new growth portfolio

- Respond to soaring demand for telecommuting by building a D2C 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

The second point is to incorporate a new growth portfolio.

We will build a platform to provide services directly to users, called a direct to consumer, or D2C, platform, and capture the business opportunities arising from the increase in traffic due to demand for telecommuting and others.

Connectix, which we announced on May 20, 2021, was developed by utilizing our proprietary network infrastructure, network virtualization, and software technologies to take advantage of our unique characteristics. Based on this, we will work to expand our D2C business.

We will also incorporate a new growth portfolio through M&A and capital alliances.

## ARTERIA Networks Group FY21-FY25 Mid-Term Plan

### ③ 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.

The third point is to respond to the reform of workstyles and the SDGs.

With regard to the SDGs, in addition to the activities to contribute to a decarbonized society, which we are already working on, we will define and implement important issues for the ARTERIA Group.

As workstyles and lifestyles reach a tipping point, networks are becoming even more important as the infrastructure of society.

Based on these 3 management strategies, the Group will use its unique network it has built to create a world that is connected with new abilities and contribute to the growth of its customers and the sustainable development of society.

This concludes my report on the Mid-Term Plan.

# Proposal Election of 5 Directors

1 Reelection	<b>Koji Kabumoto</b>	4 Reelection Outside Independent	<b>Hiroshi Esaki</b>
2 Reelection	<b>Daisuke Arita</b>	5 Reelection Outside Independent	<b>Ichiro Miyake</b>
3 Reelection	<b>Tatsuya Abe</b>		

Details on pages 7 to 16 of the Notice of the Meeting

I will now explain the details of the proposal for resolution to be submitted to this General Meeting of Shareholders.

The proposal is for the election of 5 Directors.

As the terms of office of all 5 current Directors will expire at the conclusion of this General Meeting of Shareholders, the Company proposes that all of the 5 Directors be elected at once.

The names and brief personal histories of the candidates for Directors are as shown on pages 7 to 16 of the Notice of the Meeting.

## Question & Answer

**Kabumoto:** We will now begin our deliberation. We would like to receive questions regarding the purpose of this General Meeting of Shareholders, and then we will take a vote on the proposal for resolution.

If you would like to make a remark, please raise your hand and I will ask you to step forward to the microphone. Please note that the microphone will be disinfected by a staff member after each change of shareholders.

Also, in order to protect against COVID-19, we would like to limit the number of questions to 1 at a time.

Then, we will accept your questions. Is there anyone who would like to ask a question?

**Participant:** It's more like a proposal, or a suggestion, about shareholder return. In the previous fiscal year, you bought back Company shares for the first time ever, and I believe that share repurchase has various advantages that dividends do not have. It may be a little difficult now, but from a long-term perspective, I would like you to consider continuing to buy back treasury shares for shareholders.

For example, if you continuously buy back your own shares, you will be able to continue to increase EPS or dividends without having to generate more cash, which is very beneficial for the long term.

If a company reduces dividend payment, it is likely to affect its share price immediately. However, even if you reduce the size of share repurchase in a year after making a large-scale buyback in the previous year, it may not affect the share price that much.

From that perspective, I think it is an easier way of shareholder return for the Company to handle, so I would like to ask you to consider share buybacks after understanding the characteristics of this issue. That is all.

**Kabumoto:** Thank you very much. Now, please return to your seat. This was a question from a shareholder. The content of the question was about share buybacks in relation to shareholder return. I think that the gist was that there are various advantages in share buybacks, so we should conduct them on an ongoing basis.

CFO Tateishi will answer the question.

**Tateishi:** I'm Seiichi Tateishi, Director in charge of finance. I would like to answer the question by designation of the Chairman.

First of all, as you mentioned, we have bought back part of our treasury shares. This was for the purpose of performance-linked compensation for employees, not for the purpose of buying back our own shares for cancellation.

The Company places emphasis on dividend payments, with a medium to long-term goal of a dividend payout ratio of around 50%, which is higher than the average for the companies listed on the Tokyo Stock Exchange. We aim to provide shareholder return by focusing on maintaining stable dividend payments.

From the current fiscal year, we will change to make dividend payments twice a year, an interim dividend and a year-end one. We have also set a backstop of paying a dividend at the same level as our initial forecast at least to further enhance the shareholder return in dividends.

That is all from me.

**Kabumoto:** There are various ways to return profits to shareholders, including share buybacks that you mentioned in your question. We are aiming to raise our corporate value to a market capitalization of JPY200 billion in 2026, 5 years from now, and we would like to raise our share price by lifting corporate value.

In addition, this is linked to our business performance, and by improving our business performance, we will be able to increase the level of dividends if we use the dividend payout ratio of 50% that Tateishi mentioned earlier, so we would like to realize this and return the profits to our shareholders. We hope you will understand that.

Thank you. Now, we would like to take the next question.

**Participant:** I have a question for President Kabumoto. The Company's management philosophy is very impressive, and I agree with it very much. However, I think that the business targets or the performance targets at only 3% to 5% are quite insufficient to call them ambitious ones, as you mentioned. I would like to ask you to propose a plan that shows a little more growth potential. That is all.

**Kabumoto:** Thank you very much. This was a question from a shareholder. I understood that it was a question for me. You said that the management philosophy is very good, and it says that it is ambitious, but our performance targets are not ambitious enough. I think you pointed to what you think insufficient in our plan and urged us to show more growth potential.

I earlier explained the new Mid-Term Plan. I said we aim to raise sales from over JPY50 billion in the previous year, FY2020, to JPY80 billion in FY2025. The current target for operating profit is JPY9.3 billion, but we are aiming to increase this to JPY15 billion.

If we consider other indicators like profit attributable to owners of the parent, we will almost double our earnings during the 5 years. The goal is to double our earnings in the 5 years although our annual growth rate used to be as low as 2% to 3%.

So, there may be various ways of thinking, but I believe that we came up with the targets that are substantially ambitious. There are a lot of things we need to do to achieve the targets. As I said, we aim to strengthen our network and new businesses, and we will add M&A to reach higher levels, since we are aiming for sales of JPY80 billion, excluding the effect of M&A.

I believe that you have just encouraged us to make more efforts, and we will do our best to grow even more than this. We hope you will understand. Thank you very much.

Now I would like to take other questions. Does anyone have any other questions?

As there is no question from anyone, we would like to close the question-and-answer session and move on to the vote on the agenda.

We will now vote on the agenda item, the Proposal for the Election of 5 Directors.

The shareholders in favor of the original proposal, please clap your hands.

Thank you very much. Since a majority of the votes cast, including those by way of the voting form, were in favor of the Proposal, it was approved and adopted as proposed. Thank you very much.

As all the matters for the purpose of this General Meeting of Shareholders have been completed, we hereby conclude the Meeting.

I would like to express my best wishes for the continued good health of our shareholders and ask for your continued support and cooperation in our business operations. Thank you very much for today.

**Moderator:** With this, the General Meeting of Shareholders has been closed.