

Asahi Net, Inc.

Financial Results Briefing Materials for the First Half of the Fiscal Year Ending March 31, 2023 (From April 1, 2022 to September 30, 2022)

November 4, 2022



Securities Code: 3834

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I am Hijikata, the President of Asahi Net, Inc.
I would like to explain the financial results for the first half of FY2022.



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<Cautionary Statement Concerning Forward-Looking Statements>

- Statements made in this document with respect to the current plans, estimates, strategies, beliefs and other statements of Asahi Net, Inc. (the "Company") that are not historical facts are forward-looking statements about the future performance of the Company.
- These statements are based on the judgment of the management of the Company drawn from currently available information. Accordingly, we advise you not to place undue reliance on these forecast statements. Actual financial results may differ significantly from these forecasts and may be worse than the forecasts due to various key factors.
- The Company has taken the greatest care in the preparation of the information presented in this document but is not held liable for any errors in the information.
- This document is a translation of the Japanese original. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.
- "FY" in these materials indicates the fiscal year starting on April 1 of the respective year.
- Hereinafter, the Educational Support Service manaba is indicated as "manaba."

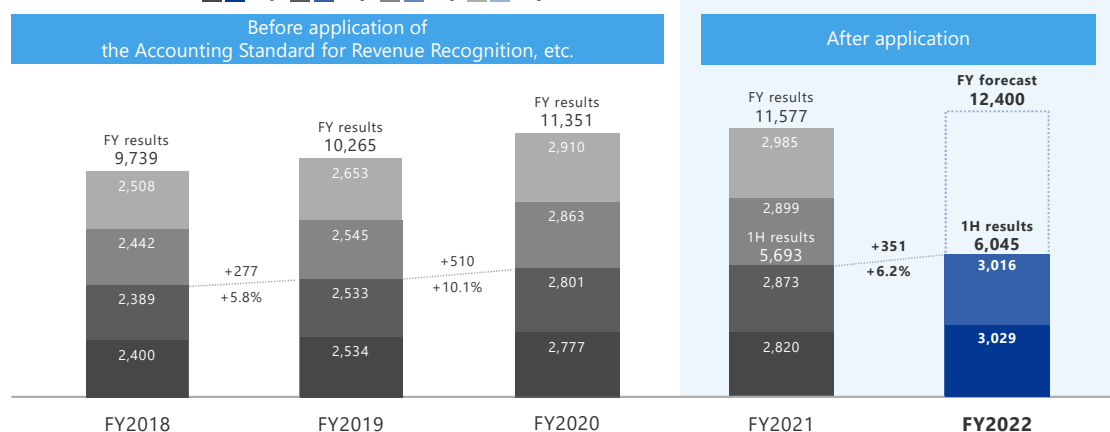
This is what I will talk about today.



Trends in Net Sales

Net sales increased for eleven consecutive years since FY2012, setting a record

(Unit: millions of yen) ■ 1Q ■ 2Q ■ 3Q ■ 4Q



First, let's look at net sales.

Net sales for the first half of FY2022 were 6,045 million yen. The figure increased for eleven consecutive years since FY2012, setting a record for net sales.

The rate of progress toward the FY forecast of 12,400 million yen was 48.8%. It has been progressing as planned.

The past trend in net sales is shown in the graph.

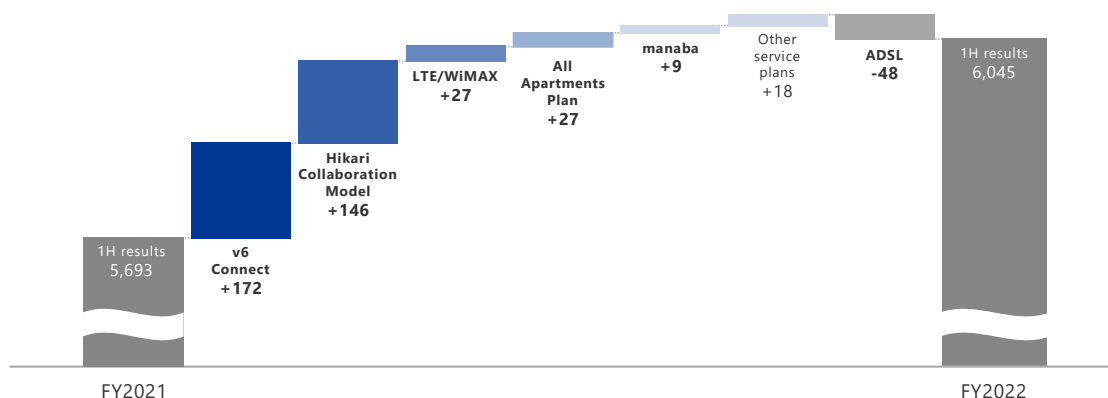
Net sales increased by 351 million yen or 6.2% year on year. ISP, VNE, and manaba saw increases in net sales.



Year-on-Year Difference in Net Sales

Net sales increased due to an increase in the traffic of v6 Connect and the expansion of sales of Hikari Collaboration Model

(Unit: millions of yen)



Next, let me explain the main factors behind the increase in net sales of 351 million yen from the first half of FY2021 to the first half of FY2022.

Firstly, let's look at v6 Connect. Net sales increased by 172 million yen. The increase was due to an increase in traffic handled with our partner companies. The number of partner companies remained the same in the first half of FY2022.

Next, I will explain about the increase or decrease in each service of ISP Asahi Net. Net sales from Asahi Net Hikari and Asahi Net docomo Hikari, which leverage the Hikari Collaboration Model between NTT East and NTT West, increased by 146 million yen. Increased orders from corporate members contributed to the increase in net sales of the Hikari Collaboration Model. Net sales from LTE and WiMAX mobile connection services increased by 27 million yen. As for WiMAX, we launched a new 5G compatible service called Asahi Net WiMAX +5G in March 2022.

Through a sales channel partnership with NTT East and NTT West, we recorded an increase of 27 million yen in net sales from the All Apartments Plan, which provides internet connection services to apartment owners and residents.

Net sales from the educational support service manaba increased by 9 million yen.

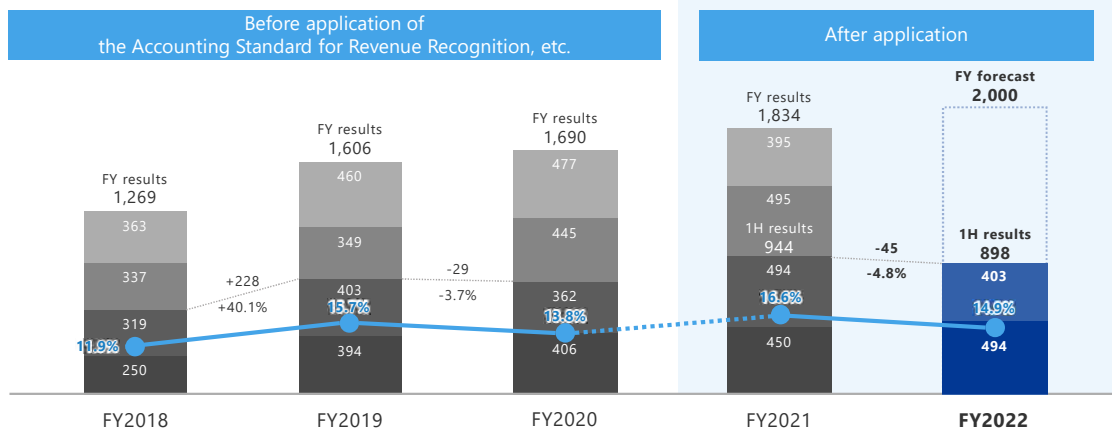
Net sales from ADSL connection services decreased by 48 million yen. This was mainly due to the termination of the Neo-Discount ADSL Course, an ADSL connection service, in September 2021 and the planned reduction of the service area of NTT East's and NTT West's FLET'S ADSL in January 2023.



Trends in Operating Profit

Operating profit decreased by 4.8% year on year, as anticipated in the plan

(Unit: millions of yen) ■ 1Q ■ 2Q ■ 3Q ■ 4Q — Operating profit margin



Operating profit was 898 million yen.

It decreased by 45 million yen from 944 million yen in the first half of FY2021.

The rate of progress toward the FY forecast of 2 billion yen was 44.9%. Operating profit margin was 14.9%.

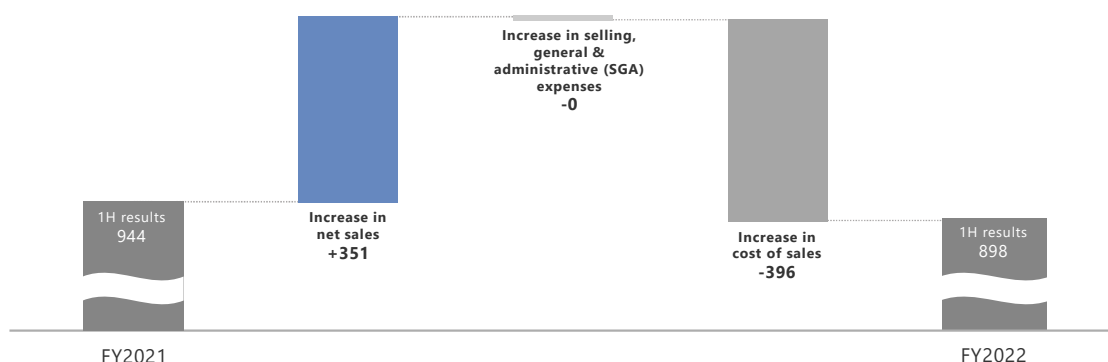
It has been progressing as planned.



Year-on-Year Difference in Operating Profit

With regard to costs, the cost of purchasing Hikari Collaboration Model lines, and the communication cost and depreciation for maintaining quality increased

(Unit: millions of yen)



I will explain why operating profit decreased by 45 million yen from the first half of FY2021 to the first half of FY2022.

As I explained in the previous slide, net sales increased by 351 million yen.

Cost of sales increased by 396 million yen. There are three factors responsible for the cost increase.

The first was the increase in the cost of purchasing lines associated with new subscriptions to ISP Asahi Net. The cost of sales increased in proportion to the increase in net sales from Hikari Collaboration Model. In addition, the cost of sales as a variable cost of LTE/WiMAX also increased.

The second was the increase in communication cost and depreciation involved in maintaining service quality. In the second half of FY2021, the cost of sales increased due to signing up for additional contracts for the IPv6 network, which interconnects with NTT East and NTT West. In addition, depreciation increased because we brought forward investments in capital as we consider the continuing increase in traffic in future years to be an opportunity.

The third was the increase in cost of sales associated with the mail services, which was released in August 2022. We relaunched free mail services for the ISP Asahi Net members to make it more user friendly and secure. As a result, there were cost of sales and depreciation associated with the mail services.

Selling, general and administrative expenses were flat year on year.



Trends in EBITDA

During FY2022, investments in capital are planned for future business expansions

(Unit: millions of yen)

	FY2018	FY2019	FY2020	FY2021	FY2022 1H	FY2022 (Forecast)
Operating profit	1,269	1,606	1,690	1,834	898	2,000
Depreciation	410	448	581	818	424	1,000
EBITDA (*)	1,679	2,054	2,272	2,653	1,322	3,000
EBITDA margin	17.2%	20.0%	20.0%	22.9%	21.9%	24.2%
Investments in capital	568	831	1,295	1,160	—	1,400

Notes: Depreciation in FY2022 is calculated based on the earnings forecast.
EBITDA is calculated as the sum of operating profit and depreciation.

Next, I will explain the trends in EBITDA and EBITDA margin.

In the first half of FY2022, EBITDA was 1,322 million yen and EBITDA margin was 21.9%. Depreciation increased due to investments in capital in FY2021 and the mail services, which was released in the second quarter of FY2022. We are, however, on track to achieve EBITDA of 3 billion yen at the end of the fiscal year.

We present two challenges that Asahi Net needs to address.

The first challenge is to maintain a profitable structure by controlling rising costs. The second challenge is to continue providing quality services that ensure customer satisfaction. We plan to make network-related investments in capital and to update the mission-critical systems for future business expansion in FY2022. We are proceeding with plans for investments in capital over the second half of FY2022.



Operating Results

(Unit: millions of yen)

	FY2021 1H	FY2022 1H	Change	Percentage change	Rate of progress toward earnings forecast
Net sales	5,693	6,045	351	6.2%	48.8%
Operating profit	944	898	-45	-4.8%	44.9%
Ordinary profit	948	902	-45	-4.8%	45.1%
Profit	671	667	-4	-0.7%	51.3%
Earnings per share	24.05 yen	23.84 yen	—	—	

Next, I will explain the operating results for the first half of FY2022.

Net sales and operating profit were as explained earlier.

Ordinary profit decreased by 4.8% year on year to 902 million yen.

Profit decreased by 0.7% year on year to 667 million yen. In the first half of FY2022, we posted a gain on sale of investment securities of 74 million yen as extraordinary income, and a loss on retirement of non-current assets of 13 million yen as extraordinary losses. The rate of progress toward the earnings forecast was 51.3%.

Earnings per share was 23.84 yen.



Financial Position

(Unit: millions of yen)

	As of March 31, 2022	As of September 30, 2022	Change
Total assets	12,940	13,491	+550
Total liabilities	1,659	1,676	+16
Net assets	11,281	11,814	+533
Equity ratio	87.2%	87.6%	—

Now, let's look at the financial position for the first half of FY2022.

Total assets increased 550 million yen from the end of the previous fiscal year to 13,491 million yen, total liabilities increased 16 million yen from the end of the previous fiscal year to 1,676 million yen, and net assets increased 533 million yen from the end of the previous fiscal year to 11,814 million yen.

Equity ratio was 87.6%.



Shareholder Return

An interim dividend of 11 yen and a planned annual dividend of 22 yen for FY2022

(Unit: millions of yen)

	FY2018	FY2019	FY2020	FY2021	FY2022 (Forecast)
Profit	952	1,150	1,301	1,255	1,300
Dividends	18.00 yen	18.50 yen	19.50 yen	21.00 yen	22.00 yen
Dividend payout ratio	56.0%	45.2%	41.8%	46.7%	47.3%

Next, I will explain the cash dividends for FY2022.

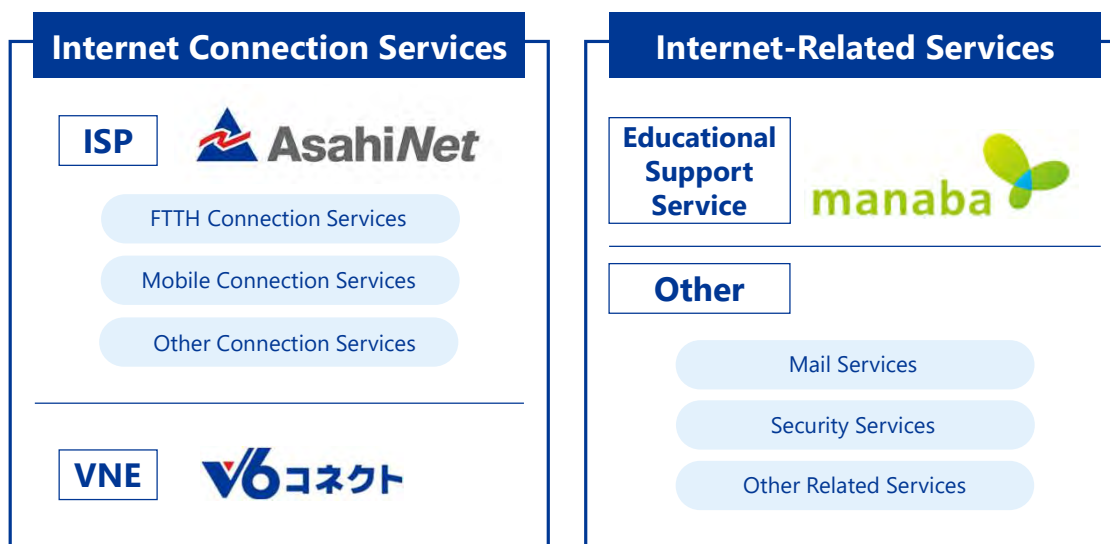
The interim dividend is 11 yen, as planned.

The annual dividend for FY2022 is expected to be 22 yen per share, consisting of an interim dividend of 11 yen and a year-end dividend of 11 yen. As a result, the dividend payout ratio is expected to be 47.3%.

The Company recognizes the return of profits to shareholders as one of its important management indicator, and our basic policy is to maintain stable dividends while securing retained earnings for future business development and strengthening our management structure.



Service Lineup of Asahi Net



Next, let's look at each service in detail.

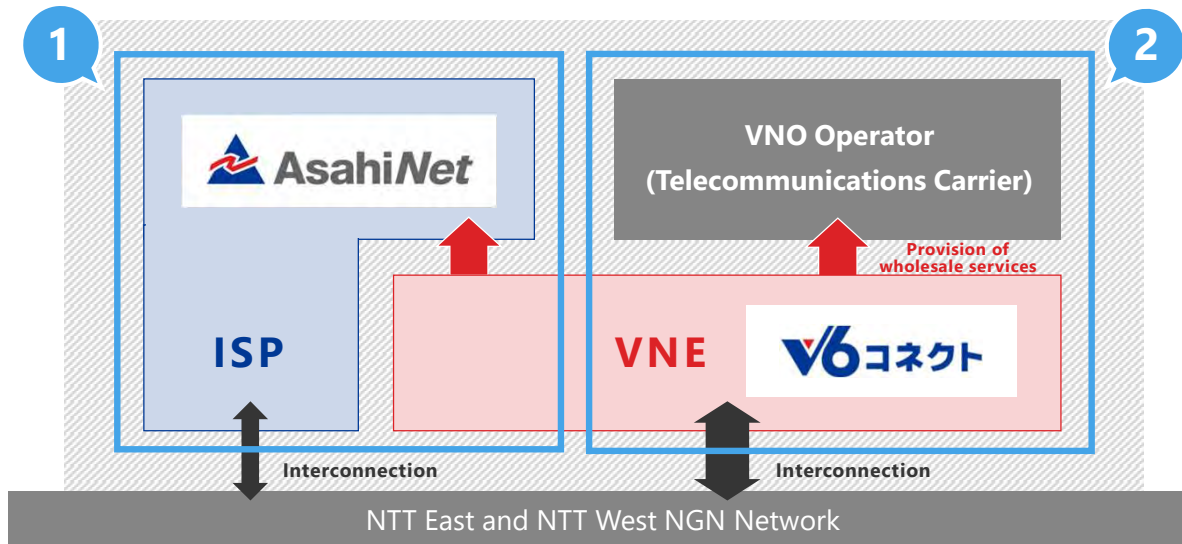
Net sales from ISP Asahi Net and VNE v6 Connect services are disclosed as net sales for internet connection services.

Net sales from the educational support service manaba and other services are disclosed as net sales for internet-related services.

I will explain based on these points.



Structure of Internet Connection Services



First, I will explain the status of internet connection services.

Internet connection services consist of two categories. In the first category, as indicated on the upper left of the slide, the Company provides its own service Asahi Net as an ISP. And in the second category, as indicated on the upper right of the slide, the Company provides v6 Connect, an IPv6 connection service, to telecommunications carriers as a VNE.



Net Sales from Internet Connection Services

(Unit: millions of yen)

	FY2021 1H	FY2022 1H	Change	Percentage change
ISP Asahi Net	4,261	4,428	166	3.9%
VNE v6 Connect	643	815	172	26.8%
Total	4,904	5,243	339	6.9%

This shows the net sales of internet connection services for the first half of FY2022. ISP Asahi Net posted 4,428 million yen, and VNE v6 Connect posted 815 million yen.

Year-on-year net sales changes in each service are as follows: Net sales from ISP Asahi Net increased by 166 million yen or 3.9%. Net sales from VNE v6 Connect increased by 172 million yen or 26.8%.

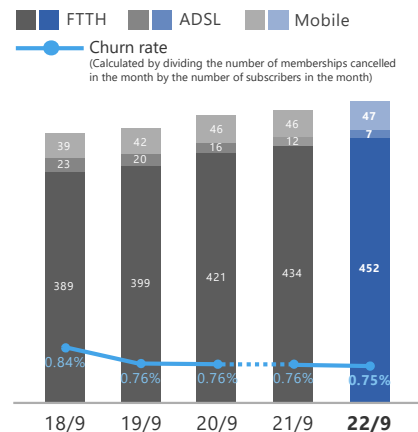


Trends in the Number of Subscribers to ISP Asahi Net's Internet Connection Service

Recorded a steady increase in the number of orders received from corporate customers and an increase in the number of FTTH connection services subscribers

(Unit: thousands of IDs)

	Sep. 30, 2021	Sep. 30, 2022	Change
FTTH (fiber-optic connection)	434	452	18
ADSL	12	7	-5
Mobile connection	46	47	0



Now, let's move on to talk about the status of ISP Asahi Net business.

The number of subscribers to FTTH connection services, including Asahi Net Hikari, increased by 18,000 IDs year on year to 452,000 IDs as of September 30, 2022. The number of subscribers to ADSL connection services decreased by 5,000 IDs to 7,000 IDs. The number of subscribers to mobile connection services was 47,000 IDs.

The churn rate for subscribers of internet connection services was 0.75%. The churn rate remained low.

In the first half of FY2022, while the number of subscribers to FTTH connection services was solid, the number of subscribers to ADSL connection services decreased due to the termination of Neo-Discuss ADSL Course service and the planned reduction of the service area of NTT East's and NTT West's FLET'S ADSL. As for mobile connection services, the number of subscribers to the Asahi Net WiMAX +5G, which started to accept new subscribers, and to LTE has increased.

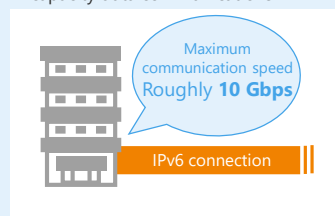


Initiatives in ISP Asahi Net

**Promoting the offering of services
that enable our customers to get a real feeling of the added value**

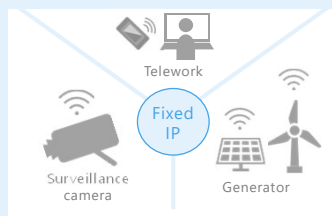
Asahi Net Hikari Cross Course launched for apartments

- A service that combines "FLET'S Hikari Cross" provided by NTT East and NTT West and ISP
- Accommodates needs for high-capacity data communications



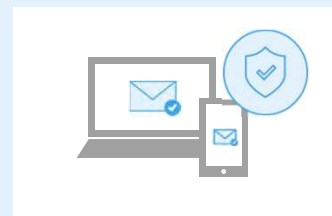
Initiatives combining connection services and fixed IP

- Multi-factor authentication for access to a company from teleworking sites
- Monitor and operate remote devices through the internet



Relaunched the mail services for members

- Initiatives to ensure security
- An easy-to-use web email UI and enhanced countermeasures against spam mail



I will explain our initiatives in the first half of FY2022.

Net sales from Asahi Net increase in proportion to the number of subscribers to FTTH connection services and mobile connection services. Net sales have been driven by the increase of FTTH connection services in FY2022, as shown in the trends in the number of subscribers to Asahi Net's Internet Connection Service.

Due to COVID-19, the use of the internet has become firmly established as part of people's daily lives. Therefore, the Company believes that telecom carriers including the Company have more social responsibilities than before. In order to realize our goal to "continue providing quality services that ensure customer satisfaction," which was set as a challenge to be addressed, the Company works to offer services that enable our customers to get a real feeling of the added value.

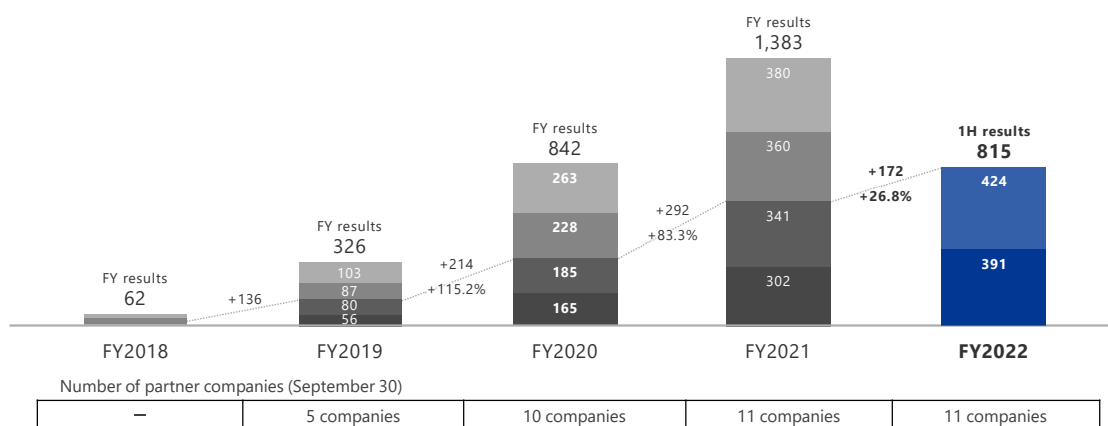
As for internet connection services, we started offering a service for apartments in September 2022, in addition to the existing Asahi Net Hikari Cross service for single houses. This Hikari access service has a maximum communication speed of about 10 Gbps and can accommodate the users' needs of high-capacity data communications. In addition, with respect to cases of using internet connection services and fixed IP addresses, the use of multi-factor authentication for secure access to a company from teleworking sites and the utilization of IoT to monitor and operate remote devices through the internet are both increasing. As for Internet-related services, we relaunched mail services for Asahi Net members. In addition to offering an easy-to-use web email UI for our members, we are making efforts to ensure security, including countermeasures against spam mail.



Trends in Net Sales from VNE v6 Connect and the Number of Partner Companies

Net sales from v6 Connect increased 26.8% year on year

(Unit: millions of yen) ■ 1Q ■ 2Q ■ 3Q ■ 4Q



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Now, let's look at VNE v6 Connect.

In VNE v6 Connect, we focus on maintaining cooperative relationships with our partner companies and expanding alliances with new VNO operators (telecommunications carriers).

Net sales from v6 Connect for the first half of FY2022 increased by 26.8% to 815 million yen. The number of partner companies remained the same. Net sales increased due to the expansion in business at our partner companies as well as traffic increases per line. We are working to improve the service level of v6 Connect for our partner companies so that they can expand their businesses using internet communication.

Traffic per line is increasing as many smart devices are connected to the internet regularly, not just to watch sporting events on the internet or update online gaming, and this increasing trend is expected to continue in the future. On the other hand, as increases in traffic should have an impact on the revenues of our partner companies, we try to maintain collaborative relationships with them by reviewing the amount of fees charged on a pay-as-you-go basis based on the traffic between the both companies. Accordingly, we expect the year-on-year net sales growth rate will become slower. However, we aim to ensure that net sales increase.



Net Sales from Internet-Related Services

(Unit: millions of yen)

	FY2021 1H	FY2022 1H	Change	Percentage change
manaba	385	395	9	2.4%
Other	402	406	3	0.9%
Total	788	801	12	1.6%

Now, let's move on to look at the status of internet-related services.
Internet-related services include the educational support service manaba and related services such as email and security services.

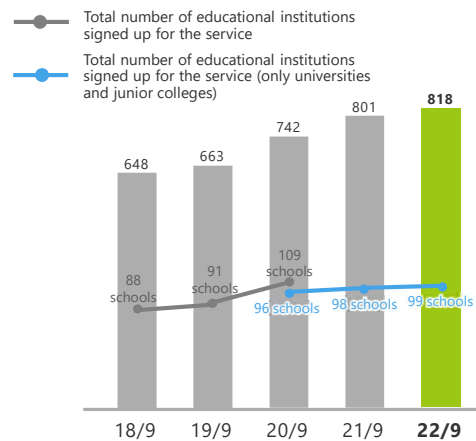
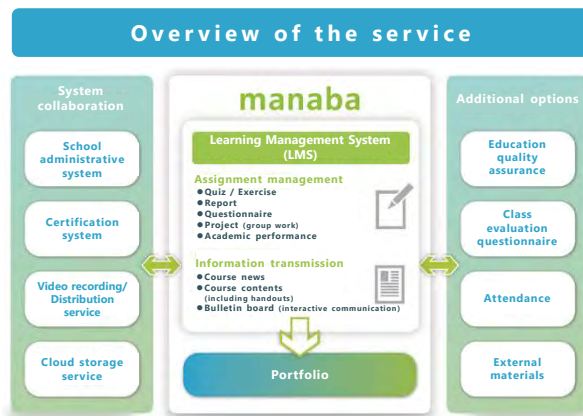
This shows the net sales from internet-related services for the first half of FY2022.
Net sales from the educational support service manaba increased by 2.4% year on year to 395 million yen. Net sales from other services increased by 0.9% to 406 million yen.



Number of Subscriber IDs for manaba

**The number of subscriber IDs increased by 18,000 year on year.
Total number of educational institutions signed up for the service increased to 99.**

(Unit: thousands of IDs)



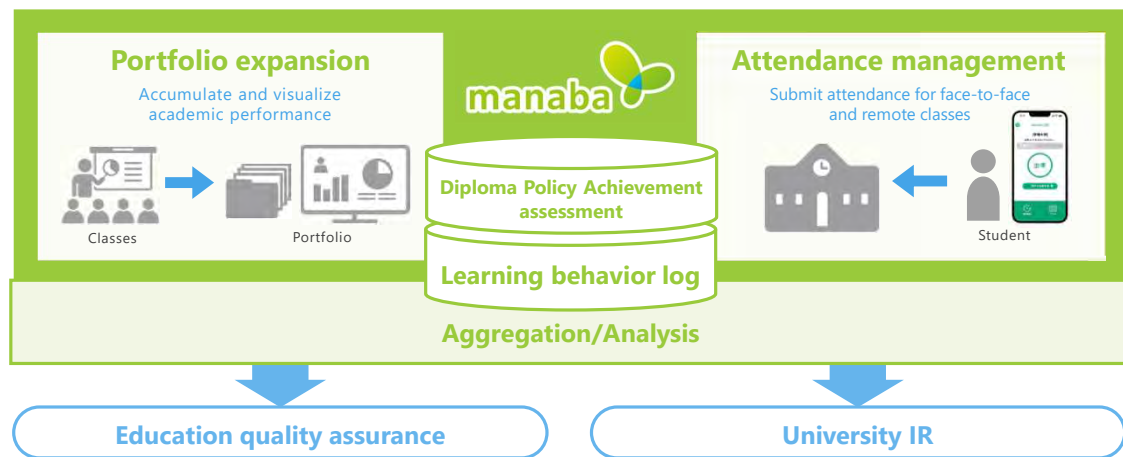
Next, let me talk about the educational support service manaba. manaba is a cloud based application service developed, sold and supported by the Company for educational institutions, mainly universities. The service consists of a learning management system (manaba application), system collaboration services, and additional option services.

The number of subscriber IDs as of September 30, 2022, was 818,000 IDs, a year-on-year increase of 18,000 IDs. The total number of educational institutions signed up for the service was 99, up by one.



Initiatives for manaba

Continue to develop and make proposals for services that achieve the education quality assurance that is expected by the Ministry of Education, Culture, Sports, Science and Technology



As for the educational support service manaba, we have been developing services and making proposals since the previous fiscal year to assure the education quality expected for universities by the Ministry of Education, Culture, Sports, Science and Technology.

We released an attendance management feature in April 2022. We are developing additional features and making proposals to universities. Two universities started using the service during the first half of FY2022. Universities often do not have records of students' absences during semesters as information on students' attendance is generally kept by teachers. Therefore, it is difficult for universities to give appropriate support to students. With these additional features that are being developed, universities will be able to check information on students' daily attendance and will be able to provide appropriate follow-up to students based on their attendance records. In addition, attendance information can be extracted across classes, such as by the organization or year, and can be used for analysis as the learning behavior log.

We are expanding a portfolio feature that will assure education quality, and we started providing a pilot edition to a plurality of universities in November 2021. We are developing services based on increasing requests and use cases in universities so that we can launch a paid service in April 2023.

Through these initiatives, the Company is making manaba a service that supports diverse learning and will contribute to university education.



Summary of the Financial Results for the First Half of FY2022

1 Financial Results for the First Half of FY2022

- Recorded net sales of 6,045 million yen, achieving a new record for net sales for eleven consecutive years since FY2012
- Recorded an operating profit of 898 million yen, achieving the rate of progress toward the earnings forecast of 44.9%

2 Status of Our Business

◆ ISP Asahi Net

The number of subscriber IDs for FTTH connection services increased by 18,000 year on year. FTTH drove the increase in the number of Asahi Net subscribers.

◆ VNE v6 Connect

Net sales increased by 26.8% year on year. Sales increased due to increased traffic per line used by partner companies.

◆ Educational Support Service manaba

The number of subscriber IDs increased by 18,000 year on year to 818,000. Launched a new feature to manage attendances and expanded the portfolio feature.

Next is a summary of the financial results for the first half of FY2022.

Firstly, let's look at the financial results.

Net sales for the first half of FY2022 reached a record high of 6,045 million yen. Net sales increased for eleven consecutive years from FY2012. The rate of progress toward the earnings forecast was 48.8%. Operating profit was 898 million yen. The rate of progress toward the earnings forecast was 44.9%.

Secondly, let's look at the status of our business.

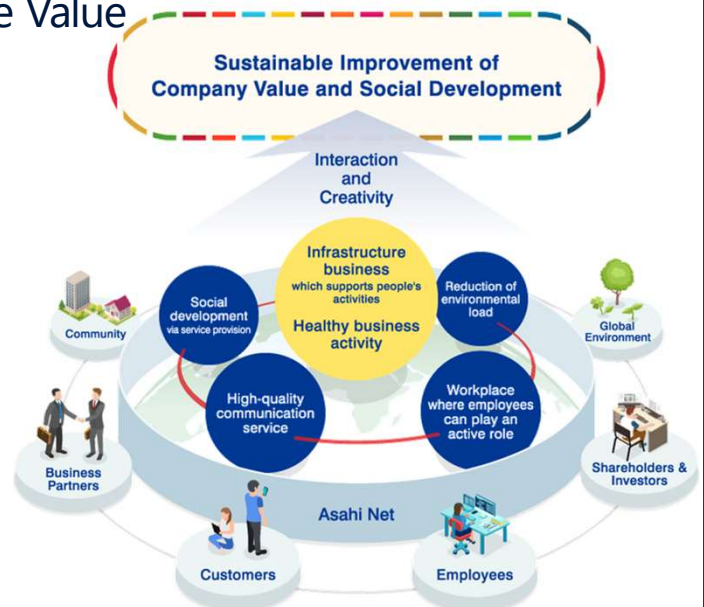
The number of subscriber IDs for the FTTH connection services of ISP Asahi Net increased by 18,000 year on year to 452,000. FTTH connection services drove the increase of subscribers. Net sales from VNE v6 Connect increased by 26.8% year on year to 815 million yen. This was mainly due to the expansion in business at our partner companies as well as traffic increases per line.

The number of subscriber IDs for the educational support service manaba increased by 18,000 year on year to 818,000. We have launched an attendance management feature. In addition, we are expanding a portfolio feature.

Reference: Initiatives to Improve Corporate Value

**Transitioned to a company with
an audit and supervisory committee**

Disclosed the Sustainability Basic Policy



Other topics are as described.

Approved at the General Meeting of Shareholders in June 2022, we transitioned to a company with an audit and supervisory committee. We will strengthen our governance framework to meet the requirements of markets.

We established the Sustainability Promotion Committee in May 2022 and have built an organizational structure to promote various activities related to sustainability. We are gathering and analyzing disclosure information that is required by the Tokyo Stock Exchange, as well as shareholders and investors. This includes disclosing information on our green house gas emissions and human capital.



This is our statement for the financial results for the first half of FY2022.
Thank you for listening.