

**5th Term
(March 31, 2020)
Earnings Results Briefing**

November 22, 2019
ARTERIA Networks Corporation

ARTERIA



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.

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Financial Highlights

- Sustained YoY revenue and profit growth.

(Billions of yen)

	FY2018H1	FY2019H1	Change	Ratio
Net sales	23.8	25.5	+1.7	+7.1%
Operating profit	3.7	4.2	+0.6	+15.1%
Profit attributable to owners of parent	2.3	2.6	+0.3	+12.4%
Adjusted operating profit	4.0	4.2	+0.2	+4.9%
Adjusted profit attributable to owners *	2.6	2.6	+0.04	+1.6%

*Adjusted profit attributable to owners of the parent

Forecasts

- Net sales & all profit levels showing steady trend with 50-51% progress.
- No change in FY2019 forecast.

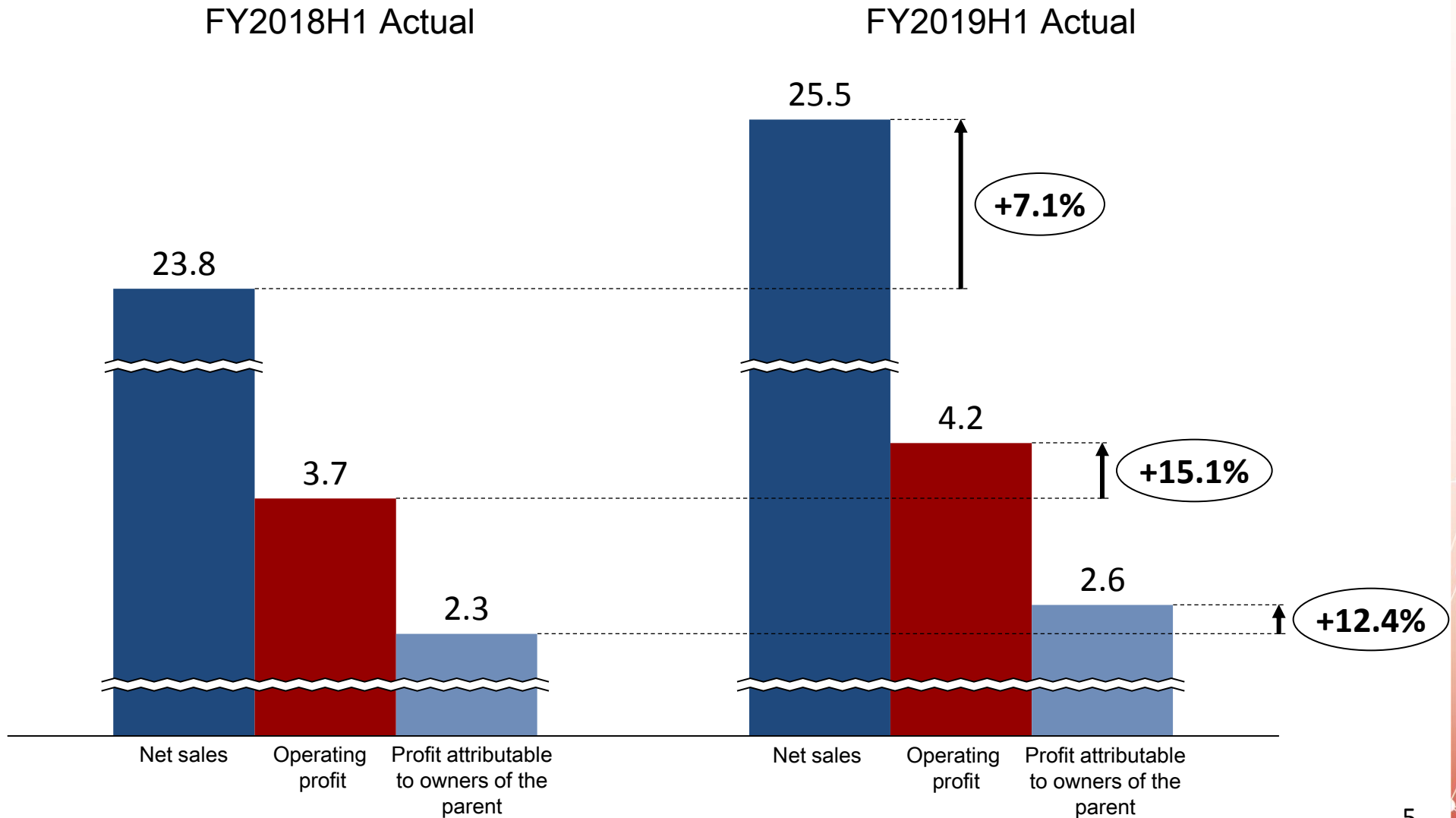
(Billions of yen)

	FY2019 (forecast)	FY2019H1	Progress
Net sales	50.8	25.5	50.1%
Operating profit	8.4	4.2	50.6%
Profit before tax	7.9	4.0	50.8%
Profit	5.5	2.8	51.0%
Profit attributable to owners*	5.1	2.6	51.1%

*Profit attributable to owners of the parent

- Sales growth of core services on track with MTP. Need to take FY2018 IPO costs into consideration on profit level.

(Billions of yen)

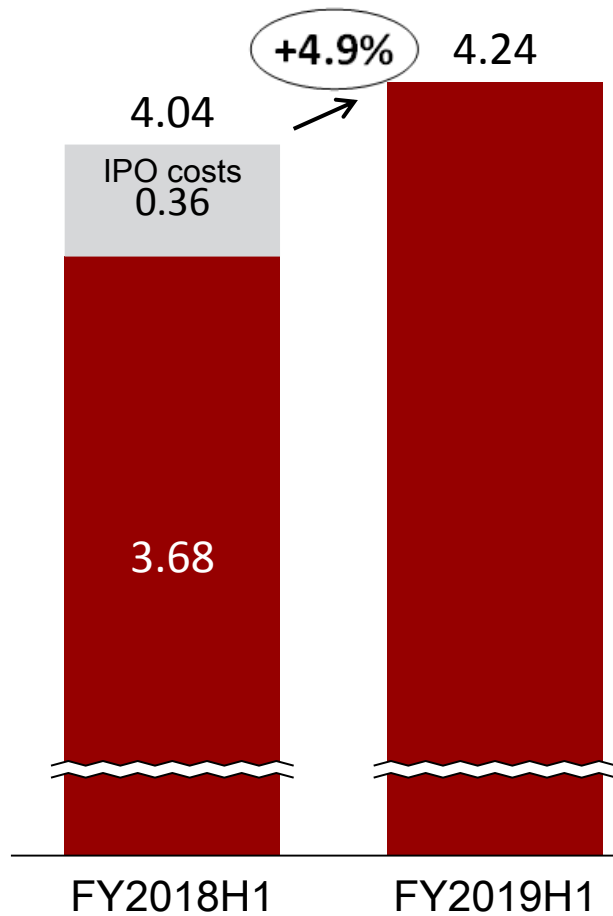


Profit Analysis

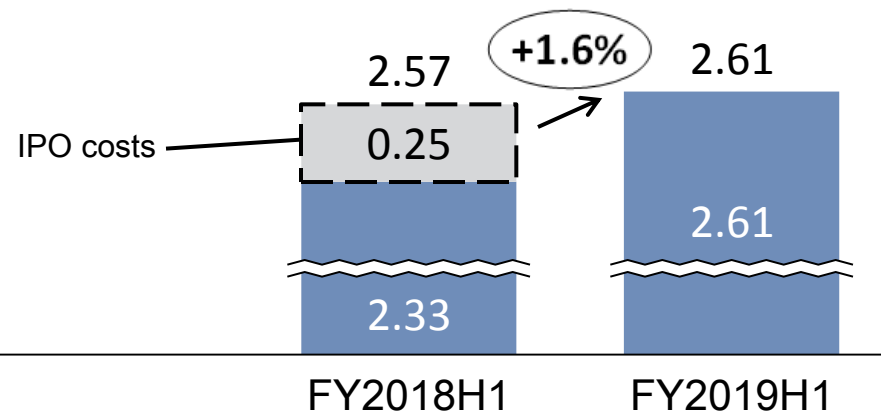
➤ Excluding impact of one time IPO related costs adjusted profit grew 4.9% YoY.

(Billions of yen)

Adjusted Operating Profit



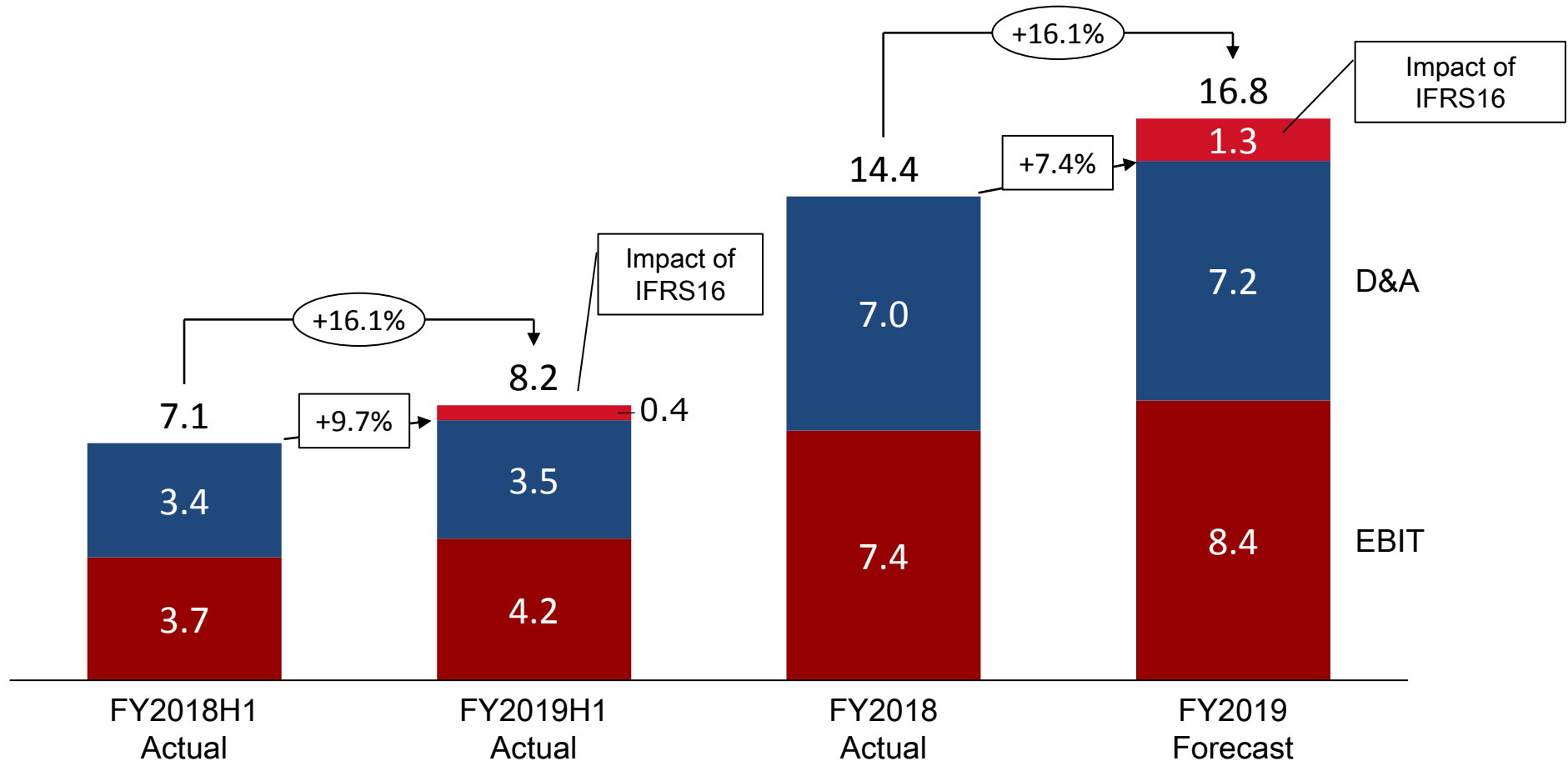
Adjusted Profit Attributable to Owners of the Parent



EBITDA

➤ FY2019H1 EBITDA increased by 16.1% to 8.2bn yen. Excluding IFRS 16 impact actual increase was 9.7%.

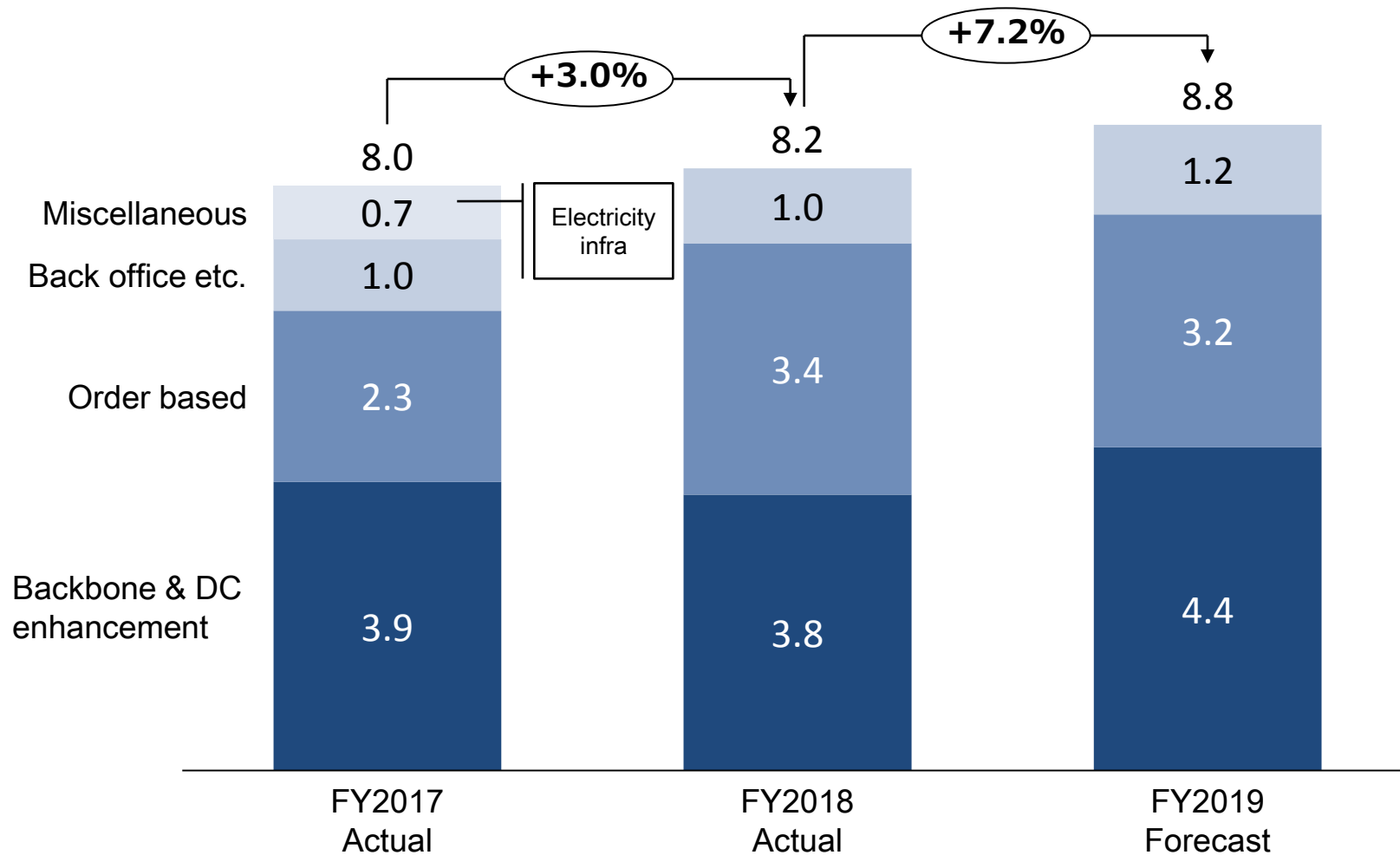
(Billions of yen)



CAPEX

- FY2019H1 CAPEX approx. 2.5bn yen on procurement basis.
- CAPEX progress is around 45% (including orders).

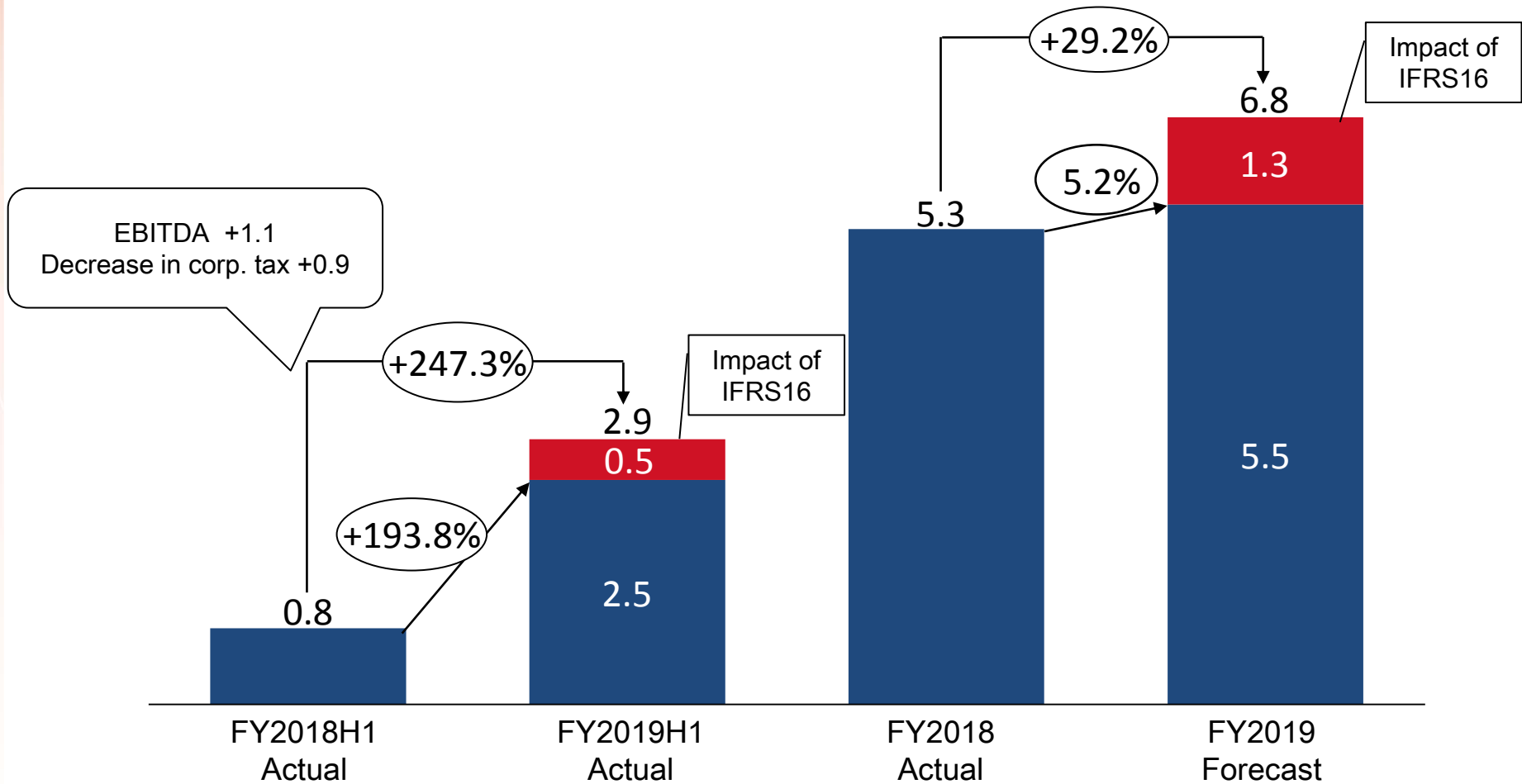
(Billions of yen)



FCF

➤ Expect 5% level growth excluding IFRS 16 adoption impact.

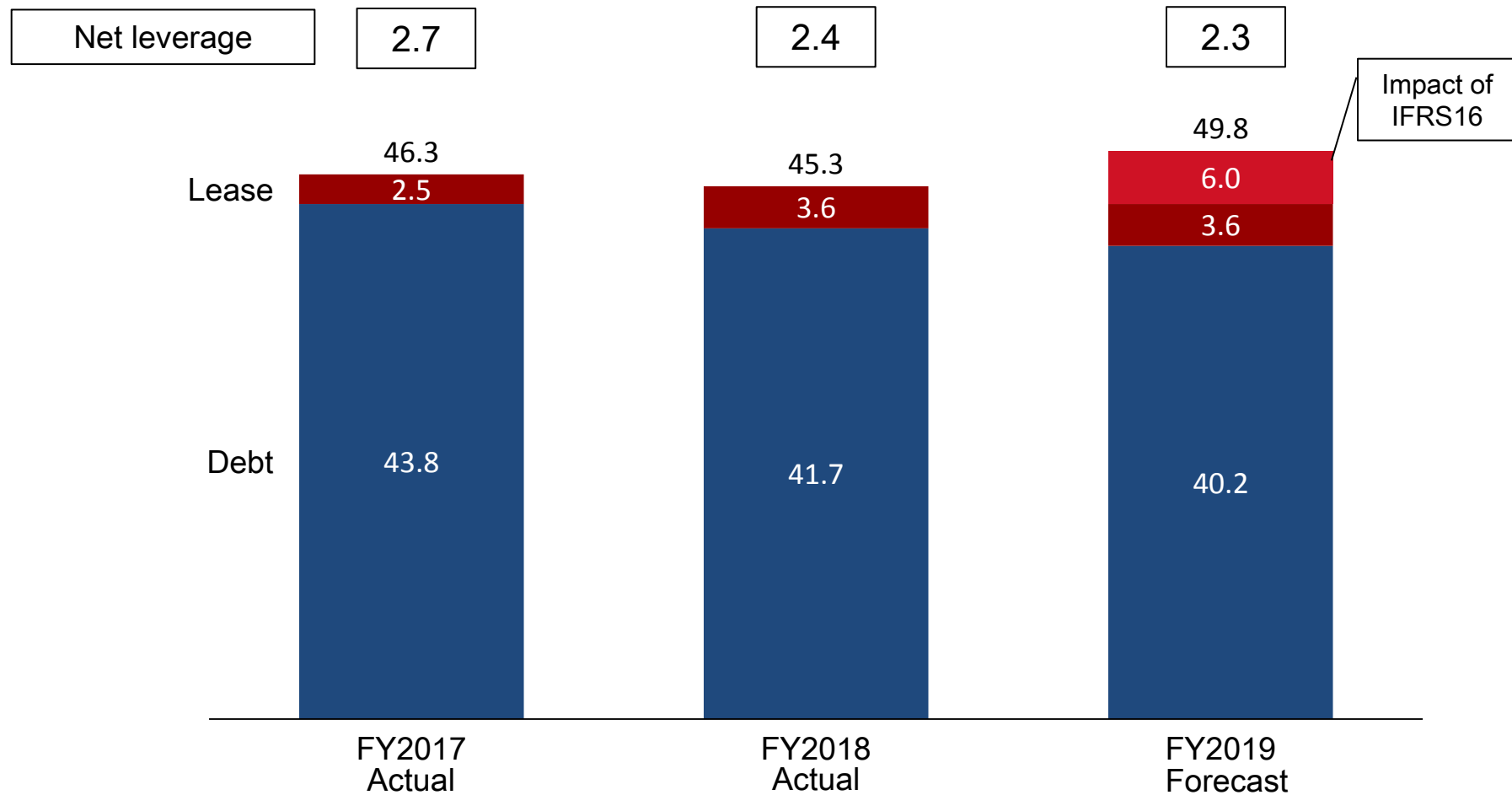
(Billions of yen)



Capital Structure

- Due to impact of IFRS 16 adoption in FY2019 debt will increase, but leverage is expected to improve as result of net debt decrease.

(Billions of yen)

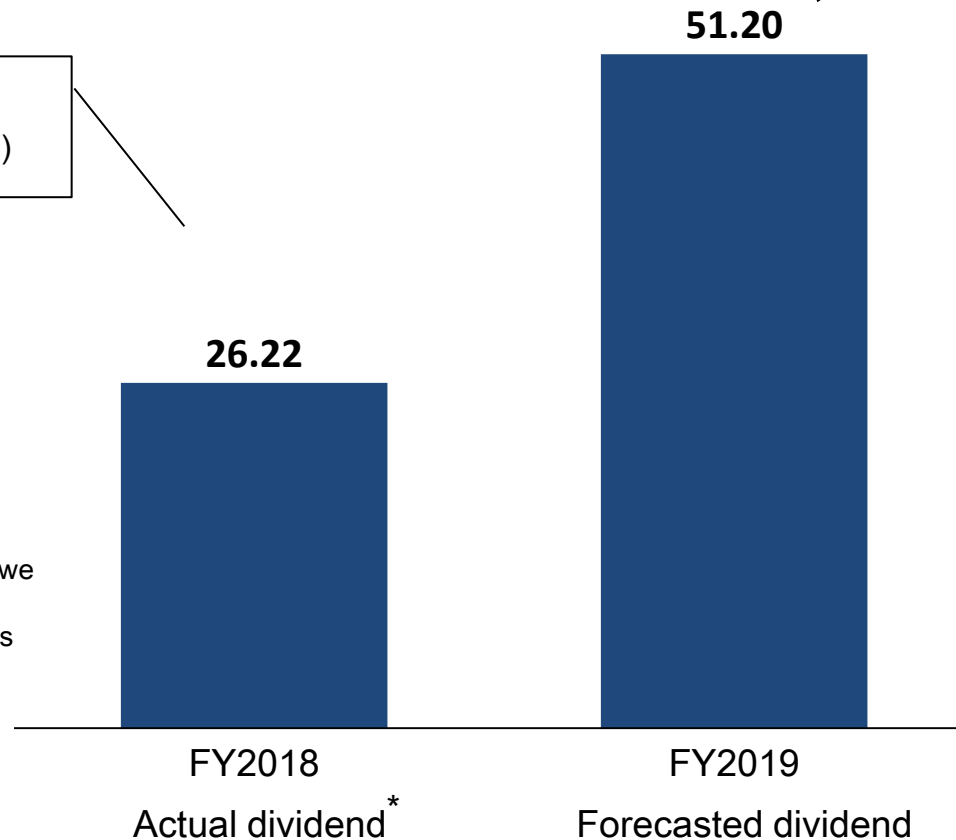


Dividend Policy

- The dividend policy for FY2019 is 50% of profit attributable to owners of the parent.

Dividends per share: yen

Actual dividend
(Payout ratio : 28.2%)



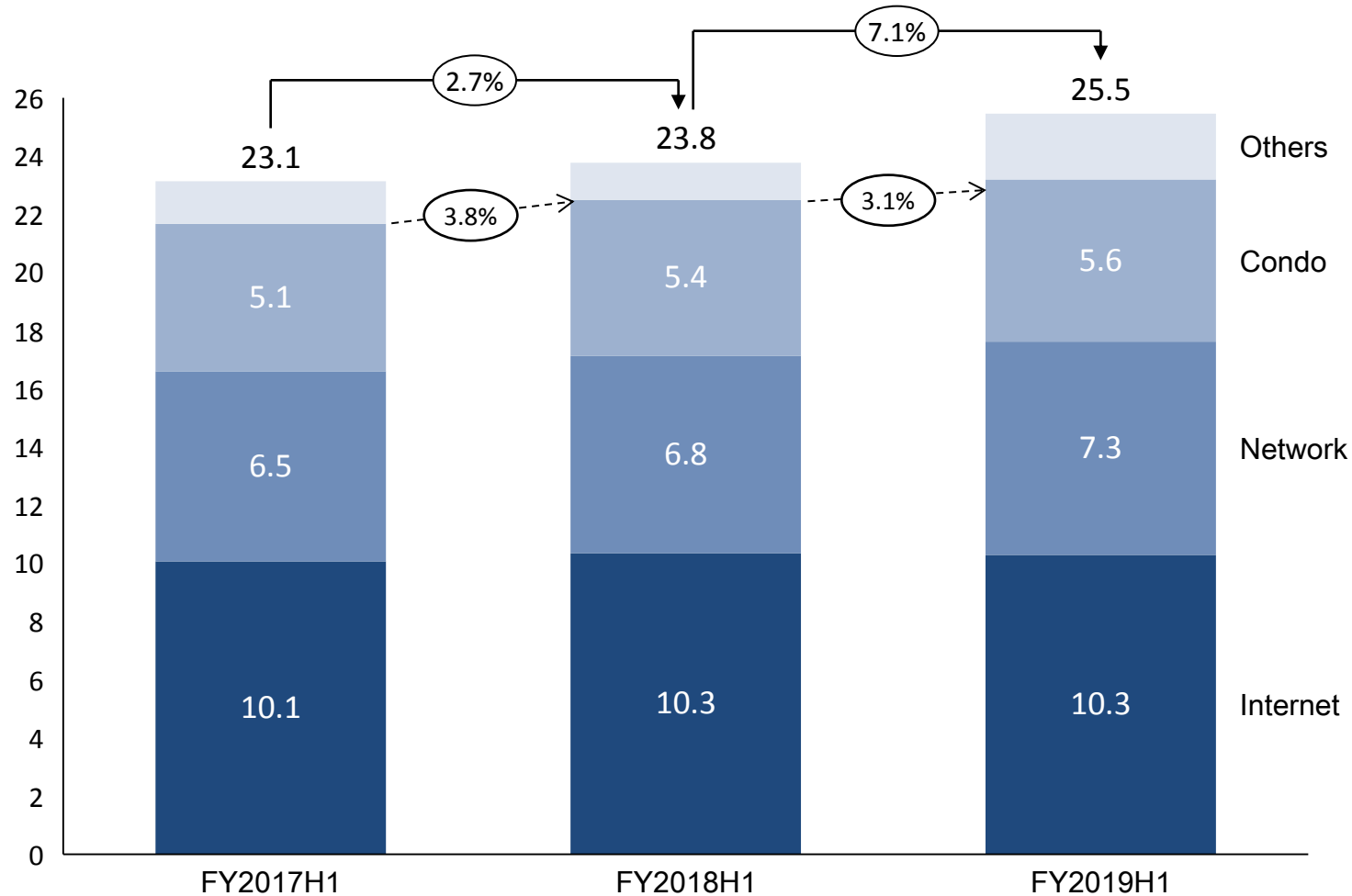
Forecasted at 50% of profit attributable to owners of the parent

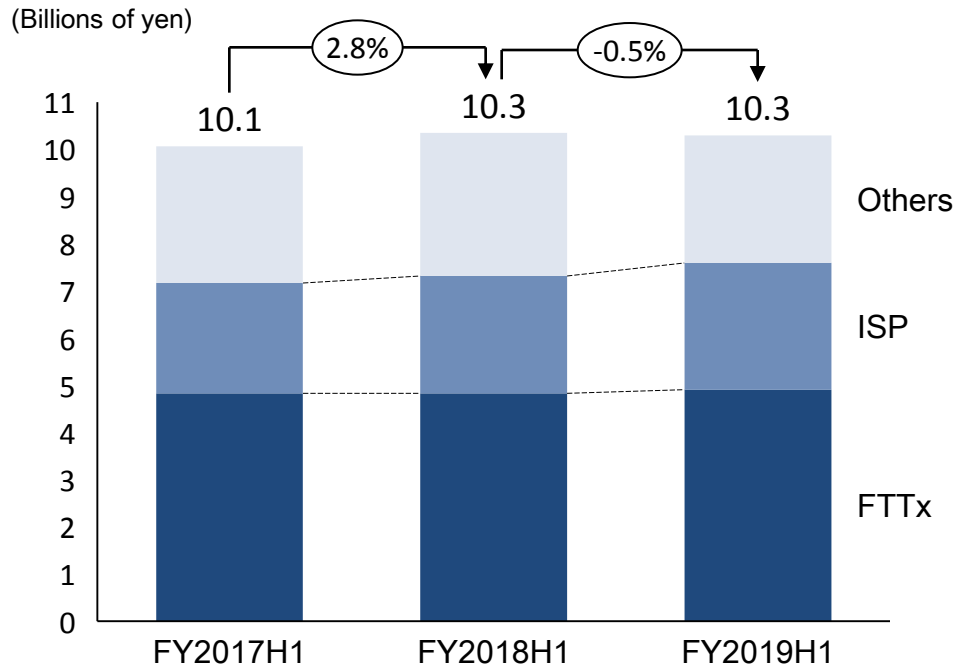
*For the term ended March 2019 we paid half of the annual targeted amount since less than six months passed since listing on TSE.

Revenue by Service

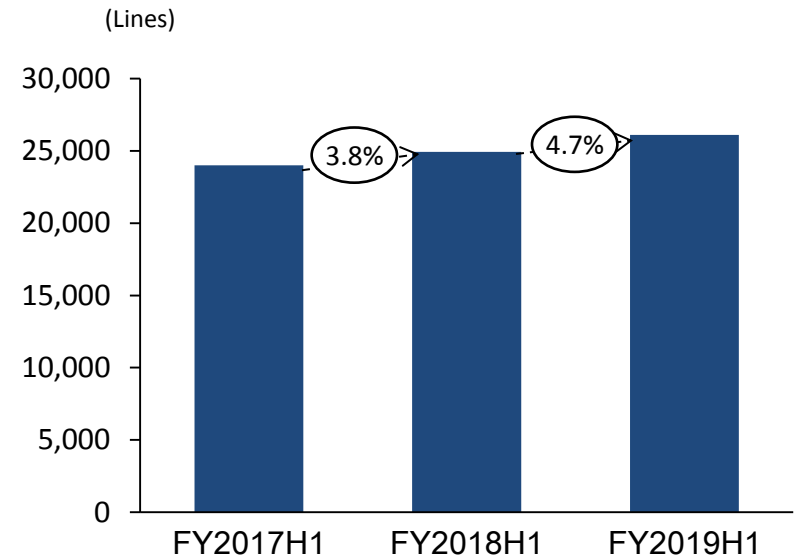
- Total revenue of 3 major services grew 3.1% YoY.
- Network and Condo services contribute to sales growth.

(Billions of yen)





Total Number of FTTx Lines



- FTTx:
 1. Sustained growth due to demand for low congestion services
 2. Expanded service area for ARTERIA Hikari to Osaka
 3. Released high bandwidth 10G services
- ISP sustained growth sales to OEM Flet's partners
- Overall growth negative YoY due to sale of B2C condo business line

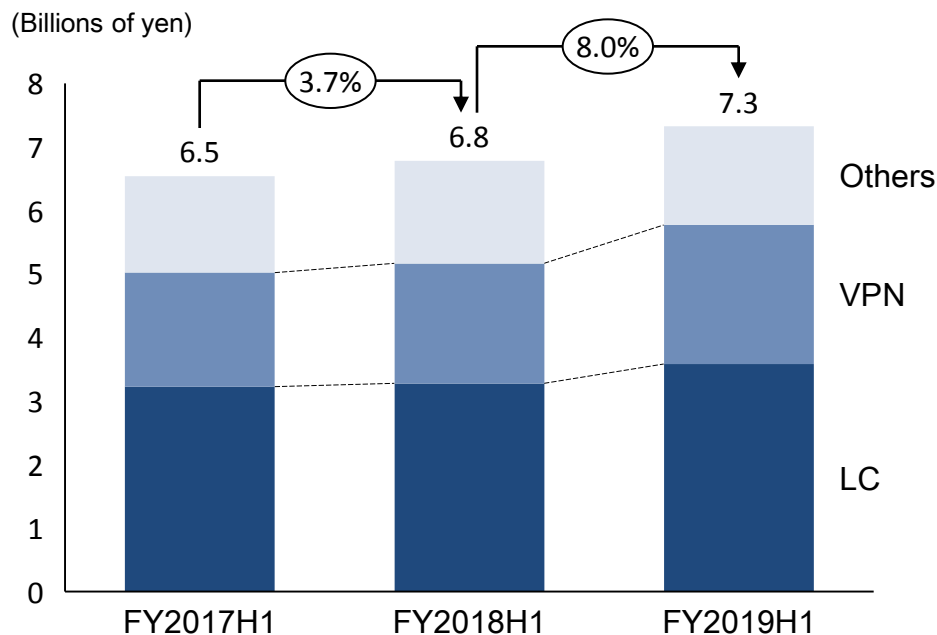


- Start FTTx new service in Nagoya from FY2020
- Start IPv6 (VNE) Flet's ISP service from FY2020

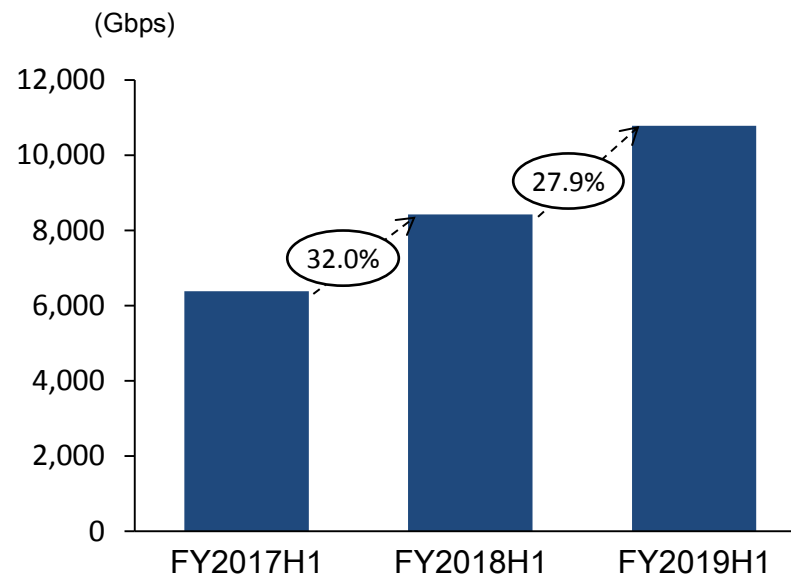
	FY17H1	FY18H1	FY19H1
Total number of lines	24,006	24,920	26,096

While the expected growth rate of fixed broadband services in the Japanese market is forecasted around 3%*, our growth rate was 4.7%.

*Source: IDC Japan, Japan Telecommunications Services Forecast, 2019-2023 (JPJ43995219)



Total Bandwidth of Ethernet Lines



- Both Leased Circuit and VPN continued to expand sales.
- Especially for Leased Circuit, sales to OTT*1 are expanding, and orders are expected to increase in the future.

*1 OTT : Over The Top



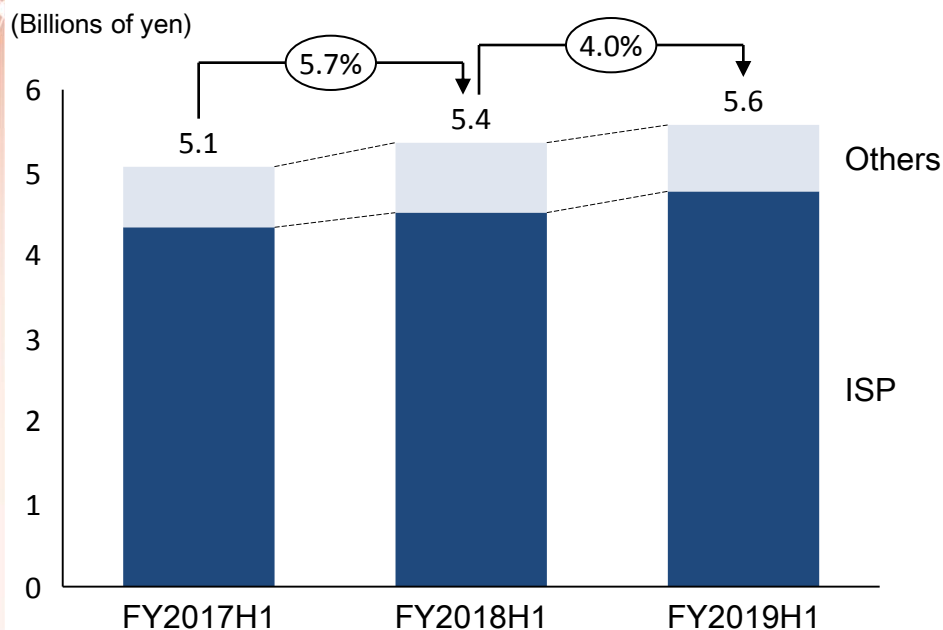
- Cater to OTTs' needs for backbone enhancement in preparation for 5G
- Plan to provide value-added VPN services such as virtualization infrastructure services (NFV / SD-WAN)

	FY17H1	FY18H1	FY19H1
Total bandwidth*2 (Gbps)	6,386	8,429	10,780

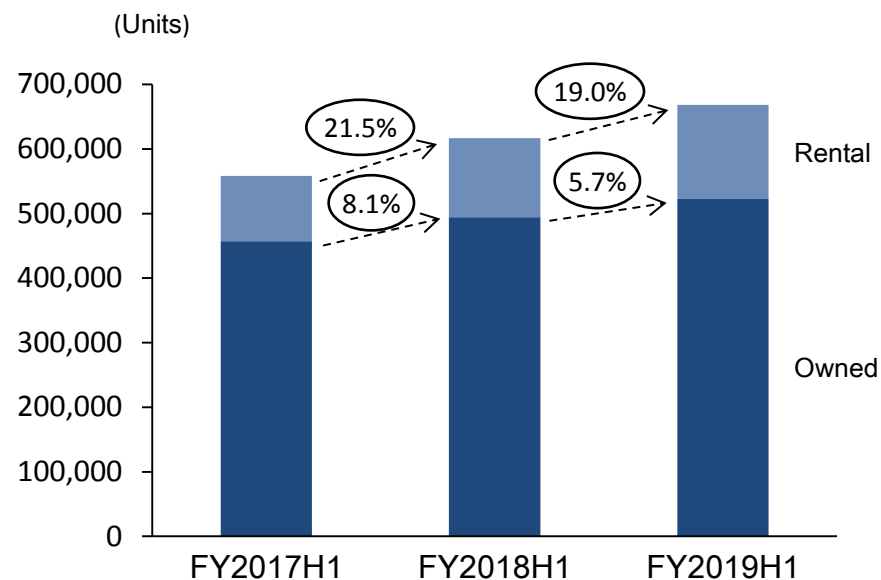
*2 Total bandwidth = service bandwidth × number of lines

From 2017 to 2019 total download traffic in Japan increased at an average growth rate of 22.7%*3.
Our total bandwidth sustained about 30% growth, exceeding market growth.

*3 Source: Ministry of Internal Affairs and Communications, "Aggregation and Provisional Calculation of Internet Traffic in Japan" (May 2019).



Building-wide ISP for Condominiums



- Both owned condos and rental apartments sustained growth mainly in medium and large-scale buildings.
- Promoted of umbrella agreements with rental apartment management companies.
- Strong demand for new services such as All Hikari and 10G



- Launch services for rental and small scale owned condos
- Plan larger bandwidth services suitable for increasing traffic

paying units	FY17H1	FY18H1	FY19H1
Owned	457,294	494,348	522,356
Rental	100,765	122,455	145,717

In 2018, the number of condos serviced by a building-wide ISP service grew by 21%*. In the expanding rental market we achieved similar growth.

*Source: MM Research Institute, whole building package type ISP for condominiums in Japan (Sep 2019).

Future Efforts: 1) Expand ARTERIA Network

1. Strengthen backbone network



400G Leased Circuit

2. Strengthen access network



Expand ARTERIA Hikari service area
< Tokyo area, Fukuoka, etc. >
Further broadband access network

3. Virtualization infrastructure + SD-WAN



Cloud security
Access control
Online orders

4. IPv6 network



IPv4 over IPv6

Future Efforts: 2) Expand Condo Business

1. Maximum utilization of ARTERIA
group network infrastructure



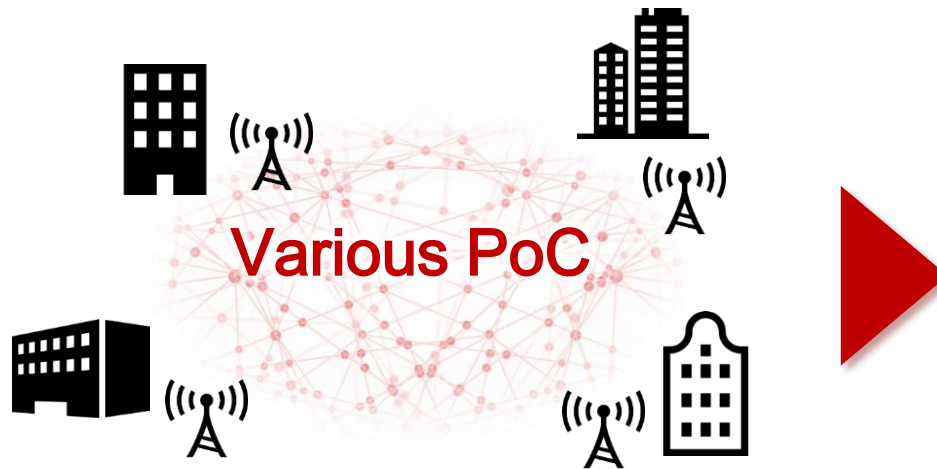
Broadband condo ISP
Cyber security

2. Add Mcloud functions



Expand cloud services offered to
condo owners' association
Condo IoT, etc.
Various service development

Feasibility study of local 5G service



Appendix

Costs Breakdown

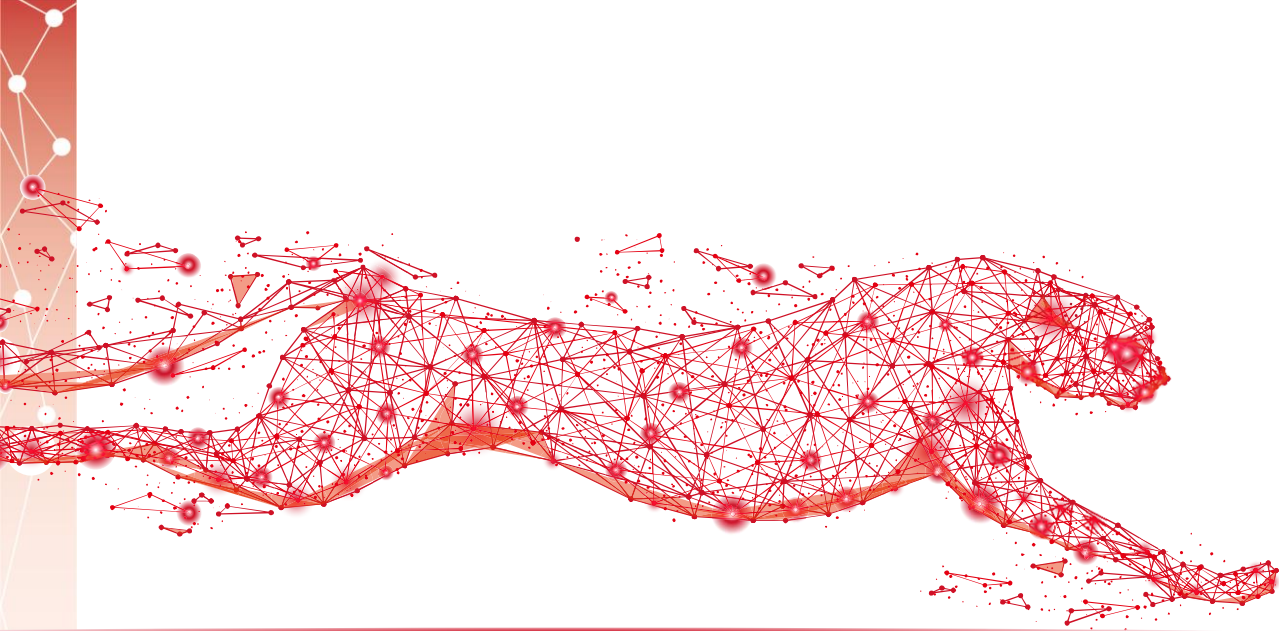
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(Millions of yen)

	FY2018H1	FY2019H1
COGS	15,925	16,934
Communication costs	5,670	5,387
Outsourcing	1,997	2,356
Personnel expenses	1,305	1,184
D&A	2,690	3,249
Other	4,264	4,758
SG&A	3,718	4,229
Personnel expenses	1,754	1,958
D&A	589	644
Commissions and other fees	279	642
Outsourcing	311	316
Agent fee and promotion	174	186
Other	610	483

Definition of Terms etc.

- (1) Adjusted operating profit = operating profit + IPO preparation expenses
- (2) Adjusted profit before income taxes = profit before income taxes + IPO preparation expenses
- (3) Adjusted profit for the year attributable to owners of the parent = profit for the year attributable to owners of the parent + IPO preparation expenses – income taxes adjustment
- (4) Adjusted EBITDA = profit + income taxes – finance income + finance costs + depreciation and amortization + loss on disposal of supplies and equipment installed at customers' premises + IPO preparation expenses
- (5) IPO preparation expenses consist of expenses incurred in preparing for our IPO that are not expected to recur. Such expenses include fees paid to accounting and other advisors in connection with preparation for our IPO and are included as part of IPO related costs.
- (6) Income taxes adjustments consist of income taxes attributable to the increase in taxable income due to the adjustment for IPO preparation expenses
- (7) Loss on disposal of supplies and equipment installed at customers' premises consist of such losses recorded as part of cost of sales and other expense in our consolidated statement of income.
- (8) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent, adjusted EBITDA are not prepared in accordance with article 193-2 (1) of the Financial Instruments and Exchange Act of Japan and have not been audited or reviewed by the Company's independent auditors.
- (9) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA reflect some expenses incurred in preparing for our IPO that are not expected to recur after the completion of our IPO and do not reflect the underlying performance of our business. These non-IFRS measures are supplemental financial measures that we believe are useful for investors to assess the operating performance and profitability of our business.
- (10) Adjusted operating profit, adjusted net income, adjusted net income for the year attributable to the owners of the parent and adjusted EBITDA exclude certain items which impact profit. These non-IFRS measures should not be considered in isolation or as a substitute for the most comparable financial measures presented in accordance with IFRS. These indices are meant to be illustrative only and are calculated based on assumptions which might differ from those used by other companies and should therefore not be used as a basis for comparison.



Platforms for Tomorrow

ARTERIA