

# **Consolidated Financial Results for 1Q-3Q FY2018**

## **(9 months ended December 31, 2018)**



**Internet Initiative Japan Inc.**  
**TSE1(3774), NASDAQ(IIJI)**  
**February 7, 2019**

# Agenda

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**I . Summary of 1Q-3Q18 Financial Results**

**II . Consolidated Financial Results for 1Q-3Q18**

**III . Reference Materials**

# I . Summary of 1Q-3Q18 Financial Results

(※) Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities & funds  
Unit: JPY billion (bn), % =YoY comparison

**Revenue growth & SI gross margin improvement absorbed cost increase**  
**Gross Margin expansion led operating income growth, Exceeded initial plan**

	1Q-3Q18 Results		3Q18 Results			1Q-3Q18 Results		3Q18 Results	
Revenue	139.4	+9.2%	48.4	+8.5%	Adjusted EBITDA <sup>(*)1</sup>	15.4	+19.3%	5.8	+25.4%
Gross Margin	22.0	+11.4%	7.9	+17.8%	Adjusted pre-tax income <sup>(*)2</sup> (※)	5.1	+35.7%	2.2	+53.1%
Operating Income	5.1	+36.0%	2.2	+52.3%	Adjusted net income <sup>(*)3</sup> (※)	3.1	+35.2%	1.4	+54.9%

## Enterprise NW Service

Revenue strongly increasing with continuous function enhancement

**Recurring Revenue <sup>(\*)4</sup>: +10.2%, including Security Revenue: +16.5%**

### ➤ Effective collaboration between service development & order accumulation

- Omnibus 2.0 meeting enterprises' NW replacement demands by continuously adding new functions such as SD-LAN
- Strong demand for security continued: SOC, Secure Browsing, Virtual desktop, DDoS Protection services etc.
- Promoting full-scale adoption of cloud with seamless/real time cloud migration solution & multi-cloud strategy

## Mobile

Strongly executing Enterprise mobile/IoT/MVNE strategies

**Total Mobile Subs: 2.633 million <sup>(\*)5</sup> Total Mobile Revenue: JPY30.99 bn**

- Accumulation of IoT/enterprise mobile transactions with full-MVNO functions: SIM life cycle management, chipSIM (Jan.)
- Focusing consumer subscription with MVNE strategy under competitive market, MVNE Subs 999 thousand, +34.2%YoY. Seeking to diversify traffic patterns

## SI

Favorable SI demand, Improving engineer utilization

**SI gross margin: +35.4% 3Q18 SI construction order-received: +22.3%**

- Reorganization of systems engineers unit from the beginning of FY18 contributed to margin improvement. Prevention of unprofitable projects & engineer allocation for pre-sales activity through improved quality control

## DeCurret

**Completed System development & Business Operation**

- Completed systems developments & business operation preparation needed to launch cryptocurrency exchange services. Going through process to become a registered cryptocurrency exchange service vender.

(\*)1)Operating income before depreciation and amortization (\*)2)Pre-tax income is an abbreviation for income before income tax expense (\*)3)Net income is an abbreviation for net income attributable to IIJ (\*)4)Revenues in this slide show 1Q-3Q18 (\*)5) 3Q18-end subscription

# II - 1. Consolidated Financial Results for 1Q-3Q18

Unit: JPY billion

	<b>% of Revenues</b> <b>1Q-3Q18</b> <b>Results</b> <small>(Apr. 2018 - Dec. 2018)</small>	<b>% of Revenues</b> <b>1Q-3Q17</b> <b>Results</b> <small>(Apr. 2017 - Dec. 2017)</small>	<b>Year over Year Change</b>		<b>% of Revenues</b> <b>FY18 Targets</b> <small>(Apr. 2018 - Mar. 2019)</small>
<b>Total Revenues</b>	<b>139.4</b>	<b>127.6</b>	<b>+9.2%</b>	<b>+11.8</b>	<b>190.0</b>
<b>Total Cost of Revenues</b>	<b>117.4</b>	<b>107.9</b>	<b>+8.8%</b>	<b>+9.5</b>	<b>160.2</b>
<b>Gross Margin</b>	<b>22.0</b>	<b>19.8</b>	<b>+11.4%</b>	<b>+2.3</b>	<b>29.8</b>
<b>SG&amp;A/R&amp;D</b>	<b>16.9</b>	<b>16.0</b>	<b>+5.6%</b>	<b>+0.9</b>	<b>22.8</b>
<b>Adjusted EBITDA*1</b>	<b>15.4</b>	<b>12.9</b>	<b>+19.3%</b>	<b>+2.5</b>	<b>-</b>
<b>Operating Income</b>	<b>5.1</b>	<b>3.8</b>	<b>+36.0%</b>	<b>+1.4</b>	<b>7.0</b>
<b>Adjusted Pre-tax Income*2</b>	<b>5.1</b>	<b>3.8</b>	<b>+35.7%</b>	<b>+1.3</b>	<b>-</b>
<b>Adjusted Net Income*2,*3</b>	<b>3.1</b>	<b>2.3</b>	<b>+35.2%</b>	<b>+0.8</b>	<b>-</b>

\*1: Operating income before depreciation and amortization

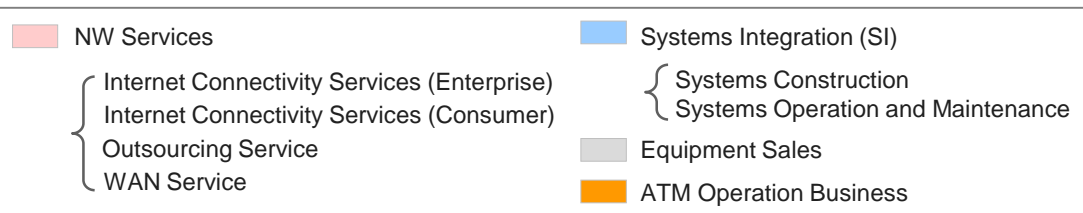
\*2: Adjusted incomes exclude effect of the revision of U.S GAAP related to gains/losses on equity securities and funds

\*3: Net income is an abbreviation for net income attributable to IIJ

# II - 2. Revenues

Unit: JPY million

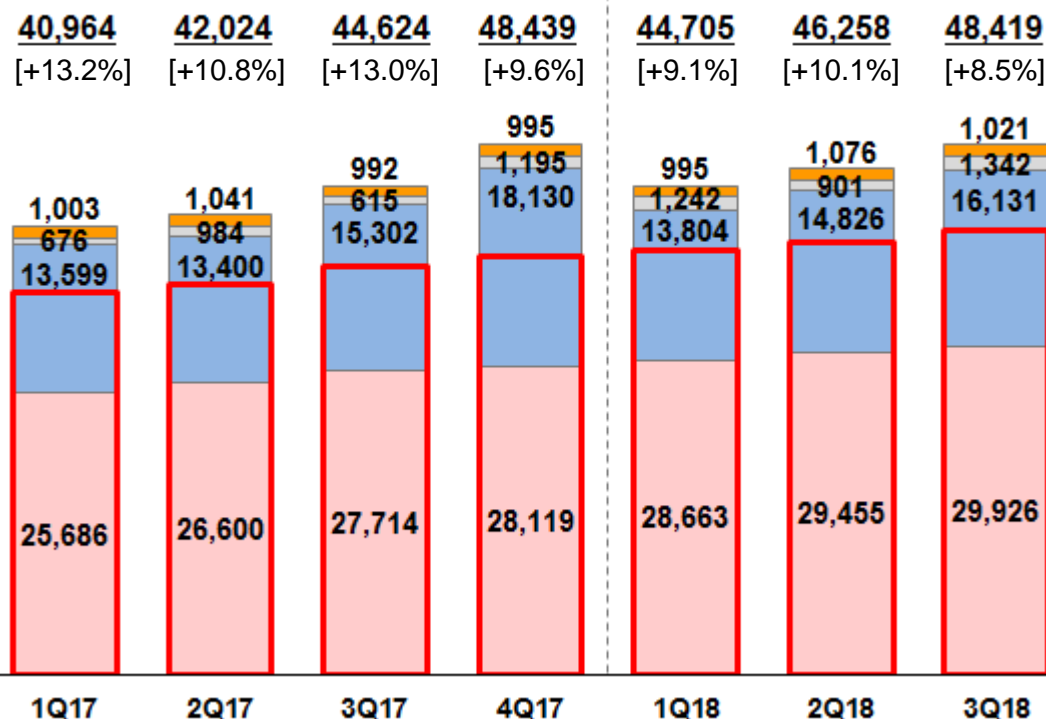
[ ], YoY = Year over year comparison



**1Q-3Q17: 127,612 [+12.3%]**

**FY17: 176,051 [+11.6%]**

**1Q-3Q18: 139,382 [+9.2%]**



**One-time Revenue\***  
1Q-3Q18: JPY17,510 million (up 4.2% YoY)  
(12.6% of 1Q-3Q18 revenues)

**Recurring Revenue\***  
1Q-3Q18: JPY118,780 million (up 10.2% YoY)  
(85.2% of 1Q-3Q18 revenues)

- 3Q18 revenue growth YoY includes an impact of hiho's unconsolidation
- 1-3Q17 hi-ho's revenue for Internet connectivity services (consumer) was JPY1,313 million

\* One-time revenues, which are systems construction and equipment sales, are recognized when systems or equipment are delivered and accepted by customers

\* Recurring revenues represent the following monthly recurring revenues: Internet Connectivity Services for Enterprise, Internet Connectivity Services for Consumer, Outsourcing Services, WAN Services, and Systems Operation and Maintenance

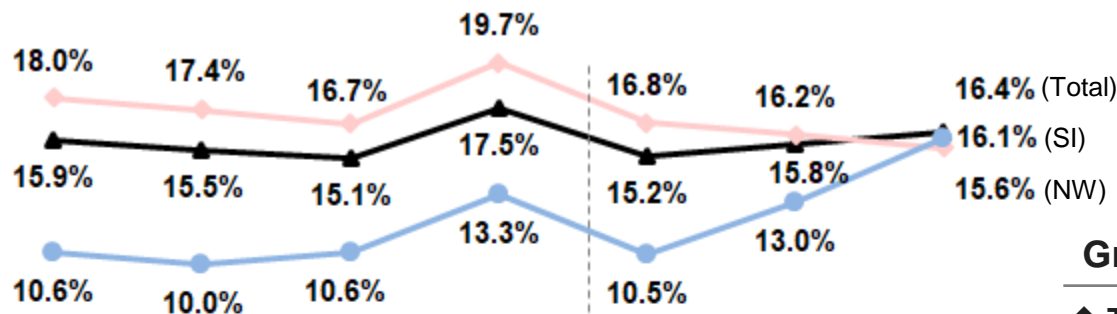
# II - 3. Cost of Revenues & Gross Margin Ratio

Unit: JPY million

Cost of revenues: NW Services SI Equipment Sales ATM Operation Business

Gross margin ratio: NW Services SI Total

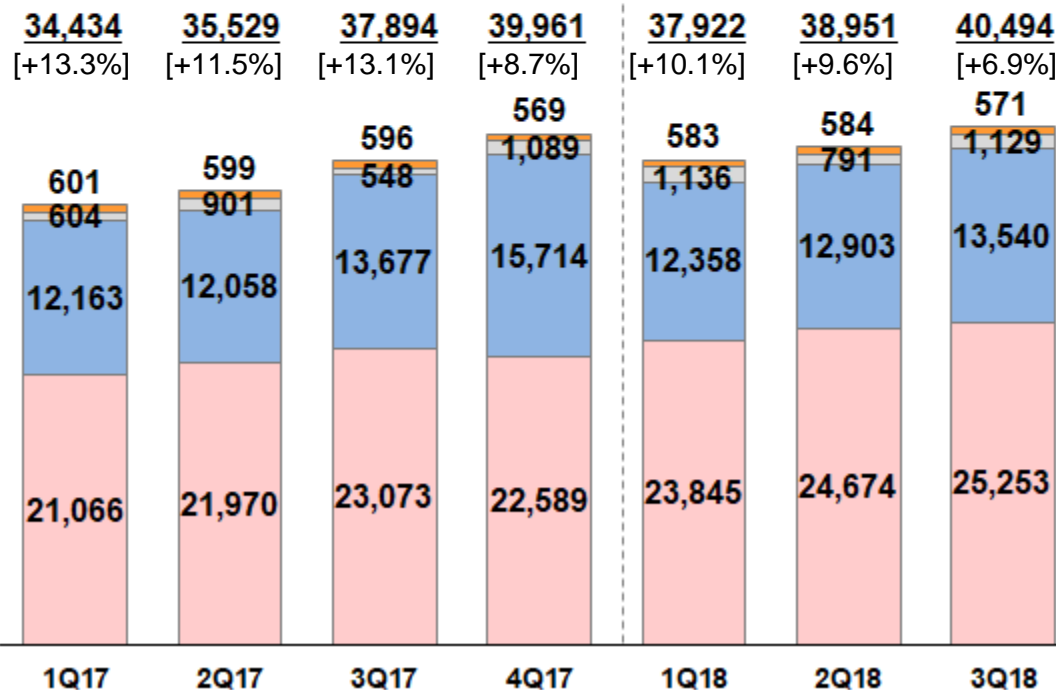
[ ], YoY = Year over year comparison



1Q-3Q17: 107,856 [+12.6%]

FY17: 147,818 [+11.5%]

1Q-3Q18: 117,368 [+8.8%]



## Gross Margin

### ◆ Total

1Q-3Q18: JPY22,014 million (up 11.4% YoY)  
 1Q-3Q17: JPY19,756 million (up 10.8% YoY)  
 ➢ Gross margin ratio: 15.8% (up 0.3 points YoY)

### ◆ NW Services

1Q-3Q18: JPY14,272 million (up 2.7% YoY)  
 1Q-3Q17: JPY13,890 million (up 13.8% YoY)  
 ➢ The revised NTT DOCOMO's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY. As a result, cost reduced by JPY0.89 billion in 4Q17. (Gap to initial expectation of 14.2% decrease)  
 ➢ Full-MVNO related fixed-type cost increased by over JPY0.3 billion per quarter (from Mar. 2018)

### ◆ SI

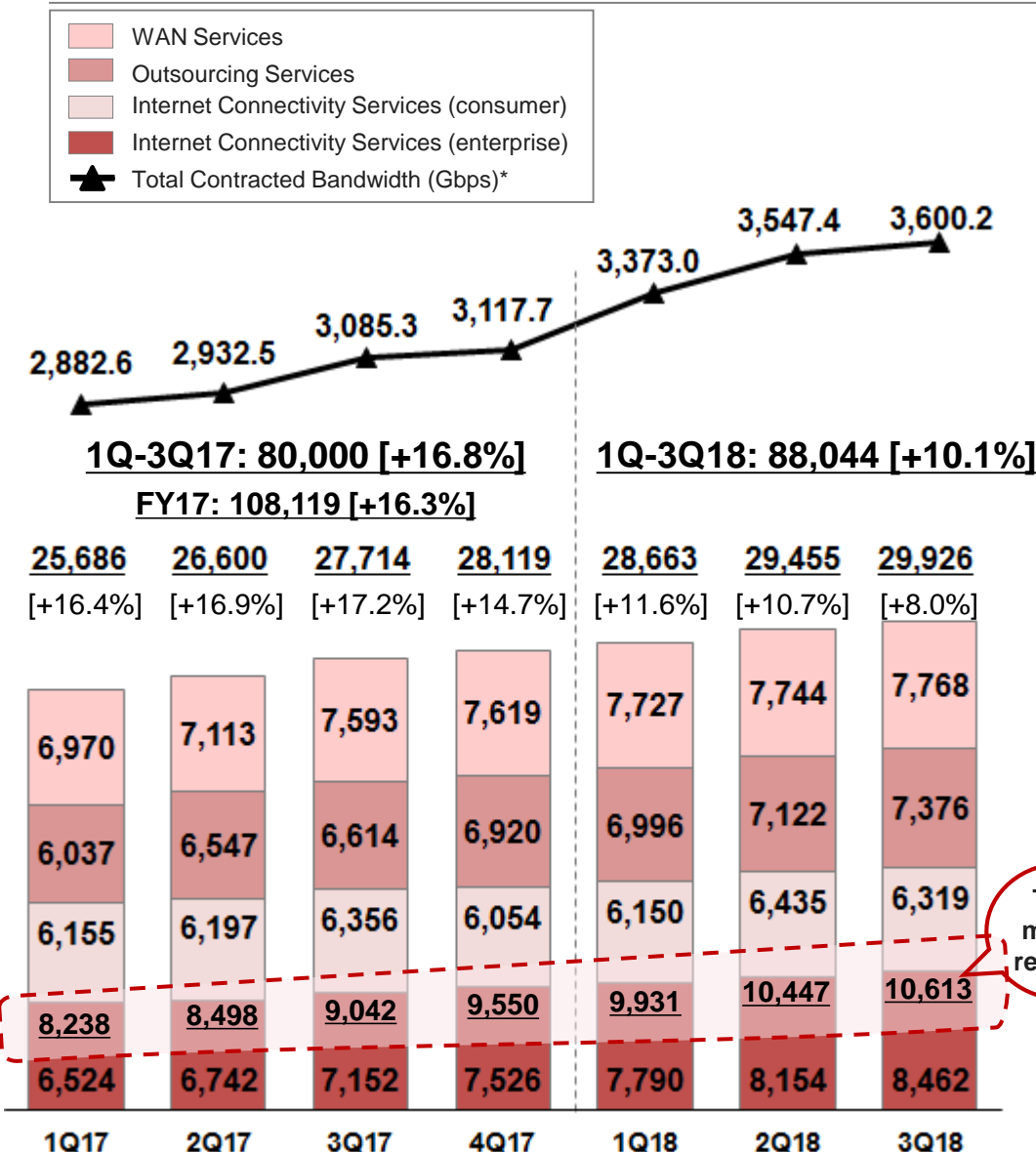
1Q-3Q18: JPY5,960 million (up 35.4% YoY)  
 1Q-3Q17: JPY4,403 million (up 4.5% YoY)  
 ➢ Gross margin ratio is improving  
 • Reorganization of systems engineers unit and management improvement contributed to quality control with prevention of unprofitable projects.

## II - 4. Network Services (1) Revenues

Unit: JPY million

[ ], YoY = Year over year comparison

QoQ = 3Q18 compared to 2Q18



### NW Services Revenues

#### ◆Internet Connectivity (Enterprise)

- 1Q-3Q18: up 19.5% YoY
- 3Q18: up 18.3% YoY, up 3.8% QoQ
  - Mobile services revenue continued to increase
    - ✓ 3Q18 IP services revenue increased by 5.2% YoY

#### ◆Internet Connectivity (Consumer)

- 1Q-3Q18: up 1.1% YoY
- Revenue increased including a negative impact of hiho's unconsolidation (Dec. 2017)
  - ✓ Hi-ho's revenue for Internet connectivity services (consumer): 3Q17 JPY420 million, 1Q-3Q17 JPY1,313 million

#### ◆Outsourcing Services

- 1Q-3Q18: up 12.0% YoY
- 3Q18: up 11.5% YoY, up 3.6% QoQ
- Strong demands for security and new network service 「IIJ Omnibus」
  - ✓ 1Q-3Q18 Security-related revenue: up 16.5% YoY
  - ✓ 1Q-3Q18 IIJ Omnibus revenue: up 93.8% YoY

#### ◆WAN Services

- 1Q-3Q18: up 7.2% YoY
- 3Q18: up 2.3% YoY, up 0.3% QoQ
- FY18 revenue continues to increase with accumulation of projects and postponement of a large WAN project migrating to mobile access. FY19 revenue is expected to decrease due to above large WAN project migration.

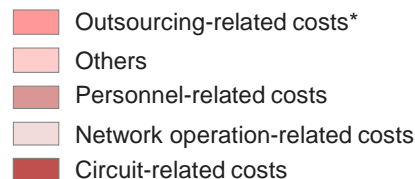
\* Total contracted bandwidth is calculated by multiplying number of contracts by contracted bandwidths respectively for IP service (including data center connectivity service) and IIJ FiberAccess/F and IIJ DSL/F of Internet connectivity services (Enterprise).

## II - 4. Network Services (2) Cost of Revenues

Unit: JPY million

[ ], YoY = Year over year comparison

QoQ = 3Q18 compared to 2Q18



### Cost of NW Services

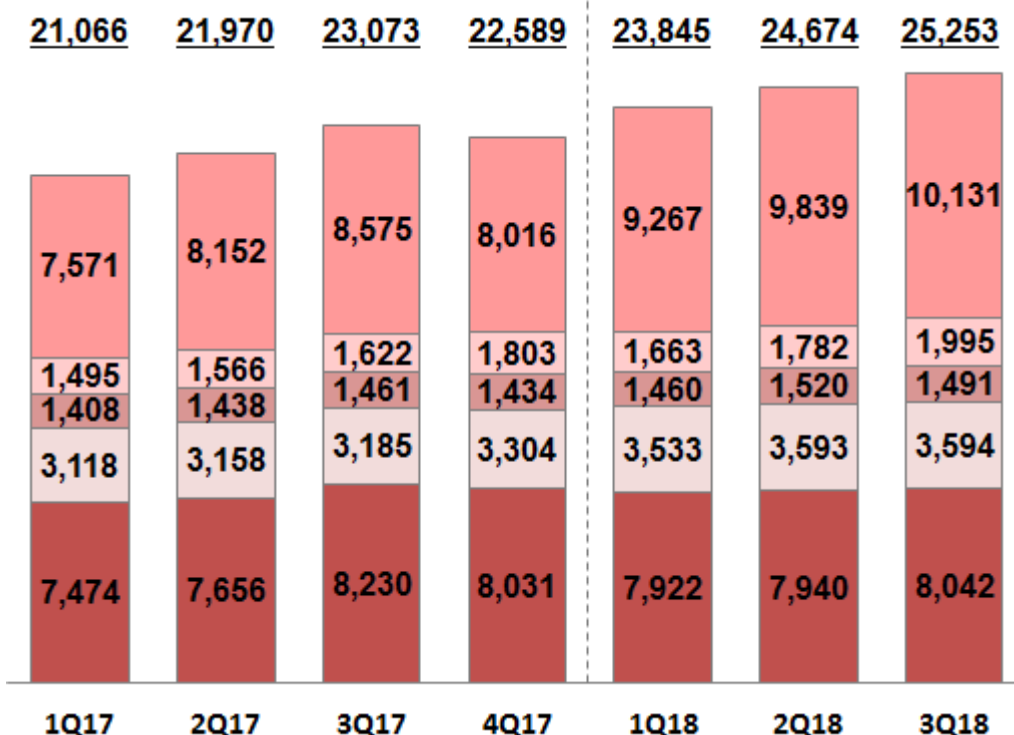
➤ 3Q18: up 9.4% YoY, up 2.3% QoQ

- Along with an increase in mobile subscriptions and network quality enhancement, mobile-related costs such as mobile infrastructure and purchase of voice data (mainly in outsourcing-related costs) increased. Leased mobile infrastructure bandwidth was irregularly enlarged to maintain our mobile network quality (July.-Sep.)
- Along with continuous service developments and enhance functions for Omnibus, security, etc., outsourcing-related costs, personnel-related costs and operation-related costs increased

**1Q-3Q17: 66,109 [+17.5%]**

**FY17: 88,698 [+16.1%]**

**1Q-3Q18: 73,772 [+11.6%]**



#### ◆ Regarding NTT DOCOMO's ("DOCOMO") mobile interconnectivity cost recognition:

- Regarding our FY17 & FY16 usage charge, DOCOMO's mobile interconnectivity telecommunications charge was fixed in Mar. 2018 and its unit price decreased by 18.2% YoY. The positive impact of cost reversal in 4Q 17 was JPY0.89 billion.
- Regarding our FY18 & FY17 usage charge, DOCOMO's mobile interconnectivity telecommunications charge, which is calculated based on DOCOMO's FY17 mobile-related cost, is expected to be fixed in Mar. 2019. DOCOMO's payment arrangement is 15% off temporarily from Apr. 2018 which is the same level as FY17.
- During FY18, IJ estimates certain decrease of the charge, based on the past results and the above mentioned payment arrangement, and applies to every quarter earnings (same procedure as in the past). The difference, if any, between estimate and result will be recognized in 4Q18 as adjustment

\* Outsourcing-related costs include interconnectivity charge for mobile infrastructure, datacenter leasing costs and customer support center operation costs etc.

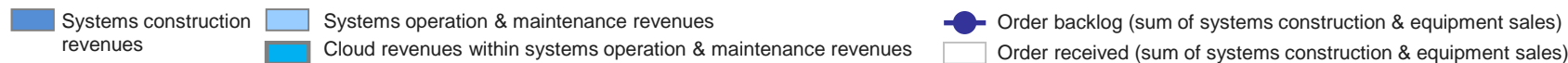


## II - 5. Systems Integration (SI) (1) Revenues

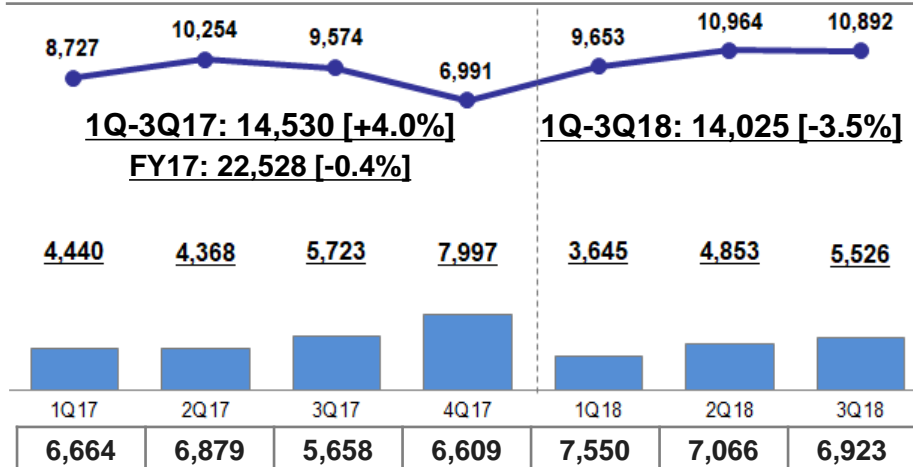
Unit: JPY million

[ ], YoY = Year over year comparison

QoQ = 3Q18 compared to 2Q18

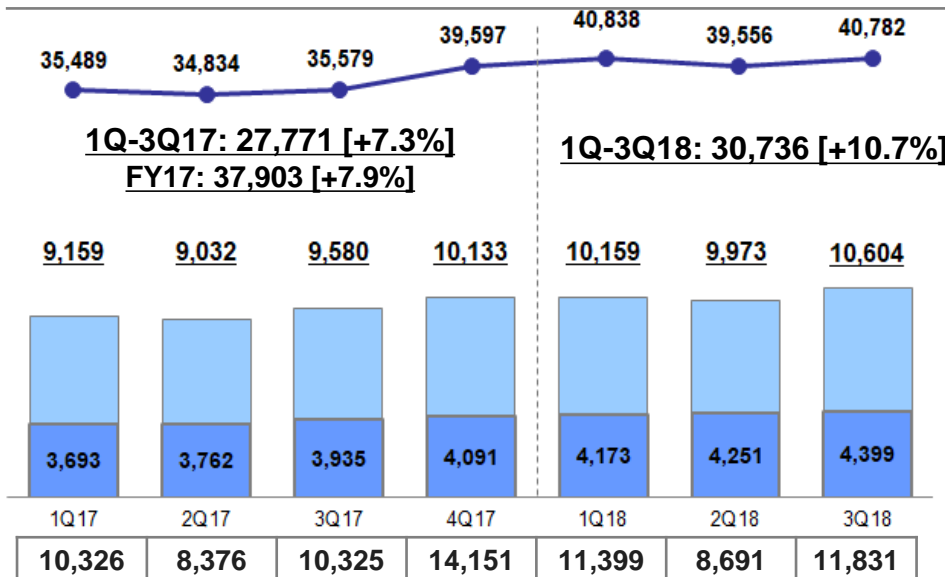


### Systems Construction (one-time revenue)



- 3Q18 revenue: up 13.9% QoQ
- Favorable systems construction order environment continued;
  - 3Q18 order received: up 22.3% YoY
  - 3Q18-end order backlog: up 13.8% YoY
- Representative construction orders received in 3Q18 such as:
  - Front-end system for a major financial institution
  - Education and research systems for a university
  - System for the integrated information infrastructure for a central government agency
  - Mail system for a major broadcasting company
  - Mail audit system for a major machinery manufacturer etc.

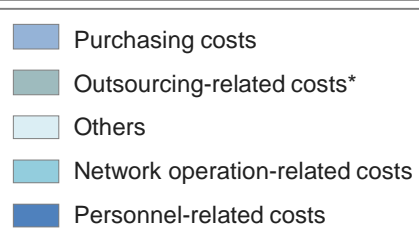
### Systems Operation & Maintenance (recurring revenue)



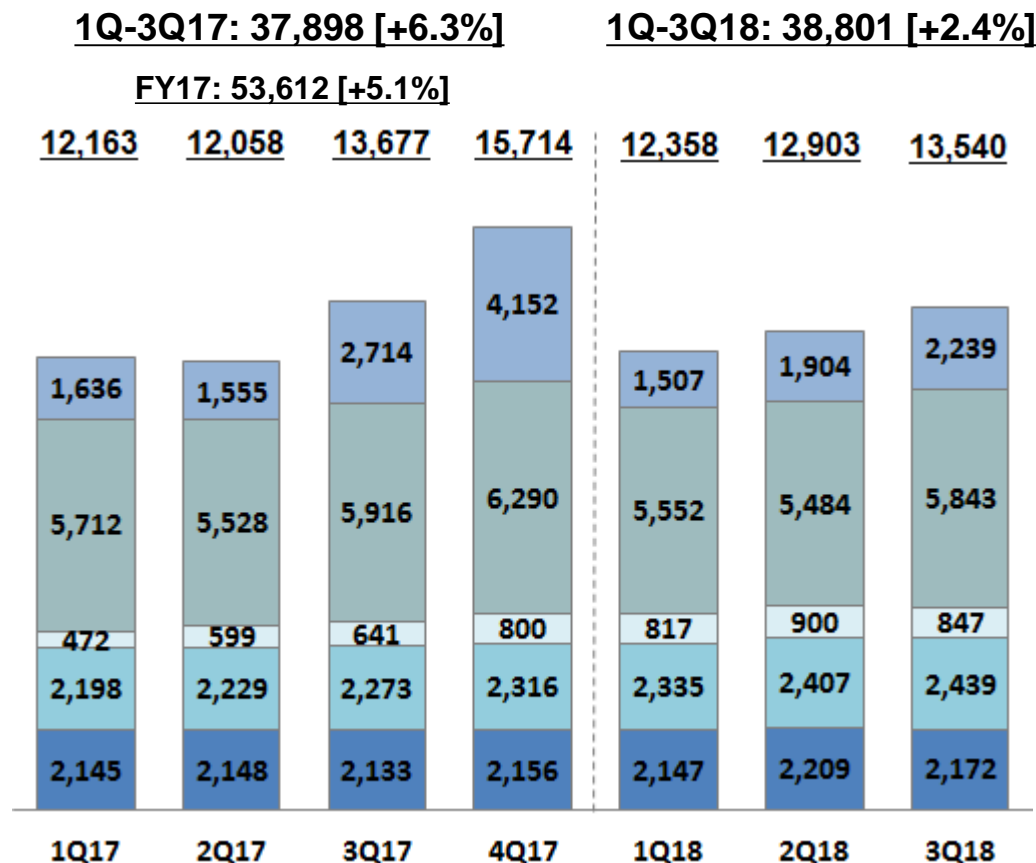
- 3Q18 revenue: up 10.7% YoY, up 6.3% QoQ
- Continuous revenue growth mainly due to the accumulation of systems construction which are migrated to systems operation & maintenance phase as well as continuous increase in private cloud revenue
  - 1Q-3Q18 revenue from private cloud: up 12.6% YoY
  - 1Q-3Q18 revenue from SI construction: up 9.4% YoY
- 86.3% of 3Q18 cloud-related revenue is recognized in systems operation and maintenance revenues (13.7% in outsourcing)

## II - 5. Systems Integration (SI) (2) Cost of Revenues

Unit: JPY million



[ ], YoY = Year over year comparison  
QoQ = 3Q18 compared to 2Q18



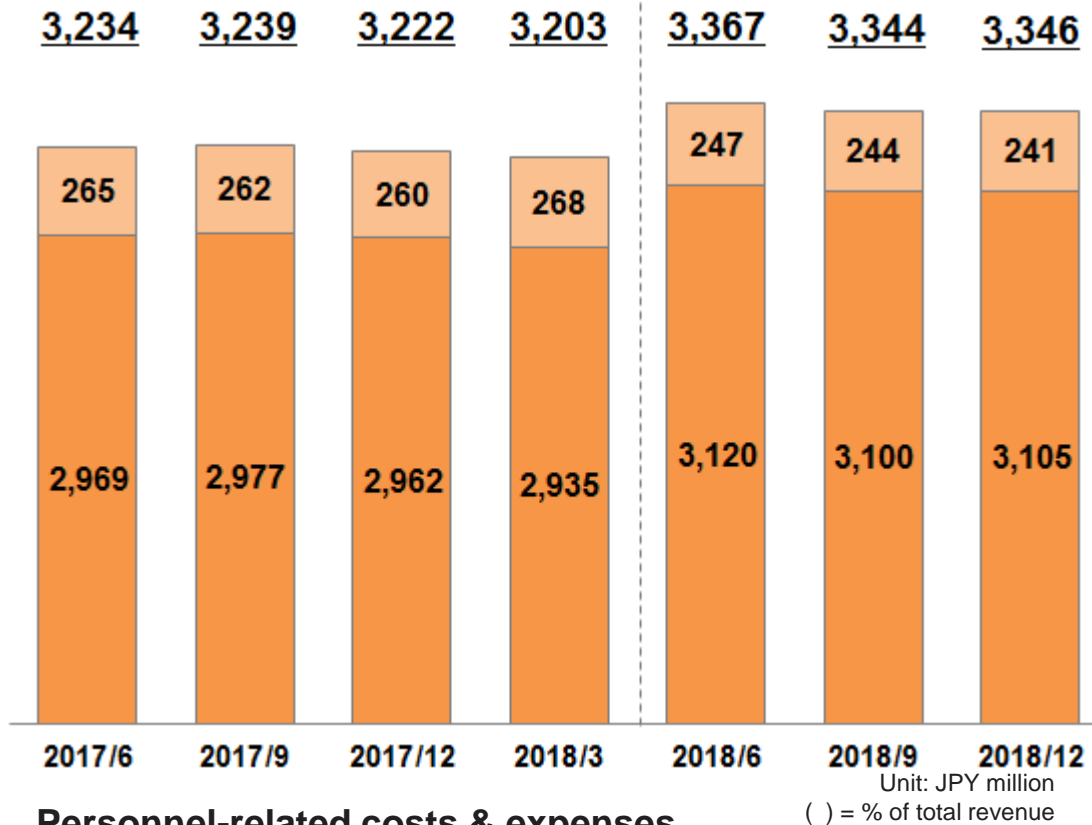
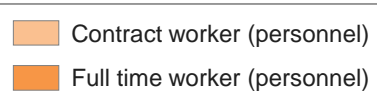
### Cost of SI

- 3Q18: down JPY137 million YoY, up JPY637 million QoQ
- 3Q18 outsourcing-related costs decreased YoY as 3Q18 systems construction revenues slightly decreased YoY
  - 3Q18-end number of SI-related outsourcing personnel: 1,108 personnel (decreased by 14 personnel YoY, increased by 15 personnel QoQ)
- Network operation-related costs slightly increased QoQ
  - IIJ GIO P2 facility in western Japan (Matsue data center) started to provide services from June. Depreciation and equipment maintenance costs to gradually increase
- Gross margin ratio is improving
  - Reorganization of systems engineers unit and management improvement affected quality control with prevention of unprofitable projects.

\*Outsourcing-related costs include

## II - 6. Number of Employees

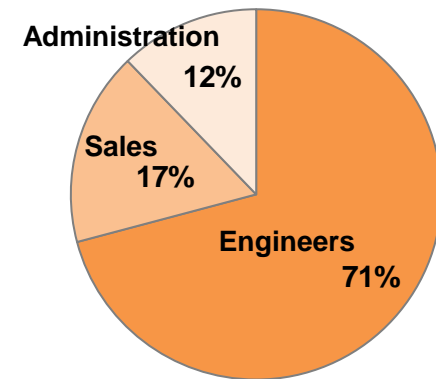
YoY = Year over year comparison



### Personnel-related costs & expenses

1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
5,797 (14.2%)	5,784 (13.8%)	5,775 (12.9%)	5,843 (12.1%)	5,909 (13.2%)	6,053 (13.1%)	5,875 (12.1%)
1Q-3Q17: 17,356 (13.6%)+6.2%YoY FY17: 23,199 (13.2%)+5.6%YoY				1Q-3Q18: 17,837 (12.8%) +2.8%YoY		

### Employee Distribution



- ◆ Hired 175 new graduates in Apr. 2018 (148 in Apr. 2017, 137 in Apr. 2016)
- ◆ 176 new graduates are planned to join in Apr. 2019
- ◆ Increase of FY19 annual personnel-related costs and expenses is expected to be larger than usual level, due to revision of personnel remuneration structure scheduled on Apr. 2019 and etc.

## II - 7. SG&A Expenses/R&D

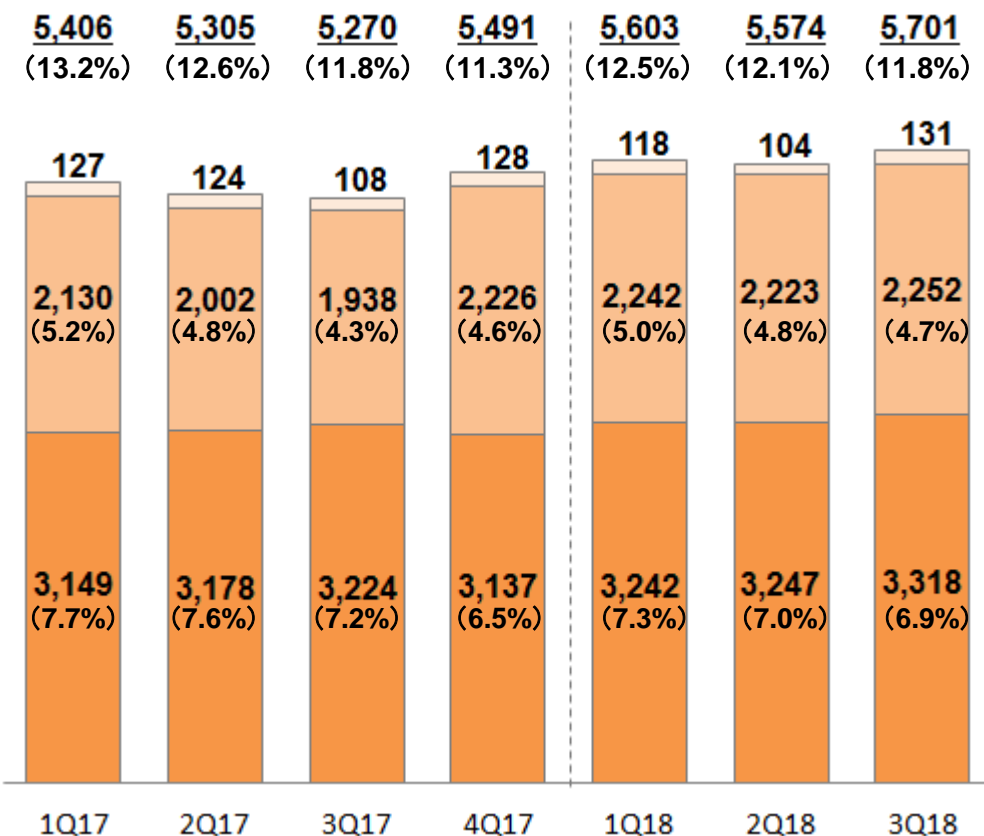
Unit: JPY million  
[ ], YoY = Year over year comparison

- Research & development expenses
- General & administrative expenses
- Sales & marketing expenses
- ( ) % of total revenues

**1Q-3Q17: 15,980 [+8.9%]**

**FY17: 21,471 [+6.8%]**

**1Q-3Q18: 16,878 [+5.6%]**



### SG&A

- ◆ Sales & marketing expenses
  - 1Q-3Q18: up 2.7% YoY
    - Personnel-related expenses and outsourcing expenses increased
- ◆ General & administrative expenses
  - 1Q-3Q18: up 10.7% YoY
    - Personnel-related expenses increased
- ◆ SG&A progress within the plan
  - FY18 SG&A plan: JPY22.8 billion

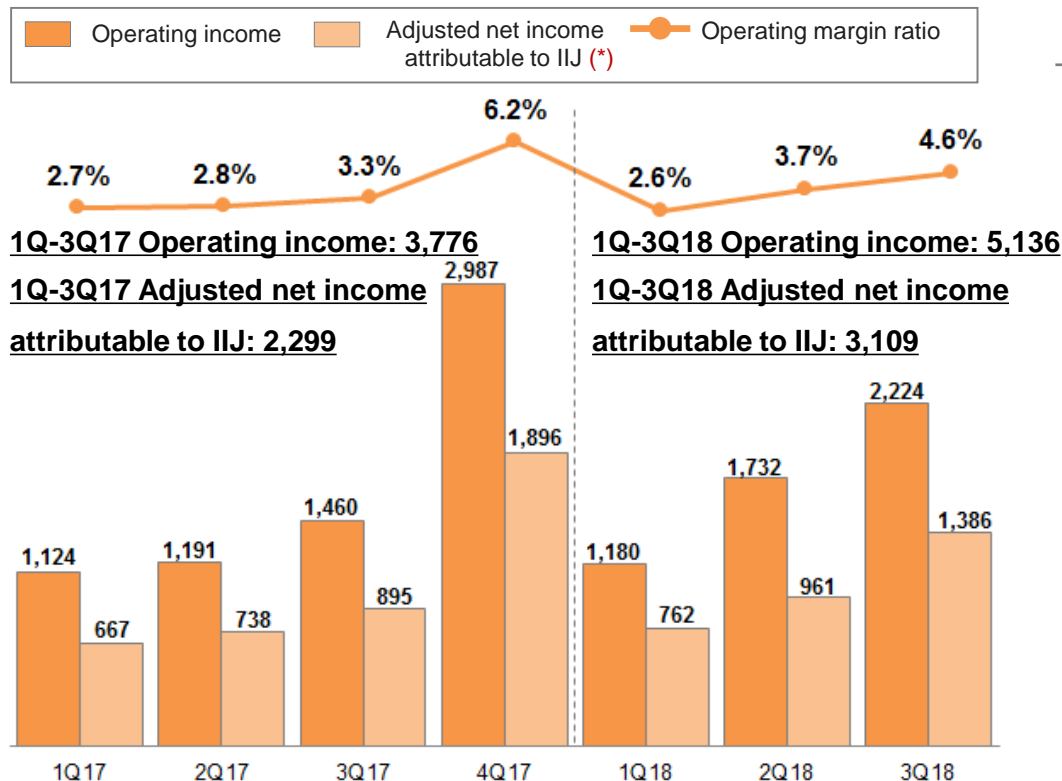
#### ◆SG&A related to ATM operation business

1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18
35.5	44.8	36.4	38.4	47.0	50.8	46.1

- Placed 1,146 ATMs as of December 31, 2018

# II - 8. Operating Income & Net Income

Unit: JPY million  
YoY = Year over year comparison



## Income

### ◆ Adjusted income before income tax expense: (\*)

- 1Q-3Q18: JPY5,102 million (up 35.7% YoY)
  - Miscellaneous income: JPY143 million
  - Dividend income: JPY96 million
  - Interest expense: JPY298 million

### ◆ Adjusted net income attributable to IIJ: (\*)

- 1Q-3Q18: up 35.2% YoY
  - Equity in net loss of DeCurret was JPY272 million, within the plan (1Q18 JPY62 million, 2Q18 JPY86 million, 3Q18 JPY124 million)
    - ✓ FY18 equity in net loss of DeCurret is expected to be approx. JPY0.6 billion
  - Net income attributable to noncontrolling interests including Trust Networks: JPY131 million

(\*) These amount exclude effect of the revision of U.S. GAAP related to gains/losses on equity securities and funds.

### ◆ Dividend plan:

- Will not take unrealized loss, which has no effect on cash flows, into consideration for dividend level.

324	743	390	1,128	424	932	743	Current income tax expense (*)
109	(245)	113	(290)	(26)	(223)	(57)	Deferred tax expense (benefit) (*)
36	41	24	33	(31)	7	(46)	Equity in net income (loss) of equity method investees
(42)	(47)	△39	(42)	(41)	(45)	(45)	Less: Net income attributable to noncontrolling interests

## Consideration of IFRS Adoption

- Plan to adopt IFRS from the filing of FY18 Annual Report "Yuka-shoken Houkokusho"
  - Because of different accounting principles, P/L impact due to gains/losses on marketable equity securities are not recognized under IFRS (recognized in accumulated other comprehensive income (loss) on B/S)
- FY18 earnings press releases and documents for ordinary general meeting of shareholders will be prepared under U.S. GAAP; P/L will be impacted by stock price fluctuation, FY18 Annual Report "Yuka-shoken Houkokusho" will be prepared under IFRS as above; P/L will not be impacted by stock price fluctuation; Retained earnings & Accumulated Other Comprehensive Income will be different from the U.S. GAAP etc.

## II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	Mar. 31, 2018	Dec. 2018	Changes
Cash and Cash Equivalents	21,403	28,878	+7,475
Accounts Receivable	31,831	30,615	(1,215)
Inventories	1,715	4,748	+3,034
Prepaid Expenses (Current and Noncurrent)	16,409	19,012	+2,604
Investments in Equity Method Investees	5,246	5,089	(158)
Other Investments	11,374	9,307	(2,067)
Property and Equipment	46,414	47,184	+770
Goodwill and Other Intangible Assets	8,787	8,515	(272)
Guarantee Deposits	3,422	3,385	(37)
<b>Total Assets:</b>	<b><u>153,449</u></b>	<b><u>163,621</u></b>	<b><u>+10,172</u></b>
Accounts Payable	16,399	21,346	+4,946
Income Taxes Payable	1,928	595	(1,333)
Borrowings (Short-term and Long-term)	24,750	26,750	+2,000
Capital Lease Obligations (Current and Noncurrent)	16,577	17,896	+1,320
<b>Total Liabilities:</b>	<b><u>79,460</u></b>	<b><u>88,420</u></b>	<b><u>+8,960</u></b>
Common Stock	25,512	25,519	+7
Additional Paid-in Capital	36,176	36,212	+36
Retained earnings	8,404	14,608	+6,203
Accumulated Other Comprehensive Income (Loss)	5,075	(41)	(5,116)
Treasury stock	(1,897)	(1,897)	(0)
<b>Total IIJ Shareholders' Equity:</b>	<b><u>73,270</u></b>	<b><u>74,400</u></b>	<b><u>+1,130</u></b>

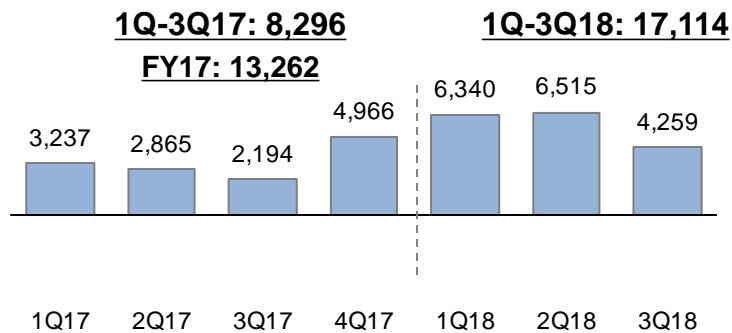
Due to the revision of U.S. GAAP on other investments. Please refer to page 20 of this document for details

➤ Total IIJ Shareholders' Equity to Total Assets: 45.5% as of Dec. 31, 2018; 47.7% as of Mar. 31, 2018

## II - 10. Consolidated Cash Flows

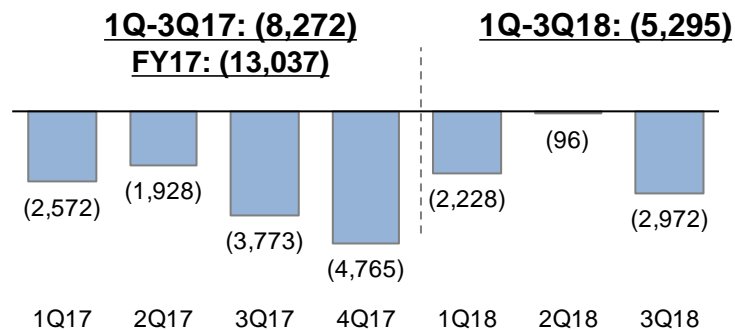
Unit: JPY million  
YoY = Year over year comparison

### Operating Activities



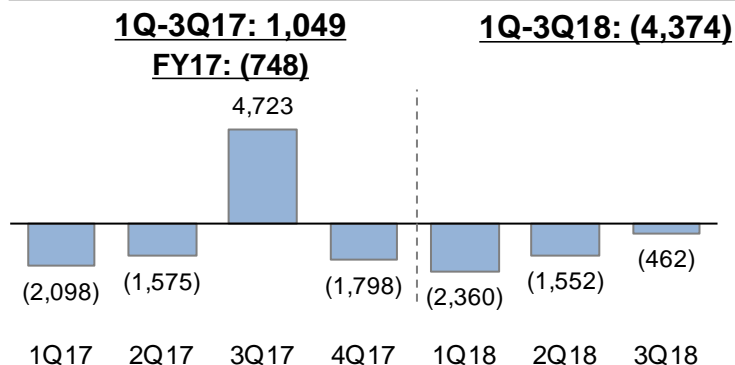
	Major Breakdown	YoY Change
Net income	1,430	(1,385)
Depreciation and amortization	10,288	+1,132
Fluctuations of operating assets and liabilities	3,355	+6,841
Realized and unrealized loss on other investments	2,642	+3,015

### Investing Activities



	Major Breakdown	YoY Change
Purchase of property and equipment	(8,355)	(3,430)
Proceeds from sales of property & equipment (mainly lease-back transaction)	2,588	(168)
Proceeds from sales of funds and nonmarketable equity securities	514	+358

### Financing Activities

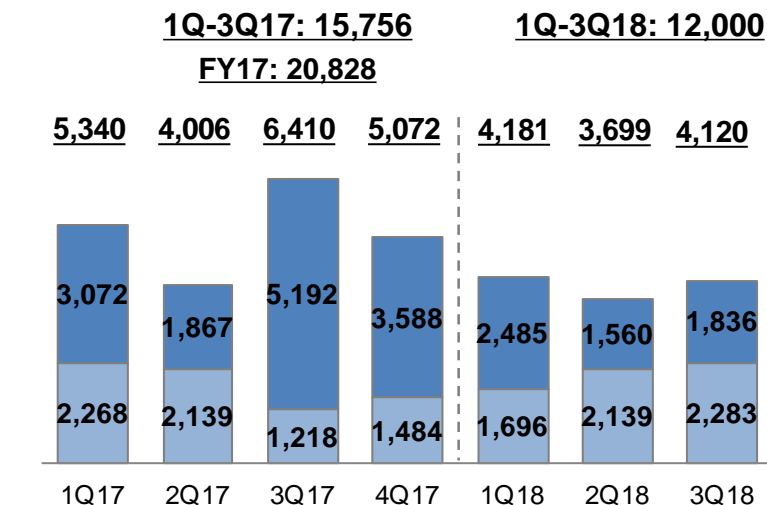
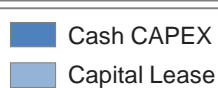


	Major Breakdown	YoY Change
Principal payments under capital leases	(4,795)	(565)
Dividends paid	(1,217)	(0)
Bank borrowings	2,000	(5,000)

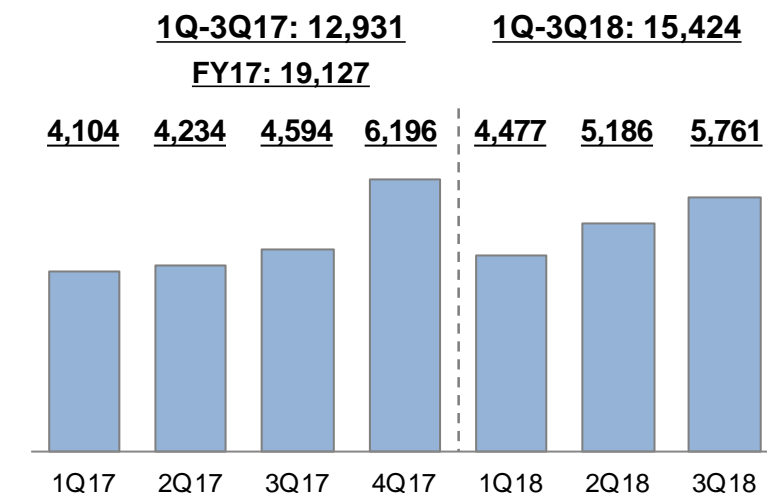
## II - 11. Other Financial Data

Unit: JPY million  
[ ] = Year over year comparison

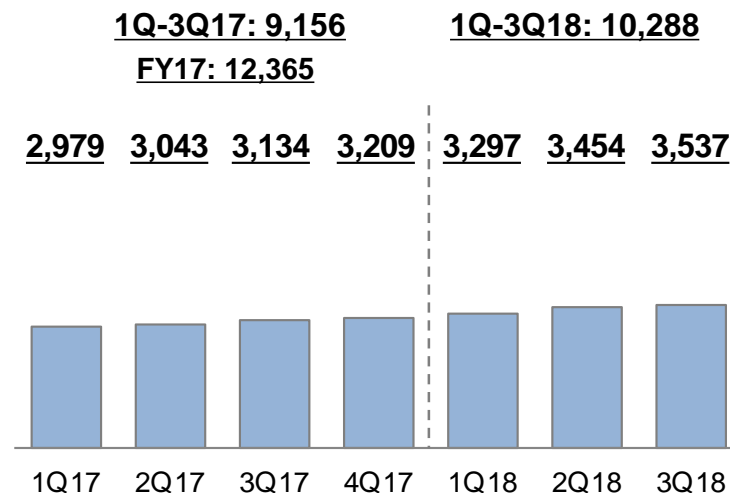
### CAPEX



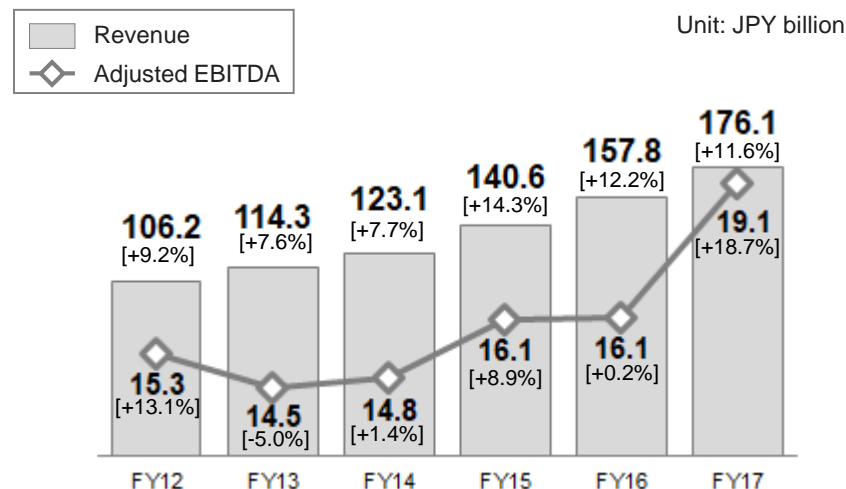
### Adjusted EBITDA



### Depreciation and Amortization



### Revenue & Adjusted EBITDA Annual Growth





# III - 1. Cloud & Mobile/IoT Business

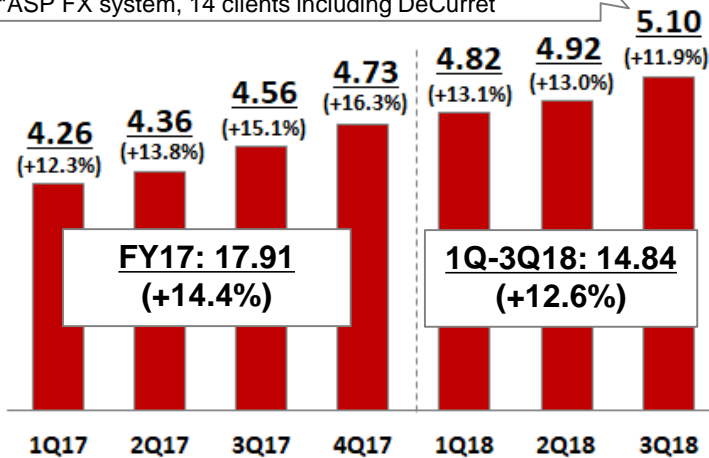
Unit: JPY billion (bn)  
% = Year over year comparison  
Subs. = subscriptions, mill = million

## Cloud-related revenue

### Major Breakdown of 3Q18 Revenue

Private 3.66, Public 0.70, IIJ Raptor\* 0.64

\*ASP FX system, 14 clients including DeCurret



### Continuously accumulating revenue toward FY18 revenue target JPY20.0 billion

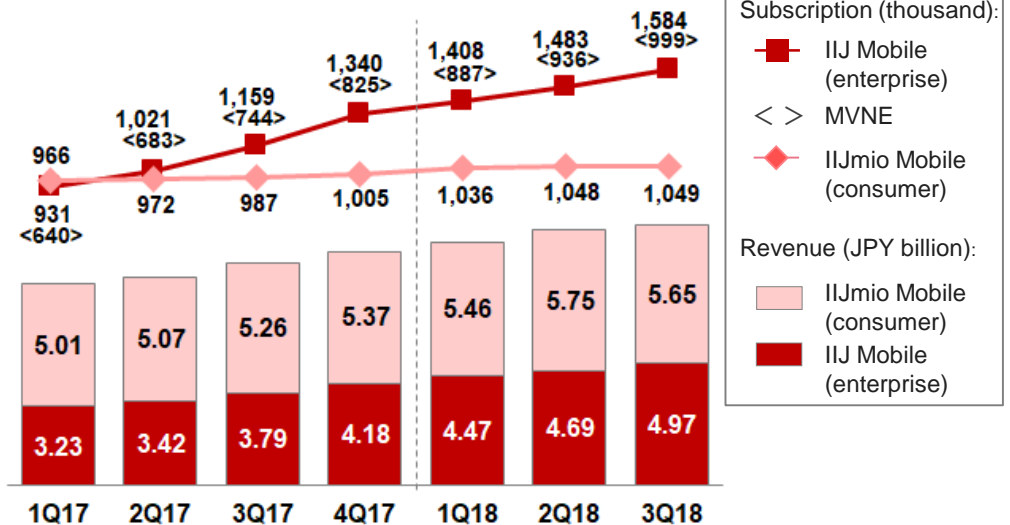
- Continuously expanding function and item line-ups to promote cloud migration of enterprise systems
  - Seamless connection with VMware, Added item line-ups of GIO P2 and "IIJ Managed Database Service"
- Unified Operation Management (UOM) Service revenue continuously accumulating
  - Comprehensive management service covering on-premise, cloud and other vendors' cloud services

### Customer Base

■ Total number of customer    ■ MRR over JPY1.0 million  
■ MRR over JPY0.5 million    MRR=Monthly Recurring Revenue



## Mobile revenue & subscription



### 3Q18-end subs: 2.633 million, 1Q-3Q18 total revenue: JPY30.99 billion

- 1Q-3Q18 MVNE revenue: JPY10.65 billion, up 37.6% YoY
- 3Q18 consumer mobile revenue slightly decreased from 2Q due to drop in smartphone-bundled sales and voice call volume (charge by minutes)

### Focusing accumulation of IoT/enterprise mobile demands with full-MVNO functions

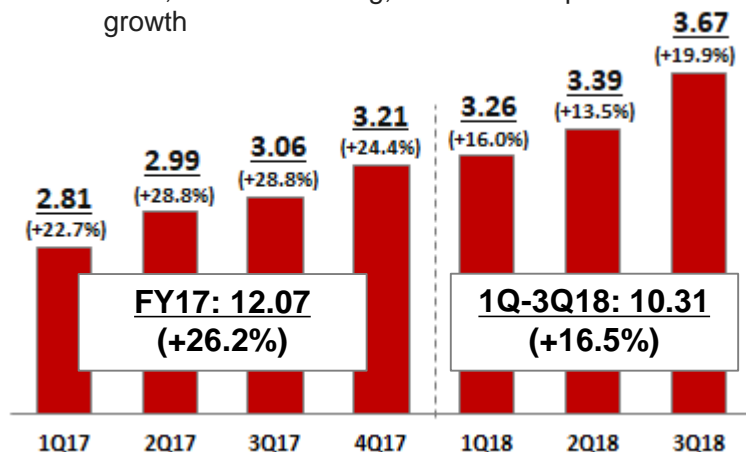
- 1Q-3Q18 full-MVNO revenue (consumer & enterprise): JPY0.43 billion
- Prepaid SIMs for foreigners visiting Japan continued to accumulate orders
- To start offering Chip SIM.(Jan.) Accumulating orders including projects to verify technology issues to build our SIMs into devices/equipment
- Enterprise mobile (excluding MVNE) 3Q18-end subs: 585 thousand, 1Q-3Q18 revenue: +29.1%
  - Acquiring surveillance cameras/network cameras from stores & transportation and others. Accumulating dashboard camera, vending machine, digital signage, remote work, SIM built-in laptop.
  - Continuously accumulating orders of the small data bundled services, which incorporates full-MVNO functions, targeting IoT usages
  - Adding to agriculture & factory, targeting healthcare and medical

# III - 2. Business Developments

Unit: JPY billion (bn)  
% = Year over year comparison  
apx = approximately

## Security

- ◆ Strong revenue growth supported by strong demands, 3Q revenue grew by 8.3% from 2Q
  - SOC, secure browsing, virtual desktop services led the growth



<About security service revenue> Recognized in Outsourcing Services. In FY17, large security Cloud project for local government. In addition to services, providing SI for security needs.

- ◆ Renewed Virtual Desktop Services
  - Increased concurrent user-connection, installed high spec equipment etc.
  - Expect to capture orders strongly as the increasing demands for remote working along with Work Style Reform trend in Japan
- ◆ Expanded function for cloud-based ID management service “IJ ID Service”
  - Improved convenience as allowing single-sign-on by adding collaboration function with partner products such as Office365
- ◆ Awarded by Japan Network Security Association
  - IJ security engineers were the first Japanese to conduct education at “Black Hat USA 2018,” one of the most prominent information security events

## Overseas Business

- ◆ 1Q-3Q18 revenue JPY5.46 billion, operating income (excluding that of JV) apx. JPY0.1 billion
  - FY18 target (revenue apx. JPY 7.0 bn, operating income: apx. JPY 0.1 bn) is expected to be exceeded
- ◆ Business in Asia: gradually growing
  - Increasing demand for NW, SI and etc. in China and Thailand, related to Japanese customers
  - Indonesia: Large public infrastructure SI project, cloud business gradually growing
  - Vietnam: Cybersecurity Law (Jan. '19), Opened another facility in Hanoi in addition to existing Ho Chi Min

## Shiroi Data Center (Chiba prefecture)

- ◆ Will start operating from April as planned
  - Integrate racks, spread out in the eastern Japan, with Shiroi system modular facility
  - FY18 investment: over JPY3.0 billion (power receiving facility, common facility, racks etc.) will be recognized in 4Q
  - MAX 6,000 racks. Initially starting with apx. 300 racks, to be gradually expanded with investment stepwise
  - Without new investment return risk as it's an integration of our current service facilities. Suppress incremental cost and ensure future scalability for expansion
    - Improvement of operation productivity·cost reduction; expecting 20% reduction of DC infrastructure cost in future

## DeCurret

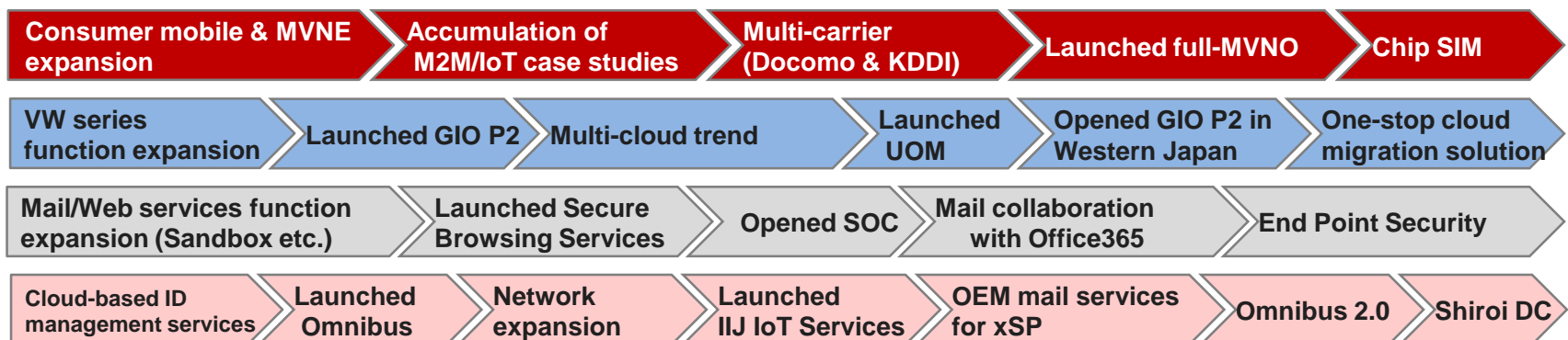
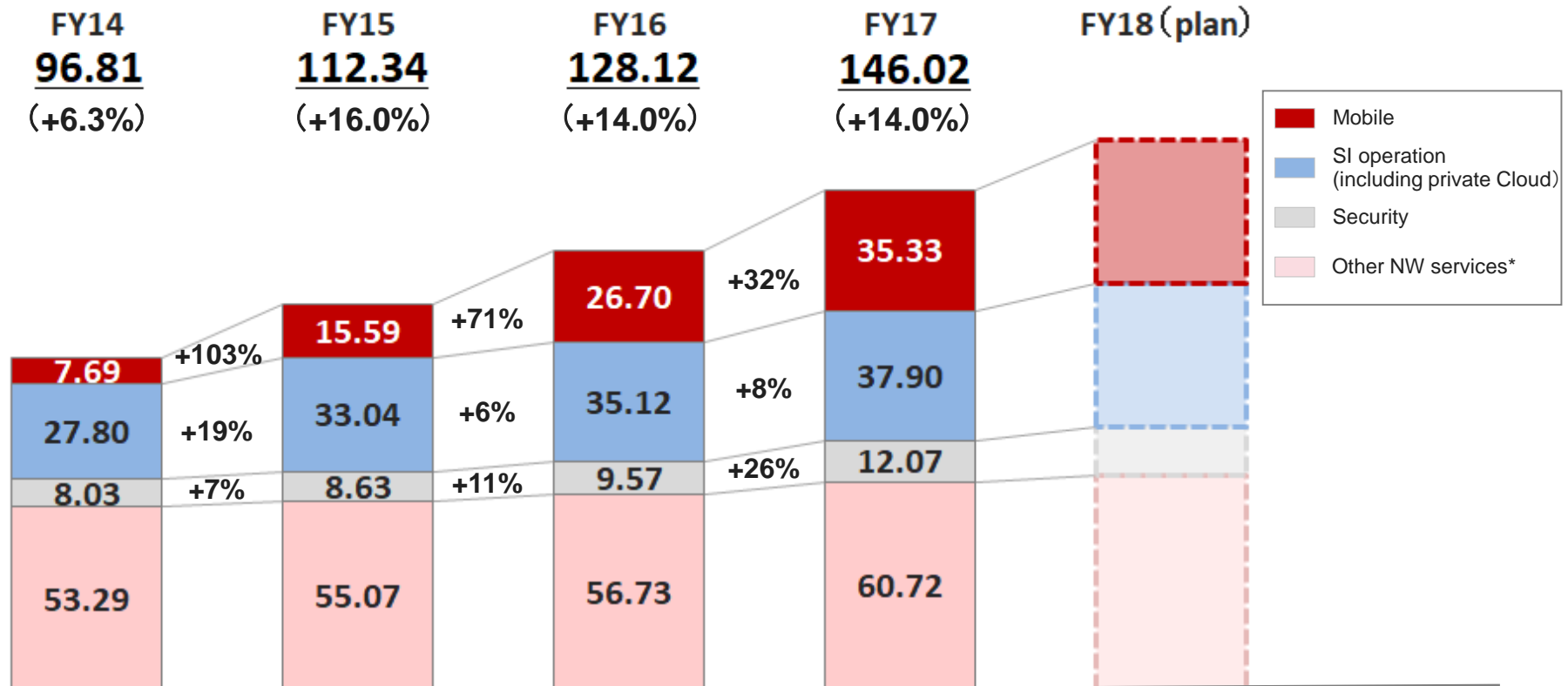
- ◆ Completed systems developments and business operation necessary to launch cryptocurrency exchange service. Preparing FSA registration process\*
  - ◆ Constructed systems based on IJ Raptor service technology
  - ◆ Registered with Japan Virtual Currency Exchange Association
- \* In Japan, in order to operate cryptocurrency related business such as exchange and settlement, registration by Japan's Financial Service Agency (FSA) is required.

## JOCDN

- ◆ Handling increasing traffic along with growing demands from broadcasting and contents holders for distributing contents online
- ◆ Provided CDN services to various popular sports events took place during year-end and new-year holidays.

# III - 3. Recurring Revenue Growth

Unit: JPY billion (bn)  
% = Year over year comparison



\*Other network services is the sum of Internet connectivity services for enterprise (excluding IIJ Mobile), Internet connectivity services for consumers (excluding IIJmio), Outsourcing services (excluding security) and WAN

# III - 4. FY2018 Financial Targets (remain unchanged)

**Aim to increase income with continuous recurring revenue growth while full-MVNO-related costs increase, Seek significant income growth in FY19 by strengthening revenue accumulation**

	% of Revenues	% of Revenues	YoY Change	
	FY17 Results (Apr. 2017 - Mar. 2018)	FY18 Target (Apr. 2018 - Mar. 2019)		
Total Revenues	176.1	190.0	+13.9	+7.9%
Total Cost of Revenues	84.0% 147.8	84.3% 160.2	+12.4	+8.4%
Gross Margin	16.0% 28.2	15.7% 29.8	+1.6	+5.6%
SG&A/R&D	12.2% 21.5	12.0% 22.8	+1.3	+6.3%
Operating Income	3.8% 6.8	3.7% 7.0	+0.2	+3.5%
Cash Dividend per common share	JPY27.00	JPY27.00	-	-

## Dividends

- Accordingly with our basic policy of continuous and stable dividend policy, JPY27.00 per common share

\* Middle Term Plan: Regarding our total revenue target of approx. JPY250 billion for FY2020, we now estimate it should be around JPY220 billion by mainly taking into the followings: financial results by FY2018 and gradual market expansion pace for enterprise IoT and cloud in Japan.

## Target & Assumption

### Enterprise NW

- Strengthen income level with continuous revenue accumulation of already invested service line-ups
- Enhance xSP-targeted sales structure
- Security services to further increase with DDoS protection and SOC
  - Leveraging security log and cyber threats information obtained as an ISP to apply to our services
- IP service to expand with CDN traffic through JOCDN

### Mobile & IoT

- Focus on acquiring and gathering enterprise traffic through IoT/M2M
  - Expect mobile profitability to improve in the mid-term
  - Security, Cloud, SI revenues to increase with IoT projects
  - MVNE business to grow continuously along with increase in clients and subscription
- Collaborate IIJ IoT Services & full-MVNO functions to establish B2B2X scheme; Leverage case studies to accelerate the penetration

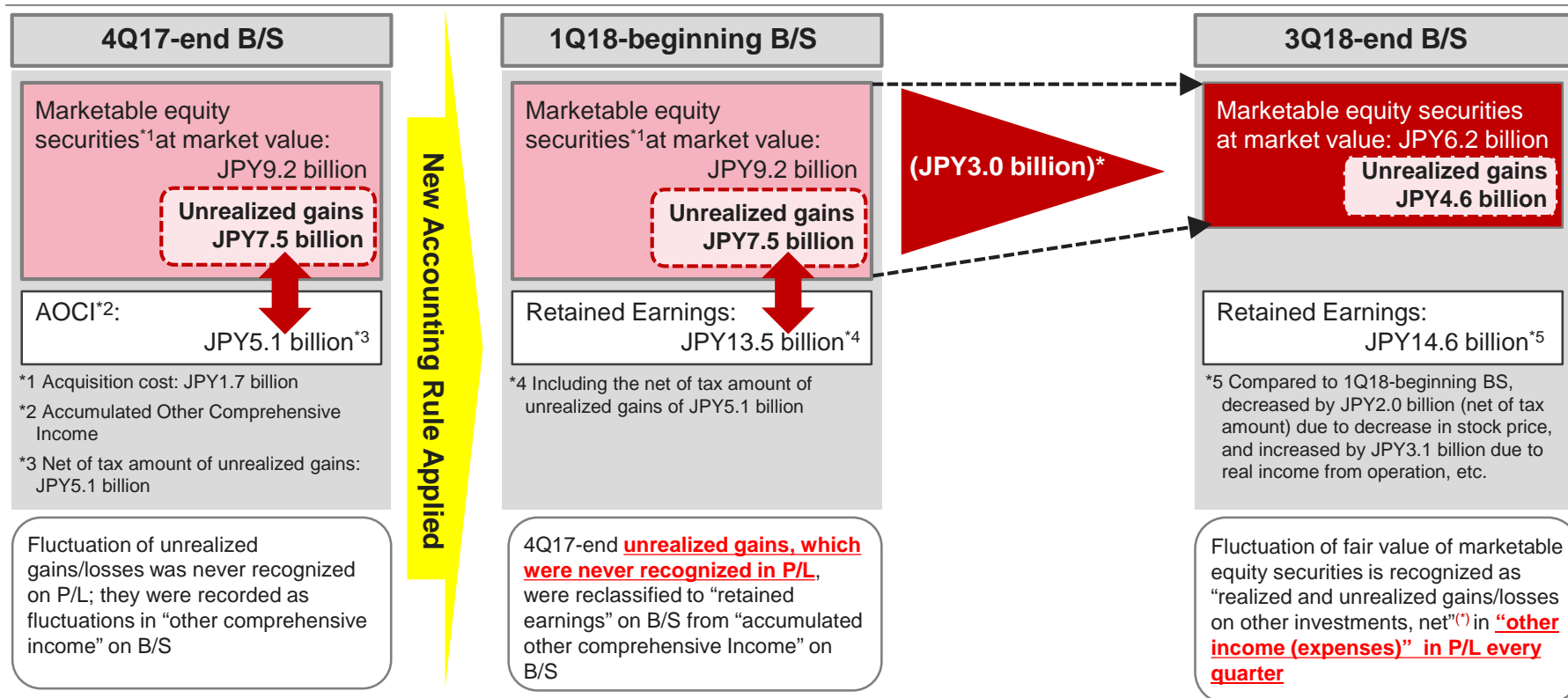
### Cloud/SI

- SI profitability to improve with an increase in SE utilization rate etc.
- Further enhance to acquire Multi/Private cloud demands
  - Collaboration with NW services such as security
  - Focus on Unified Operation Management (UOM) services
- Cloud revenue JPY20 billion (+11.7% YoY)
  - Cloud gross margin to improve with revenue growth

### Others

- Overseas: Revenue JPY7.0 billion, OP JPY0.1 billion
  - In addition to NW services and SI, GDPR consultation and others to expand global solution offerings
  - Consolidated subsidiaries in Asia as a whole turn positive
- JOCDN to provide full-scale CDN service
- DeCurret plans to launch cryptocurrency exchange service

# III - 5. Gains/Losses on Marketable Equity Securities



## \* Major breakdown of gains/losses on marketable equity securities

Stock	IIJ holdings (shares)	Stock Price (JPY)		Gains/losses for 1Q18 P/L (JPY0.86 billion)	Stock Price (JPY)	Gains/losses for 2Q18 P/L +JPY1.0 billion	Stock Price (JPY)	Gains/losses for 3Q18 P/L (JPY3.1 billion)	Gains/Losses for 1Q-3Q18 P/L (JPY3.0 billion)
		4Q17-end	1Q18-end		2Q18-end		3Q18-end		
SIGMAXYZ Inc.	1.98 million	2,137	1,331	(JPY1.6 billion)	1,306	(JPY0.1 billion)	766	(JPY1.1 billion)	(JPY2.7 billion)
Recruit HLDG	1.5 million	2,645	3,066	+JPY0.6 billion	3,792	+JPY1.1 billion	2,663	(JPY1.7 billion)	+JPY0 billion
PIA Corp.	0.15 million	5,450	6,230	+JPY0.1 billion	5,880	(JPY0.1 billion)	3,825	(JPY0.3 billion)	(JPY0.2 billion)

(\*) "Realized and unrealized gain/loss on other investments, net" 1Q18: JPY0.75 billion of loss (of which losses of JPY0.86 billion on marketable equity securities, others gains of JPY0.12 billion), 2Q18: JPY1.12 billion of gain (of which gains of JPY1.0 billion on marketable equity securities, others: gains of JPY0.13 billion), 3Q18: JPY3.02 billion of loss (of which losses of JPY3.08 billion on marketable equity securities, others gains of JPY0.06 billion)

## ※ Forward-looking statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interruption or suspension of our services,
- an excess increase and fluctuation in network-related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a result of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trading value of our holding securities,
- fluctuations of equity in net income (loss) of equity method investees

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

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Internet Initiative Japan