

1st Quarter of Fiscal Year Ending March 2024

Financial Results

July 31, 2023



Financial Highlights

Actively invested in steadily growing cloud-services for further growth

- Consolidated net sales increased 2.9% year on year thanks to the healthy cloud infrastructure service
- In addition to an increase in investments for recruitment and marketing enhancement for medium- to long-term growth, costs due to external factors including surging crude oil prices and a weaker yen (electricity costs and domain acquisition costs) that continued from the last year, also increased

Focused on creating a new area of growth and strengthening existing services

- **Expansion of a new area of growth:** Decided to provide a cloud GPU service for generative AI, as we became the first private company to be approved for the Ministry of Economy, Trade and Industry's plan to ensure stable supply of "cloud programs" (we plan to provide service from January 2024 onward)
- **Initiatives for DX co-creation and support:** Started to provide advisory service to companies interested in a data center business (July 2023)
Among these companies, we will find potential customers for our Group's service and potential partners of collaboration and co-creation.
- **Concentrated investment in cloud:** Made equipment investment including replacement to support the growth of existing core services such as rental servers and cloud services (actual investment in cloud services as of the end of Q1: about 870 million yen)
- **Strengthened recruitment:** Plan to hire about 100 personnel, mainly engineers, and sales and marketing staff, within FY 3/2024
Steady recruitment added 31 employees as of Q1 from the previous fiscal year end on a consolidated basis

Sales increased owing to the growth driven by cloud infrastructure services
Strengthened investment in human resources and marketing for further growth

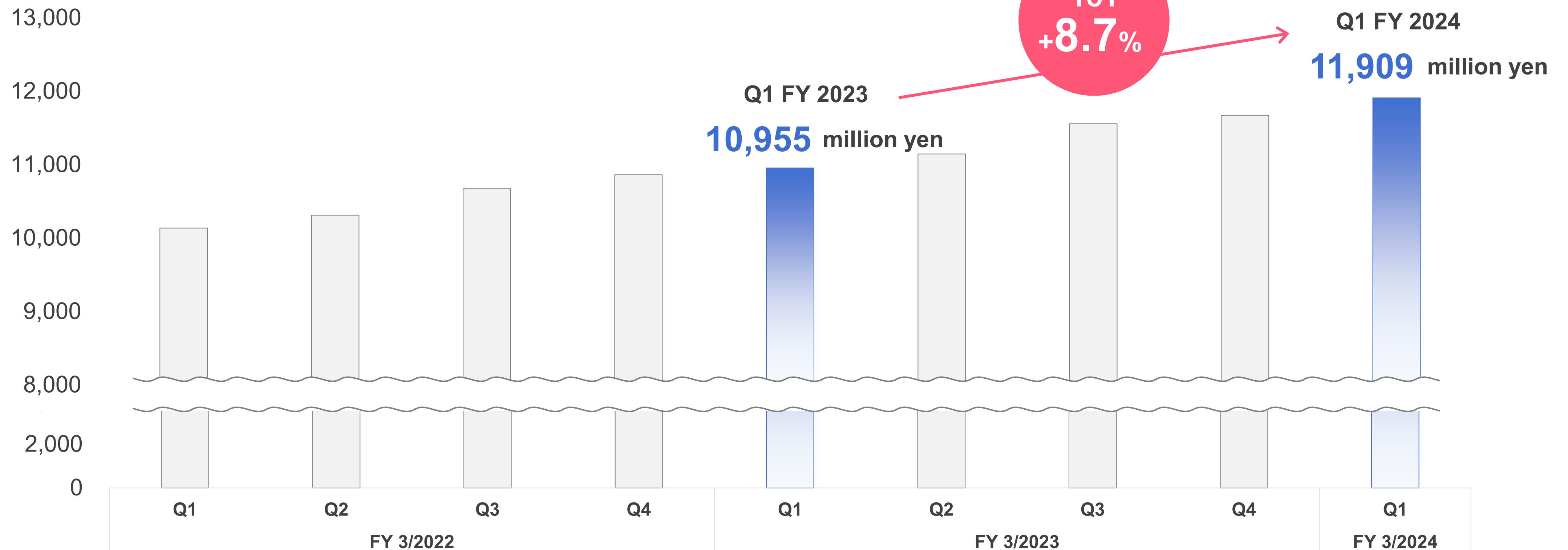
(Millions of yen)

Item	Q1 FY 3/23	Q1 FY 3/24	YoY	
	Amount	Amount	Change	Change (%)
Net sales	4,964	5,105	141	2.9
Operating income	244	104	(140)	(57.4)
Ordinary income	214	73	(141)	(66.0)
Profit attributable to owners of parent	142	108	-34	-24.1

ARR, representing recurring fee revenue, increased **8.7% YoY**

ARR (Annual Recurring Revenue)

(millions of yen)



* The ARR includes revenue of cloud-service, VPS service, and rental server service of SAKURA internet on a non-consolidated basis.

* Although the cloud-service adopts a pay-as-you-go pricing system, these figures are calculated in accordance with a method of fixed-rate service calculation.

* Annual Recurring Revenue (ARR): Calculated by multiplying the Monthly Recurring Revenue (MRR) at the end of each period by 12. These figures indicate annual revenue on a recurring billing basis and differ from net sales.

Growth strategy

Accelerated initiatives for the expansion of new growth areas

- Decided to provide a cloud GPU service for generative AI, as we became the first private company to be approved for the Ministry of Economy, Trade and Industry's plan to ensure stable supply of "cloud programs" (we plan to provide service from January 2024 onward)
- Worked to secure engineers and develop a company-wide promotion structure to prepare for our entry into government cloud
Thanks to strengthened collaboration between Group companies, orders for various governmental projects are currently increasing
- Continues strengthening the initiatives for DX co-creation and support for medium- to long-term growth. Has started providing a data center advisory service, ranging from formulation of business strategies to site selection, and information and know-how necessary for developing and operating data centers

Concentration of management resources

Increased personnel toward realization of growth strategy as scheduled. Implemented marketing measures and equipment investment to strengthen existing services

- Plans to hire about 100 personnel, mainly engineers, and sales and marketing staff by the end of this fiscal year
Steady recruitment added 31 employees as of Q1 from the previous fiscal year end on a consolidated basis
- Aggressively invested in web advertising and other digital marketing and holding events to raise awareness and acquire new customers
- Made equipment investment including replacement of equipment to support the growth of existing core services such as rental servers and cloud services

Established 2EF* large-scale cloud GPU infrastructure, in preparation for providing cloud service for domestic generative AI

Becomes first private company to be approved for the Ministry of Economy, Trade and Industry's plan to ensure stable supply of "cloud programs"

- Plan to invest about 13 billion yen over the next three years in preparation for providing GPU cloud services for generative AI
 - Target period: From FY2024 to FY2029. Half of project expenses will be subsidized by government. We have decided to invest 3.2 billion yen during the current fiscal year.
 - Plan to establish large-scale 2EF cloud infrastructure, with more than 2,000 units of "NVIDIA H100 Tensor Core GPU" made by NVIDIA.
 - The cloud service will be provided at Ishikari Data Center, which achieved virtually zero annual CO₂ emissions through 100% renewable energy source.
 - Plan to provide GPU cloud service for generative AI from January 2024.
 - Negotiations for free trials and fee-based use in progress ahead of service launch.

Schedule				FY ending March 31, 2024		FY ending March 31, 2025		FY ending March 31, 2026	
1Q	2Q	3Q	4Q	1H	2H	1H	2H		
● Plan approved		● Provision of services to start							
GPU expansion plan		Computing capacity 0.5 EF H100 × 500 units or more		To be expanded sequentially		Computing Capacity 2.0 EF H100 × 2,000 units or more			
				Expansion plan of data center		Expansion of server room at Building No.3 of Ishikari DC			



Economy, Trade and Industry Minister Yasutoshi Nishimura (right) visited Ishikari Data Center with SAKURA internet Founder & CEO, President Kunihiro Tanaka (left)

* EF refers to EFLOPS (exaflops). FLOPS, an abbreviation of "Floating-Point Operations," used as a measure of a computer's performance. An exaflops-scale machine operates at 10¹⁸ flops per second.

Provides advisory services as an escort runner who supports customer's business vision in an all-in-one manner

Started providing a data center advisory service (July 2023)

Provides companies interested in newly entering the data center business with information and know-how necessary for the formulation of data center business strategies, site selection, as well as development and operation, based on our abundant experience and track record related to the development and operation of data centers

Details of our services

Support of business feasibility study

- Outline of business models (hyper-scale, retail, special purpose)
- Information necessary for 3C analysis, etc. (Capability analysis, identification of expected customers, survey on expected competitors)
- Information necessary for the preliminary calculation of construction costs
- Information necessary for finding the scale of data centers
- Outline of the data center market

Data center advisory service



Support of technical feasibility study

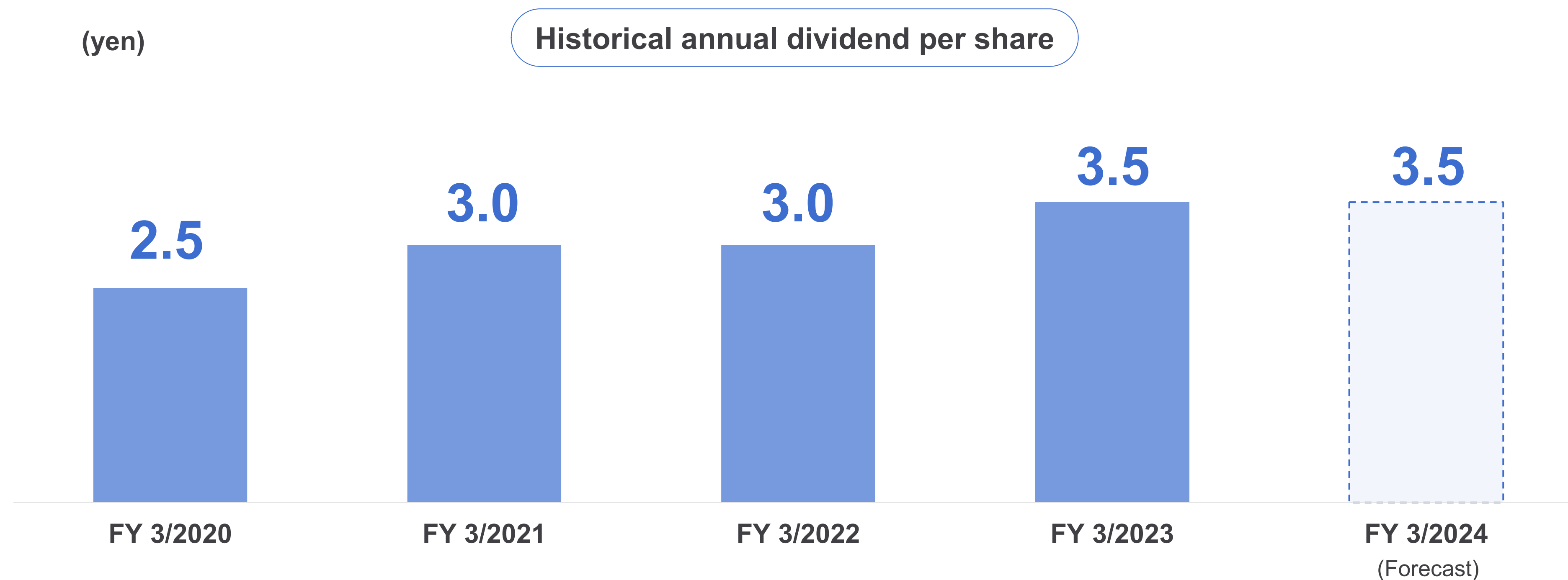
- Outline of data centers
- Requirements for site selection
- Information necessary for determining facility requirements
- Information necessary for determining network requirements
- Sharing challenges, opinions, and proposals on a data center plan under consideration
- Up-to-date information about energy-saving and renewable energy related to data centers
- Information necessary for the operation, maintenance, and management of data centers

Starting as a provider of data center advisory service, among new data center operators we will find potential customers of **our Group's services** and potential partners of **collaboration and co-creation**, aiming to achieve a continuous sales growth

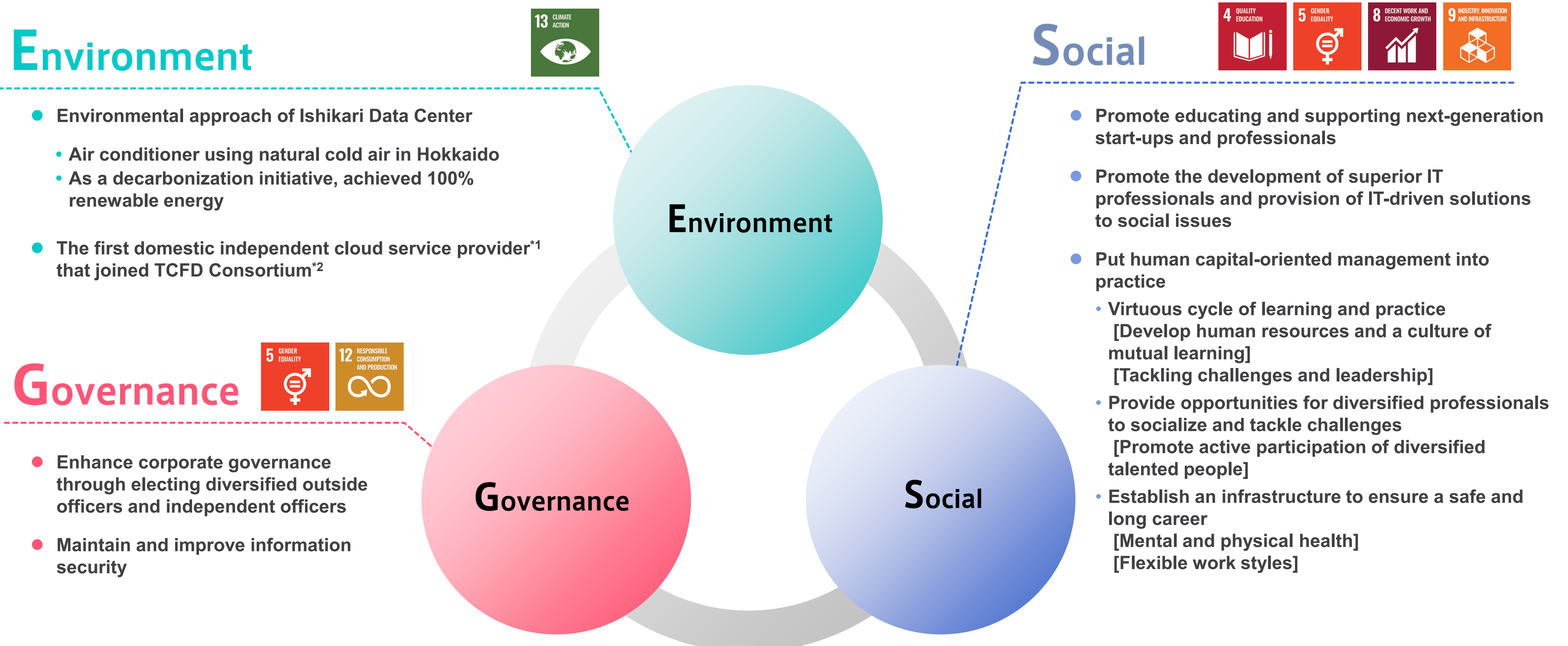
Basic dividend policy

Our dividend policy is to return profits to shareholders in accordance with the business development, while maintaining a certain level of internal reserves in order to ensure sustainable growth and profitability.

- **Planned dividend for FY 3/24:** We will maintain 3.50 yen per share dividend



Strive to provide environmental and social contributions through its business activities to support DX of society, in pursuit of its corporate philosophy which aims to turn “what you want to do” into “what you can do”



*1: Based on research conducted by Sakura internet *2: An organization established to discuss effective corporate disclosure and appropriate initiatives recommended by the Task Force on Climate-related Financial Disclosures (TCFD)

Consolidated Financial Results for Q1 FY 3/2024

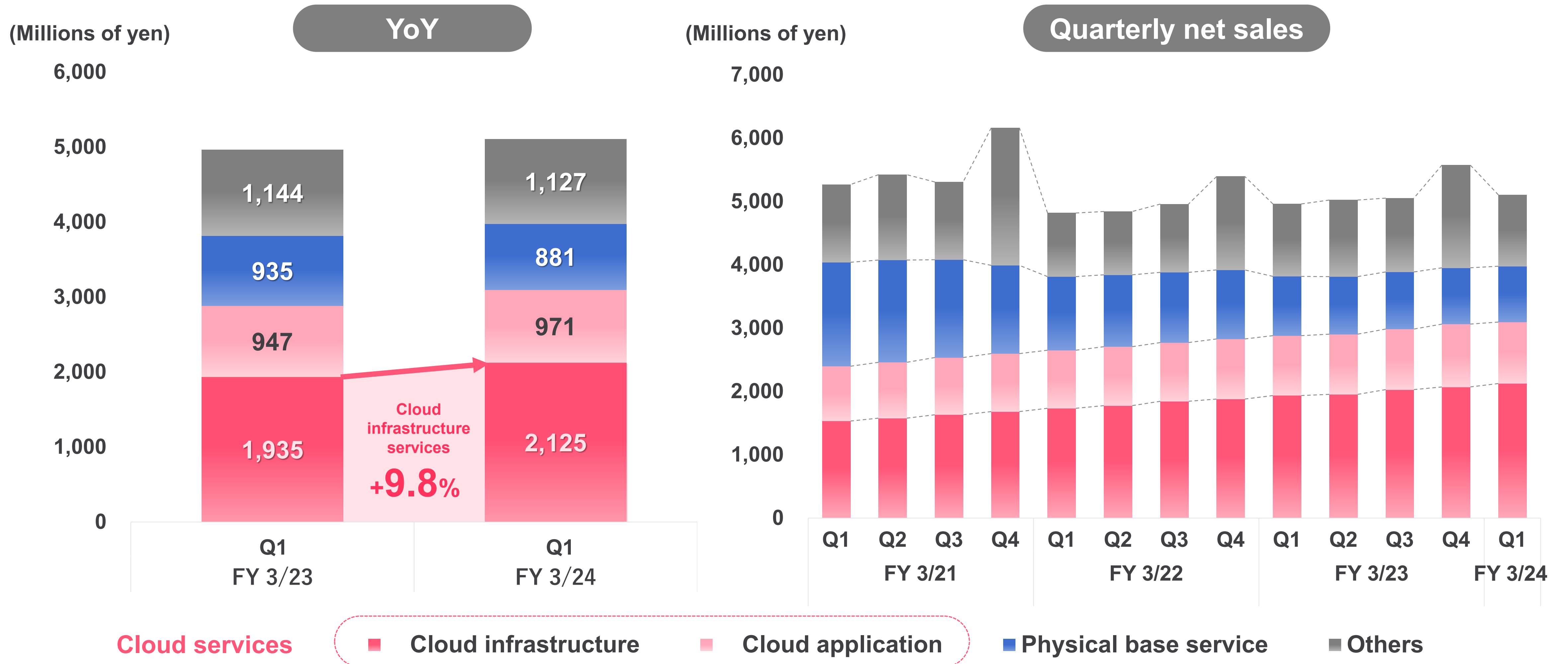
Summary of Consolidated Financial Results for Q1 FY 3/2024

Despite an increase in costs due to external factors including surging crude oil prices and a weaker yen (electricity costs and domain acquisition costs) that continued from the last year, in addition to an increase in **investment in human resources and marketing enhancement** for further growth, **sales of cloud-services increased steadily**

(Millions of yen)

Item	Q1 FY 3/23		Q1 FY 3/24		YoY	
	Amount	Sales composition (%)	Amount	Sales composition (%)	Change	Change (%)
Net sales	4,964	100.0	5,105	100.0	141	2.9
Cost of sales	3,723	75.0	3,819	74.8	96	2.6
Gross profit	1,240	25.0	1,285	25.2	45	3.6
SG&A expenses	995	20.1	1,181	23.1	185	18.6
Operating income	244	4.9	104	2.0	(140)	(57.4)
Ordinary income	214	4.3	73	1.4	(141)	(66.0)
Profit attributable to owners of parent	142	2.9	108	2.1	(34)	(24.1)

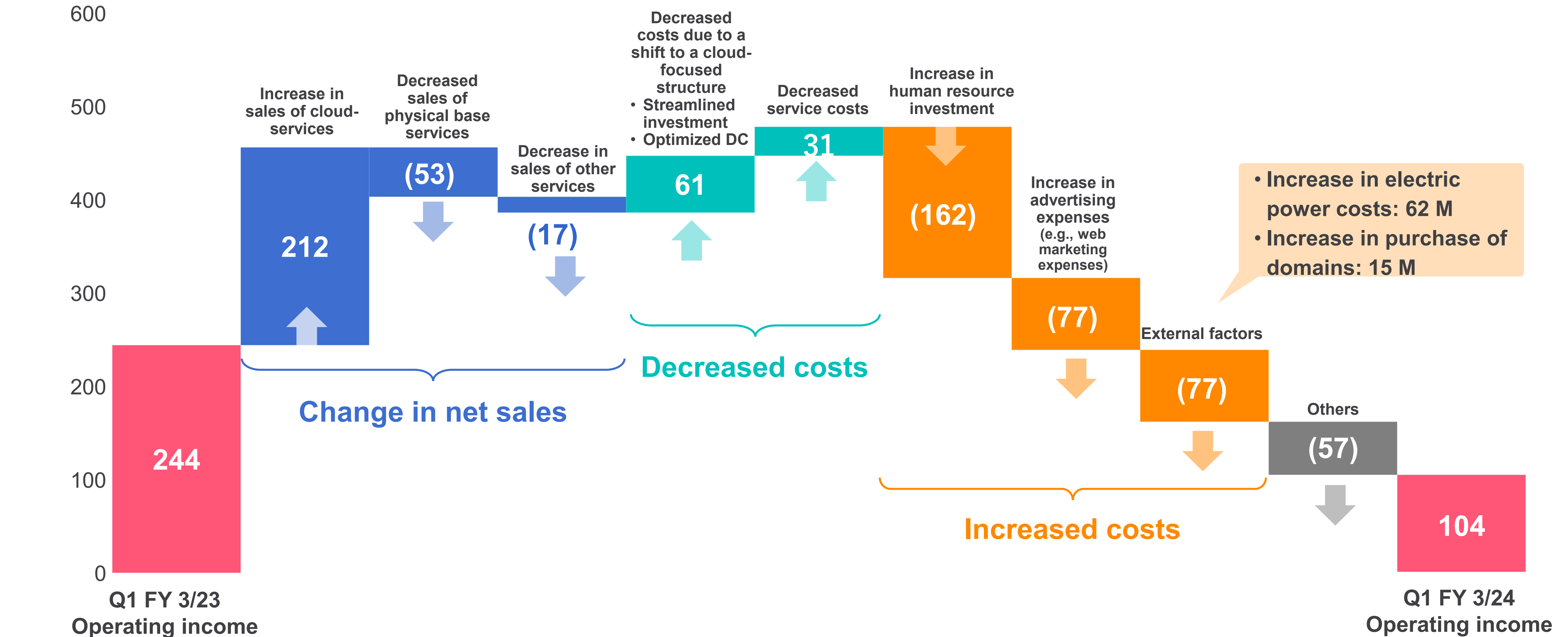
Owing to the effort to shift to a cloud-focused structure, **cloud infrastructure services** grew **9.8%**



Factors that affected operating income

(YoY)

(millions of yen)



Promotion of a shift to a cloud-focused structure

- Implemented equipment investment that supports sales growth of cloud-services with high asset efficiency
- Investment securities increased because an investee company went public and the company's shares were evaluated at fair value

(millions of yen)

Item	Previous year end (FY 3/23)	End of Q1 (FY 3/24)	Change
Current assets	8,930	8,945	14
Non-current assets	17,325	18,032	707
(Property, plant and equipment)	14,716	15,149	433
(Intangible assets)	508	493	(14)
(Investments and other assets)	2,100	2,389	288
Total assets	26,256	26,978	721

Item	Previous year end (FY 3/23)	End of Q1 (FY 3/24)	Change
Current liabilities	9,840	9,784	-55
Non-current liabilities	7,929	8,364	434
Total liabilities	17,769	18,149	379
Net assets	8,486	8,828	342
(Including shareholders' equity)	8,337	8,385	48
Total liabilities and net assets	26,256	26,978	721

Actual/forecast comparison was basically in line with the forecasts, though recording a gain on sale of investment securities

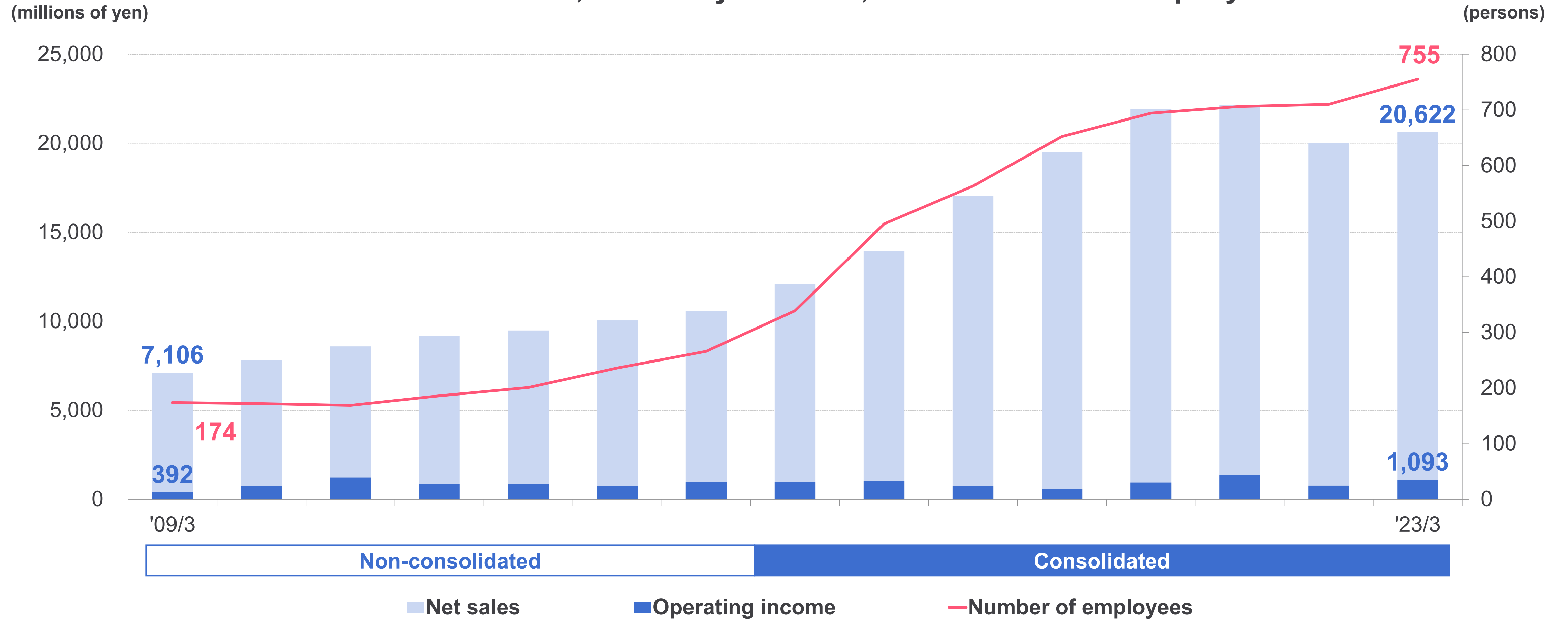
- **Net sales, operating income, and ordinary income were basically in line with the forecasts**
- **Profit attributable to owners of parent exceeded expectations due to recording a gain on sale of investment securities because we sold part of our holdings in shares of ABEJA, Inc. following the company’s public offering.**
- **The earnings forecasts will be revised if needed depending on future business developments.**

(millions of yen)

Item	1st half FY 3/24 Forecast	Q1 FY 3/24 Actual	Progress (%)
Net sales	10,500	5,105	48.6
Operating income	250	104	41.8
Ordinary income	180	73	40.6
Profit attributable to owners of parent	120	108	90.4

appendix

Historical net sales, ordinary income, and number of employees



*The figures for FY 3/2015 or older are from non-consolidated financial results, and those for FY 3/2016 or later are from consolidated financial results.

Consolidated Net Sales by Service Category (QoQ Change)

(Millions of yen)

Service category	FY 3/23				FY 3/24	QoQ change	
	Q1	Q2	Q3	Q4	Q1	Change	Change (%)
Cloud-services	2,883	2,906	2,985	3,065	3,096	30	1.0
Composition (%)	58.1	57.8	59.1	54.9	60.6		
Cloud infrastructure	1,935	1,954	2,029	2,071	2,125	53	2.6
Cloud application	947	951	956	993	971	(22)	(2.3)
Physical base service	935	909	902	889	881	(8)	(0.9)
Composition (%)	18.9	18.1	17.9	16.0	17.3		
Other services	1,144	1,209	1,165	1,623	1,127	(495)	(30.5)
Composition (%)	23.0	24.1	23.0	29.1	23.0		

- Cloud infrastructure: Mainly includes cloud service and VPS service
- Cloud application: Mainly includes rental server service and application service
- Physical base service: Housing and exclusive server services

Consolidated Statement of Income (QoQ Change)

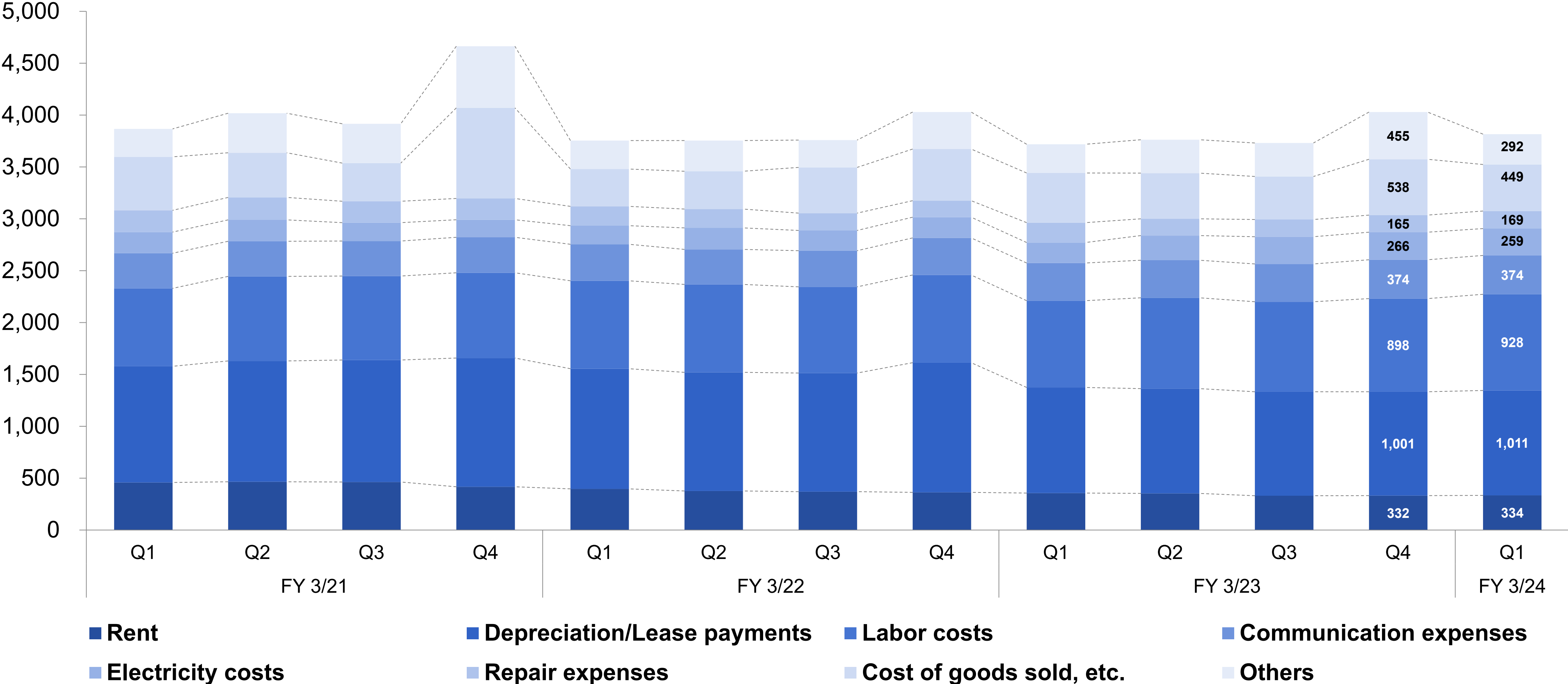
(Millions of yen)

Item	FY 3/23				FY 3/24	QoQ change	
	Q1	Q2	Q3	Q4	Q1	Change	Change (%)
Net sales	4,964	5,025	5,054	5,578	5,105	(473)	(8.5)
Cost of sales	3,723	3,766	3,732	4,032	3,819	(212)	(5.3)
Gross profit	1,240	1,259	1,321	1,546	1,285	(260)	(16.8)
SG&A expenses	995	1,067	1,063	1,147	1,181	34	3.0
Operating income	244	191	257	399	104	(294)	(73.8)
Operating margin (%)	4.9	3.8	5.1	7.2	2.0		
Ordinary income	214	162	238	350	73	(277)	(79.1)
Profit attributable to owners of parent	142	104	170	248	108	(140)	(56.4)
EBITDA	939	890	970	1,094	852		

Breakdown of Major Costs (Consolidated)

Breakdown of major costs

(millions of yen)



Investments for FY 3/2024

(100 millions of yen)

Details of investment	Full-year plan	Full-year actual
Data centers	3	2
Servers and network equipment	46	9
Others (systems and office-related, etc.)	1	0
Total	50	11

* Amounts are rounded down to the nearest 100 million yen.

■ Breakdown of actual investments in servers and network equipment

Cloud-services	Physical base service	Others	Total (actual)
8	0	0	9

Number of personnel in FY 3/2024

Increased by 31 from the previous year end

[Number of persons hired]

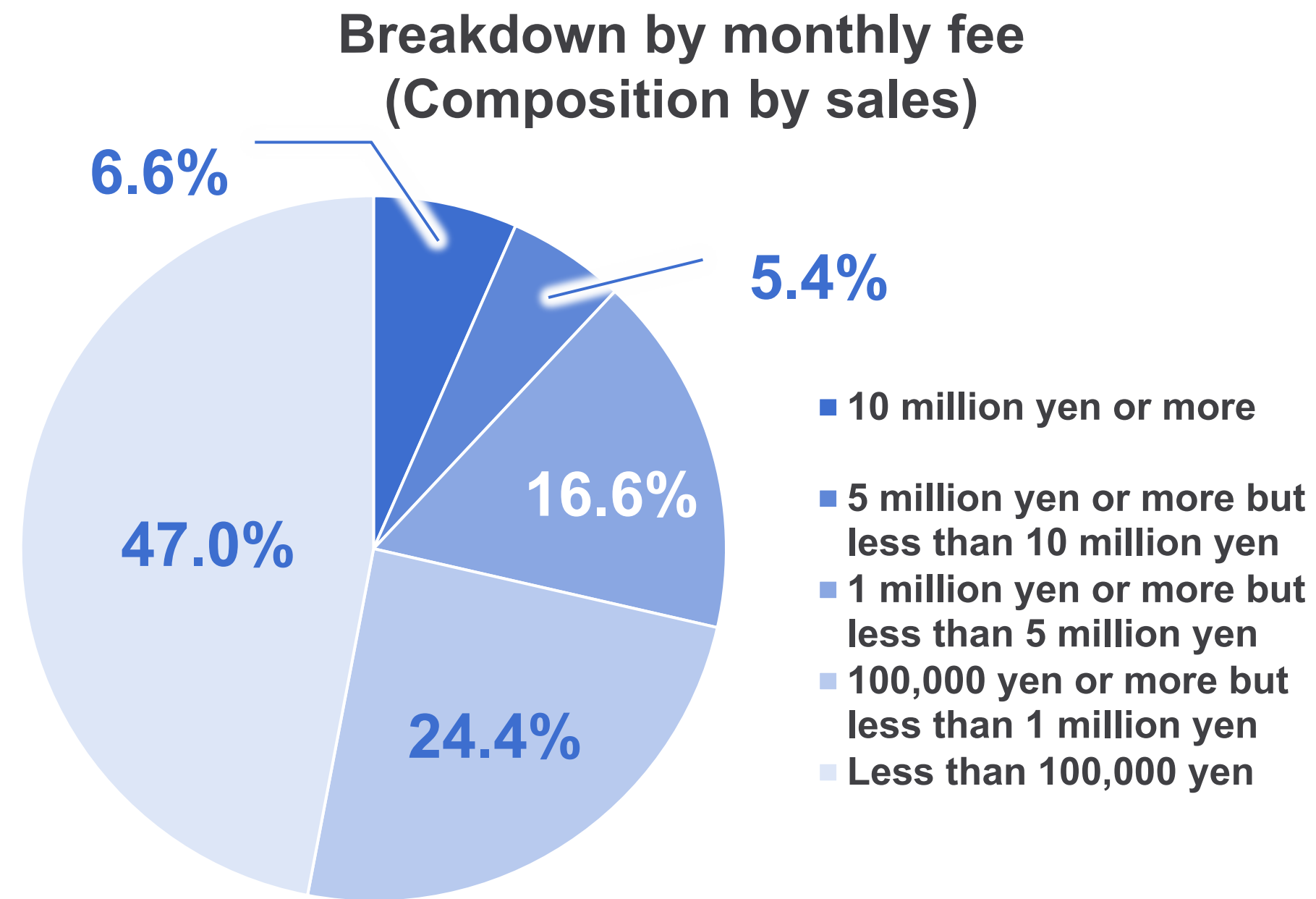
	End of FY 3/23	End of FY 6/23
Number of employees*	755	786

■ Breakdown of changes

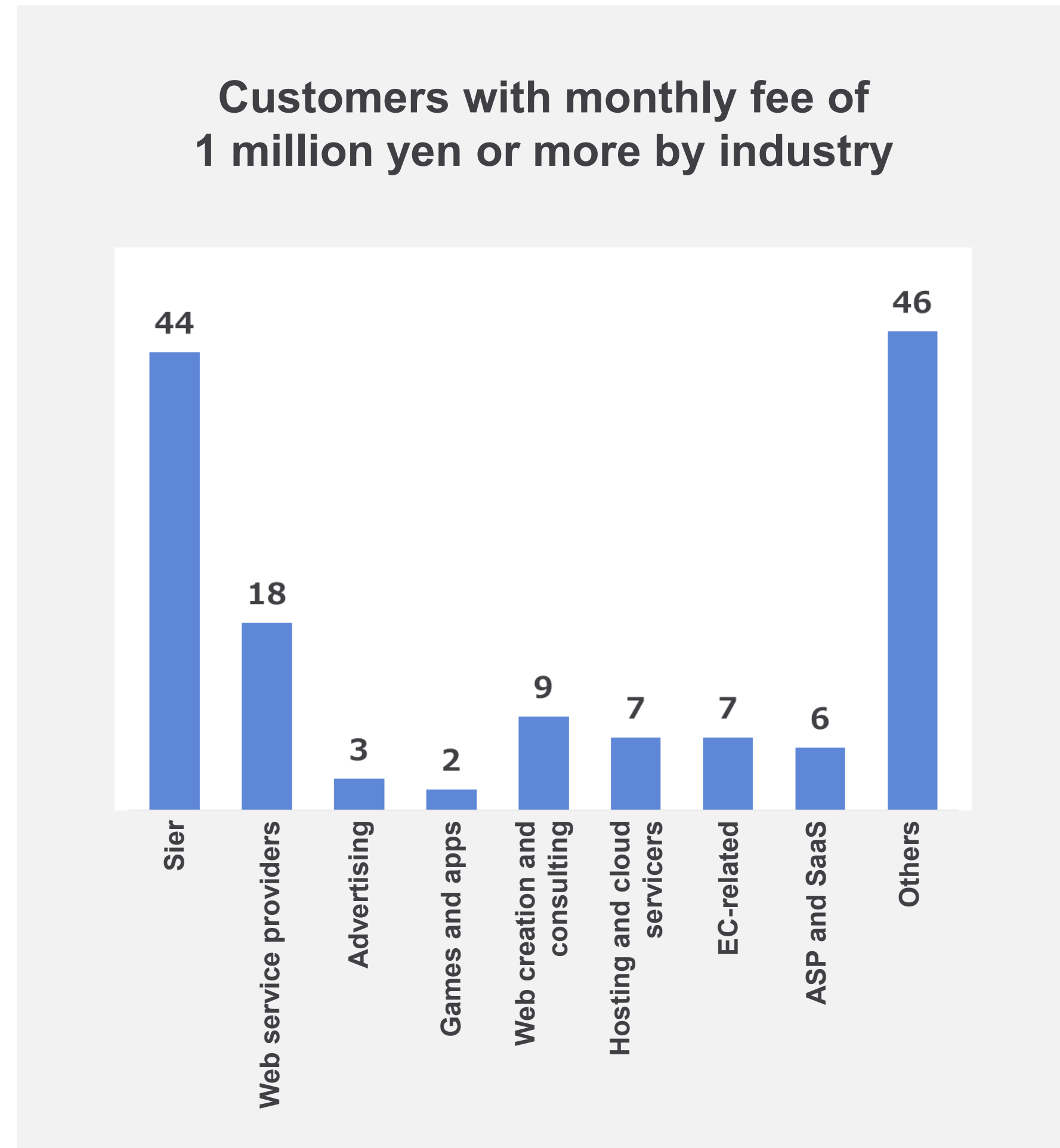
		Change (persons)
SAKURA internet	Engineer	+19
	Sales/marketing/ new project planning	+7
	Administration	+3
	Group companies	+2
Total		31

* The figures exclude SAKURA internet employees seconded to other companies and include other companies' employees seconded to SAKURA internet.

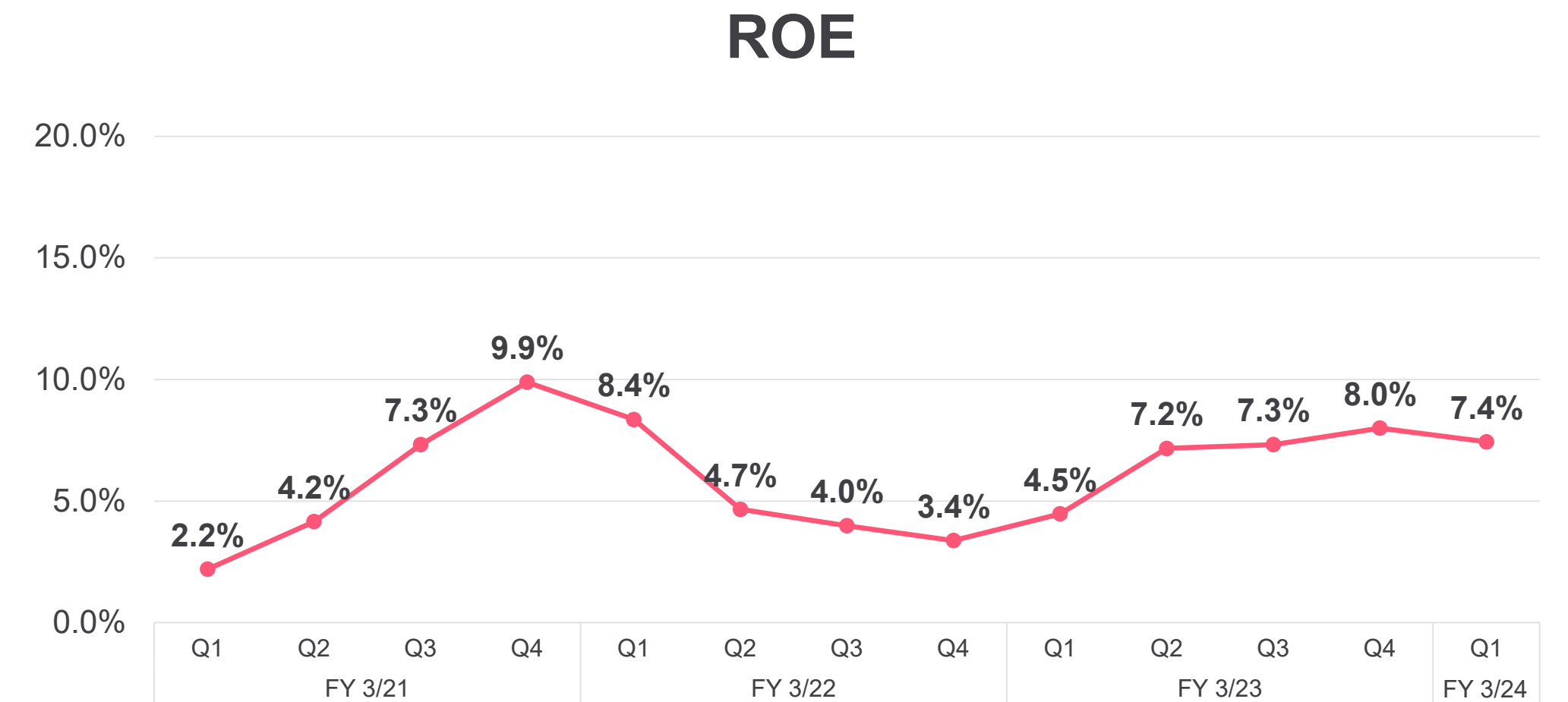
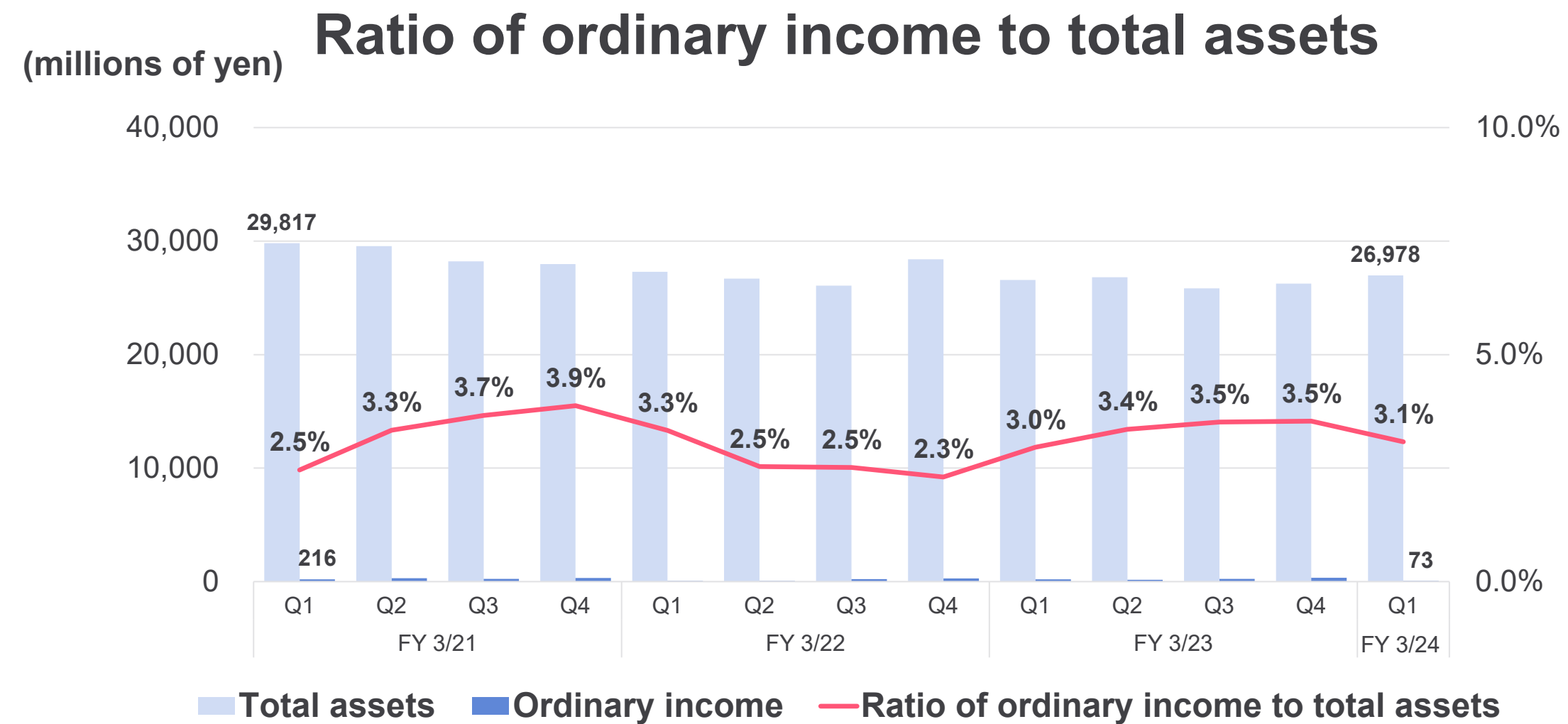
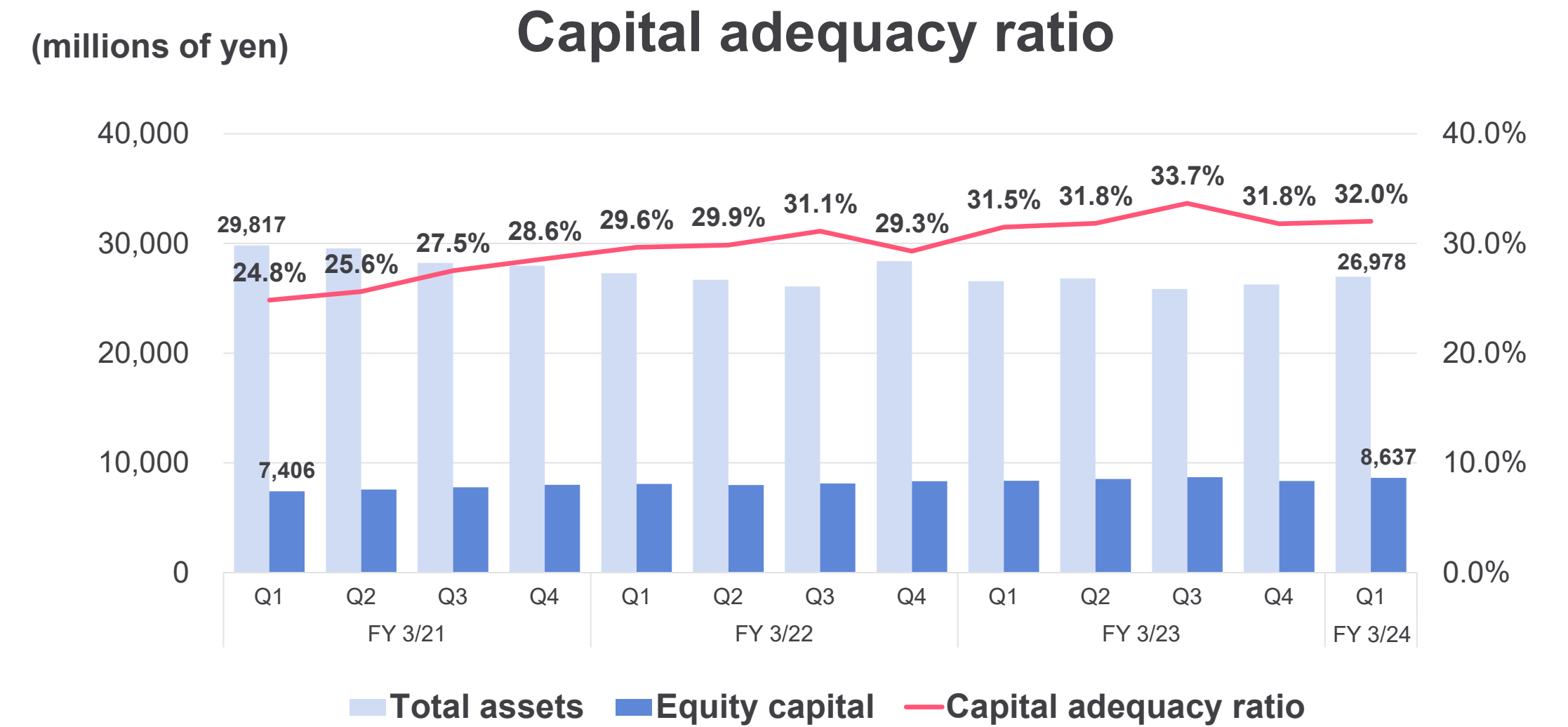
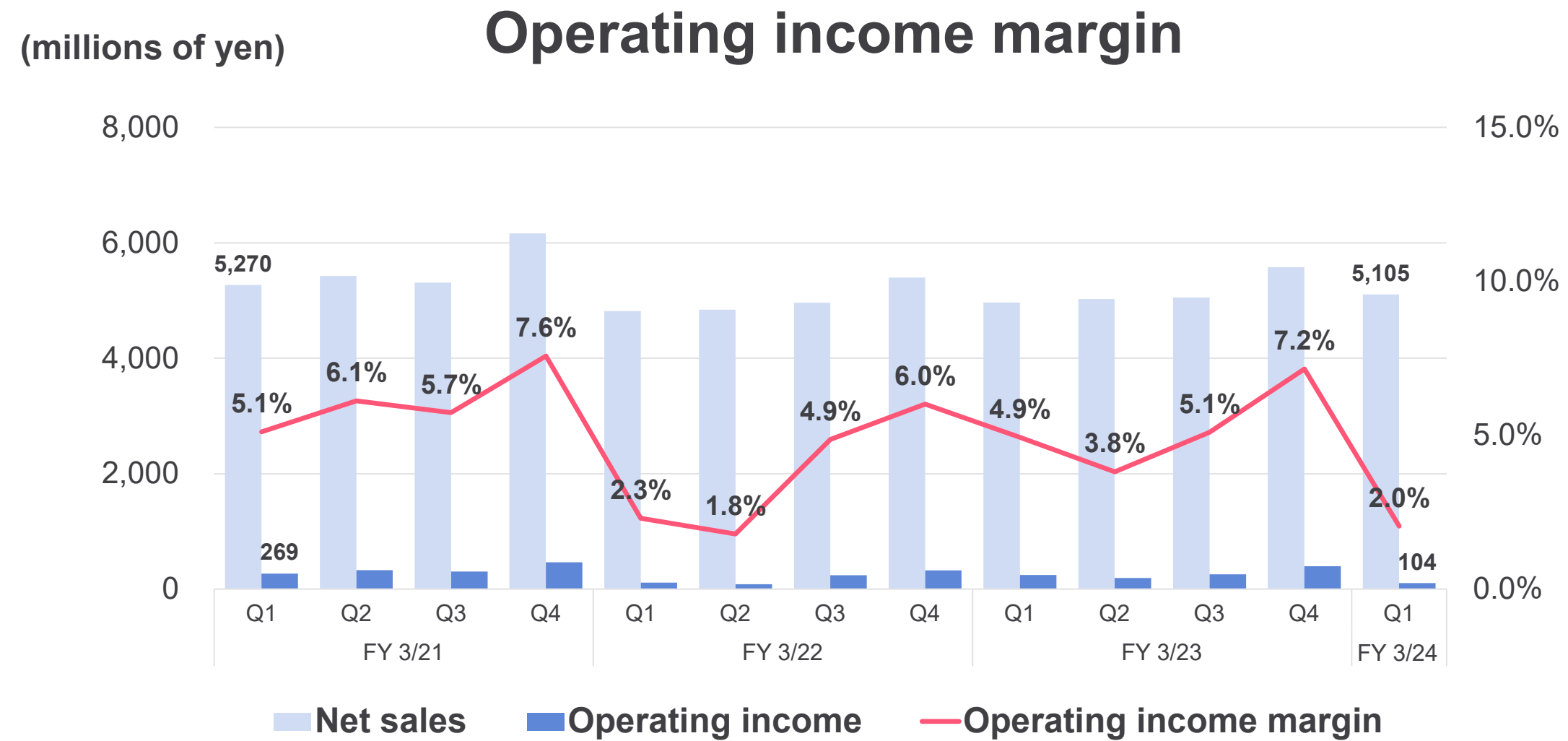
A diverse customer base in terms of sales size and industries



Monthly subscription fees	Number of customers			
	Sept. 2022	Dec. 2022	Mar. 2023	June 2023
10 million yen or more	6	7	8	7
5 million yen or more, up to 10 million yen	13	12	12	12
1 million yen or more, up to 5 million yen	110	118	123	123

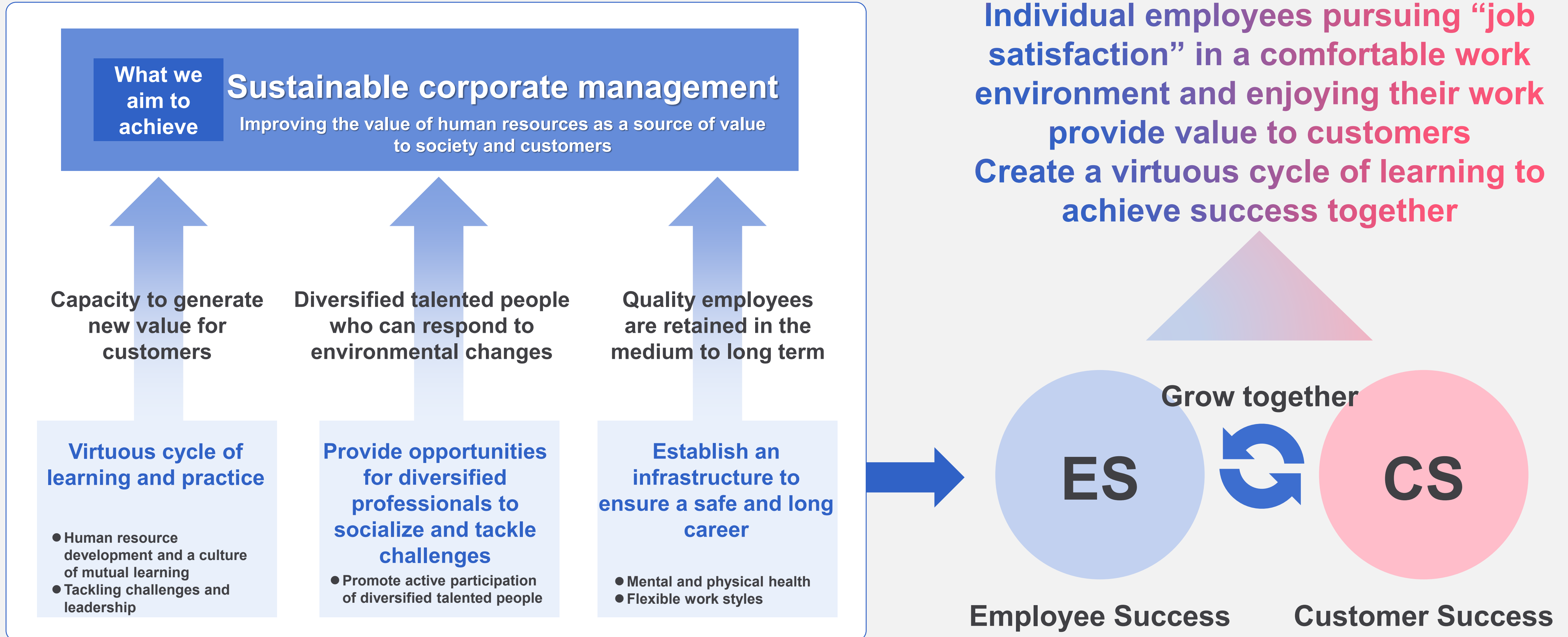


* The figures represent SAKURA internet on a non-consolidated basis.



Overview of initiatives for human capital-oriented management

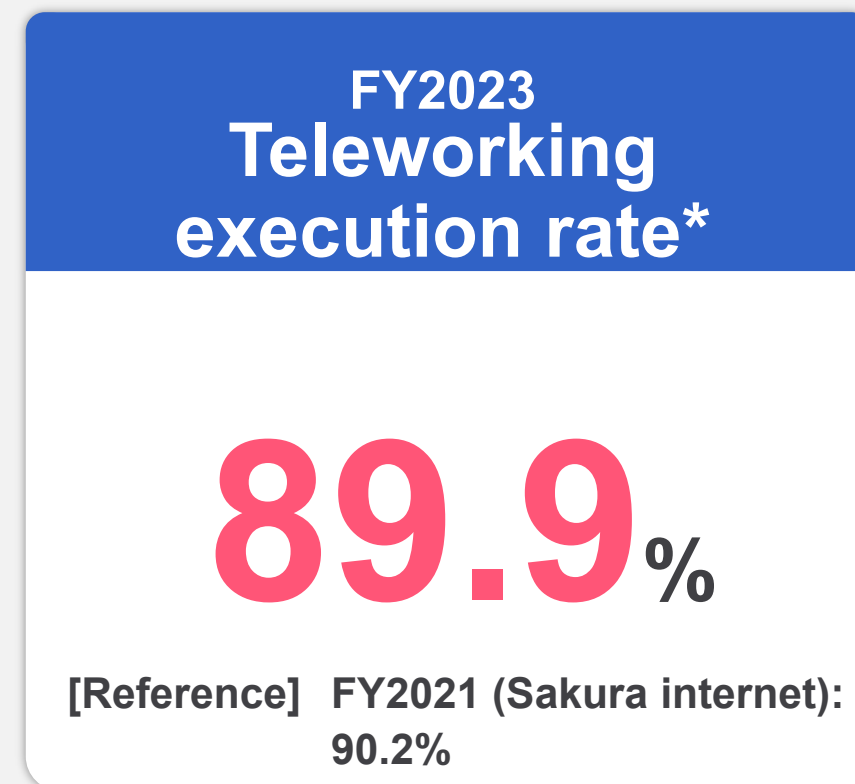
Sustainable corporate management that will turn “what you want to do” into “what you can do”



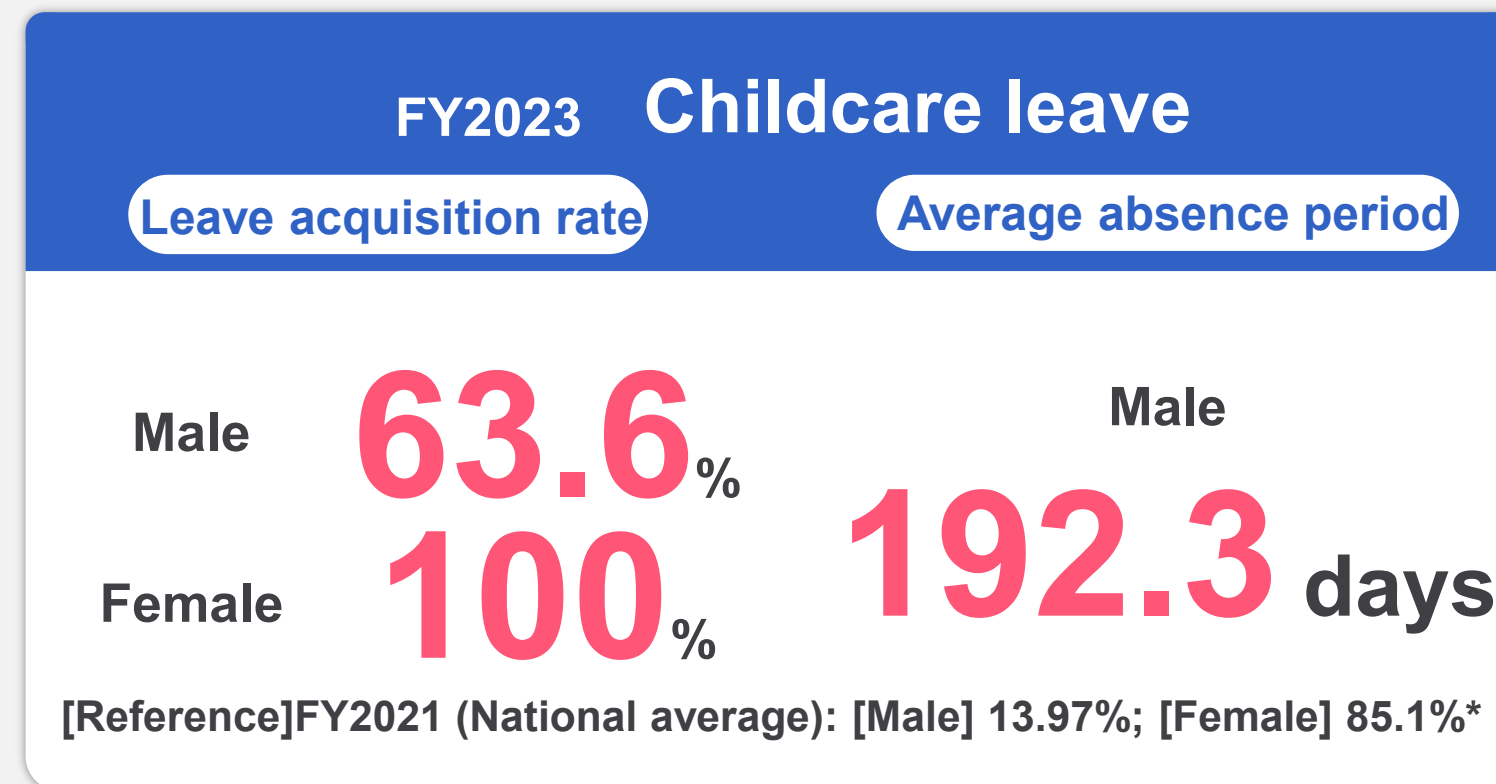
Initiatives for human capital-oriented management (to establish an infrastructure to ensure a safe and long career)

Pursuing both “job satisfaction” and “a comfortable work environment”

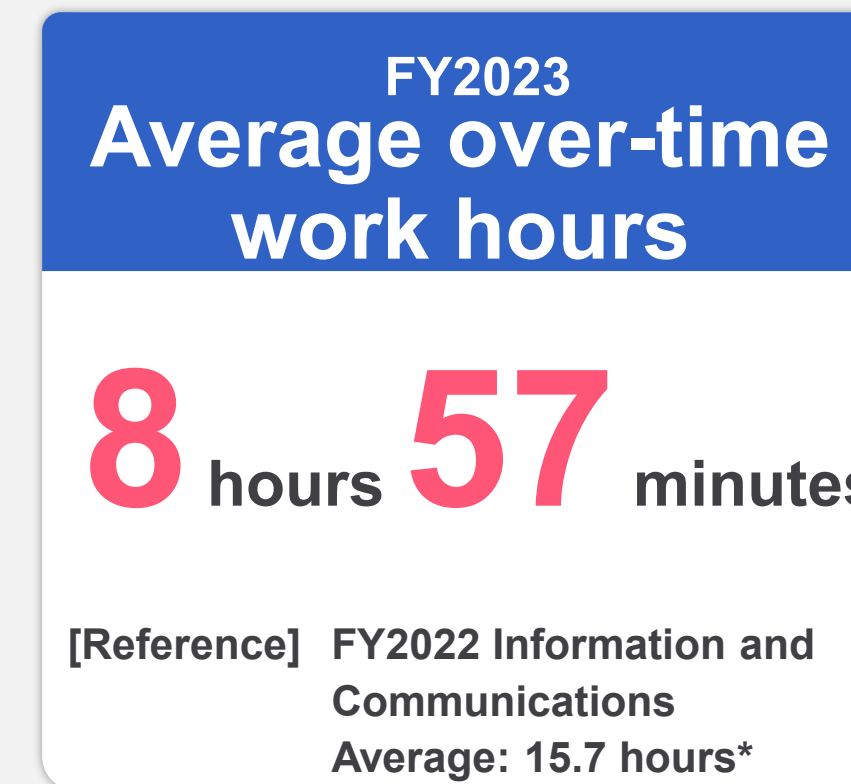
Continue to support diversified work styles including internal HR programs to promote teleworking and parallel careers. Improve the working environment and career development support system for working parents, focusing on boosting the ratio of women and active appointment of women in managerial positions



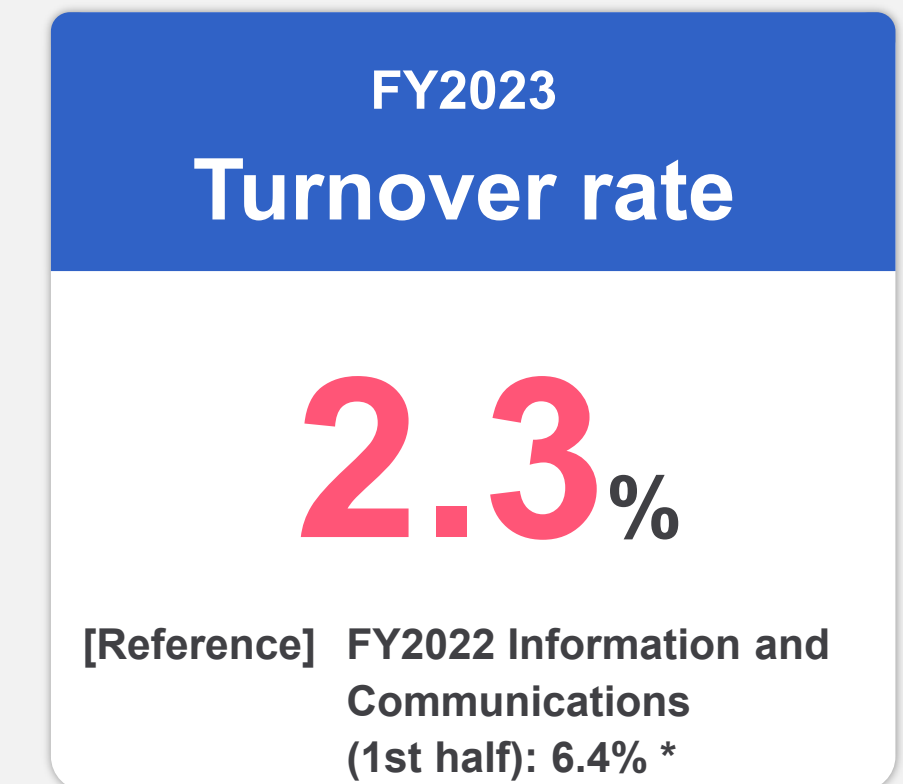
* Calculated for March 2023. Non-attendance rate



*Source: Survey of Gender Equality in Employment Management for 2021



* Source: 2022 Monthly Labour Survey



* Source: Survey on Employment Trends for the First Half of 2022

Encourage people to acquire “IT Passport” toward the improvement of job satisfaction and productivity

As a trigger to find an area of interest that non-engineers will continue learning, in addition to a wide range of areas that may underpin their DX promotion, all full-time employees are encouraged to acquire IT Passport, a national certificate to prove that they have acquired basic IT knowledge.

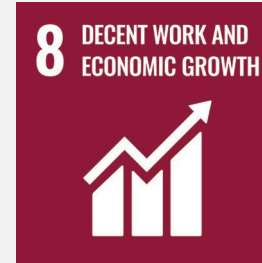
The first step is that internal directors and executive officers proactively make efforts to acquire IT Passport. They are encouraged to make a change by themselves and become capable of responding to changes in society by using their IT skills to solve their personal issues or learning their area of interest in more advanced stages to brush up and enhance their skills. This will enable them to utilize internal human resources, technologies, and resources, etc.

* Examination for IT Passport: Part of the Information Processing Engineers Test held by the Information-technology Promotion Agency, based on the Act on the Promotion of Information Processing



Efforts to establish a human capital-oriented management (for diversified professionals to socialize and tackle challenges/virtuous cycle of learning and practice)

Provide opportunities for diversified professionals to socialize and tackle challenges



Create and support opportunities

New challenges through transfer and secondment

Create opportunities and an environment that allow for new challenges

Actively support what individuals wish to challenge, such as applying for internal job posting to request a transfer, mutual temporary transfer between industries, temporary transfer to Group companies, public administrations, and venture capital, etc. beyond boundaries of organization, career history and job type

- Examples of destination of secondment or concurrent positions, etc.:
 - Digital Agency (concurrent position)
 - New Energy and Industrial Technology Development Organization (NEDO)

Number of seconded personnel as of the end of FY2023

14

(*From Sakura internet to another company)

CASE: Assumed the position of a visiting associate professor at National Institute of Technology, Kochi Collage



Our employee (a technical communicator and an engineer) assumed the position of a visiting associate professor at National Institute of Technology, Kochi Collage in July 2023 as part of the comprehensive collaboration agreement with the Institute of National Colleges of Technology, an Incorporated Administrative Agency, as a person responsible for digital skills education among students, teachers, and local companies. In the future, he/she will take charge of lectures and delivery classes at Kochi Technical College.

Virtuous cycle of learning and practice



DX promotion, and development and education of human resources in the digital field

Develop social contributions into industrial growth through mutual learning

Concluded a comprehensive collaborative agreement with the Institute of National Colleges of Technology

Sakura internet concluded a comprehensive collaborative agreement with the Institute of National Colleges of Technology in March 2023 on DX promotion and development and education of human resources in the digital field. Realized a partnership of teachers, students, and business people for co-working and co-creation through mutual learning. This will facilitate mutual utilization of human resources, technologies, and resources, etc. to develop social contributions into industrial growth.

Left: Kunihiro Tanaka, Founder & CEO, President
Right: Isao Taniguchi, President of the Institute of National Colleges of Technology



Initiatives

- People-to-people exchange through internship programs, etc.
- Hired as a lecturer of a technical college class
- Provided Sakura internet's service to technical college students as a training environment



What our employees have achieved

- Opportunity to experience things that differ from normal tasks
- Promoted reskilling by playing a role of a lecturer
- Can develop new career based on experience as a lecturer

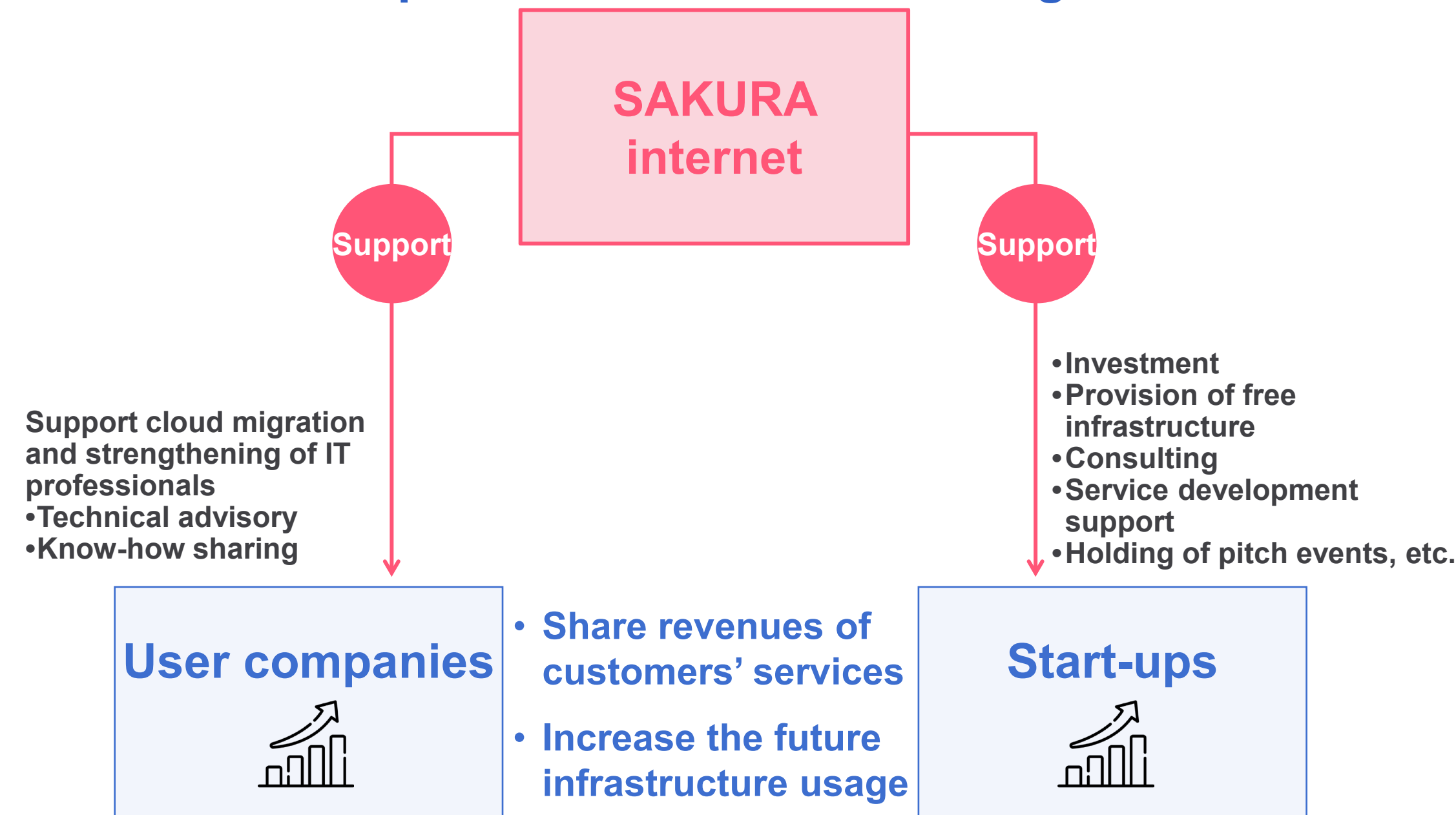
Promote multi-dimensional support to back up efforts of next-generation entrepreneurs

Start-up support



Investment and development support for start-ups

Promote DX of society by supporting the growth of companies that take on challenges



CASE1: Provision of free infrastructure

Help startups and ventures to build their infrastructure by providing them with business-critical server infrastructure with free coupons and privileged offerings of our services

CASE 2: Contribution to funds and supporting them through secondment

Invested in Partners Fund No. 1*, a new fund targeting a seed period. Will continue supporting the companies invested in through secondment of our employees, etc.

*A fund set up by a venture capital Full Commit Partners. The major investment themes are "DX of legacy industries" including primary industries where it should take the longest time for a wave of DX to penetrate, and "consumer business" that should respond to a rapid change in lifestyles including sustainability

CASE 3: Service development support and consulting

In January 2022, Sakura internet concluded an advisory agreement with sketchbook Co., Ltd., a provider of a kindergarten lunch service called "baby's fun!", for the purpose of developing the company's services and helping it set up an engineering organization.

Environmental Initiatives

Environment-conscious data center



Ishikari Data Center, Japan's largest suburban mega data center optimized for cloud computing, has actively made efforts to improve sustainability since its opening.



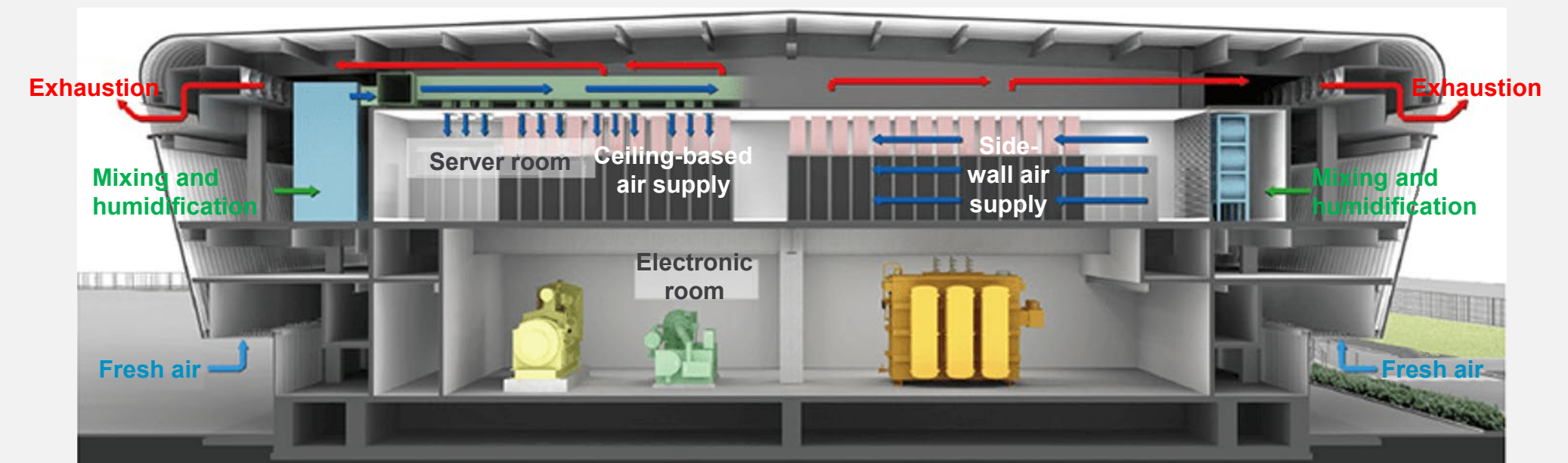
Appearance of Ishikari Data Center (front: Buildings 3, left: Buildings 1 and 2)

Decarbonization initiatives

Achieved 100% renewable energy in June 2023. Achieved virtually zero annual CO₂ emission at Ishikari Data Center by shifting power source from electricity with a non-fossil fuel certificate to hydroelectric and other renewable energy sources

Drastically reduced the energy consumption for air conditioning and improved the power supply efficiency.

Installed air conditioners using a "direct outdoor-air cooling system" which incorporates the fresh outdoor air of Hokkaido into server rooms, and an indirect outdoor-air cooling system which cools refrigerant circulating between a compressor unit and an air conditioning unit. The electricity consumption was reduced about 40% compared with general data centers located in urban areas.



(Above) Conceptual diagram of the air conditioning system of Ishikari Data Center

History

- 1996** ○ **Foundation**
 Kunihiro Tanaka, founder & current CEO and President, founded Sakura internet as a school venture in December 1996 while in Maizuru Technical College.
- 1999** ○ **Establishment as a stock company / The first data center opened**
 Established as a stock company in August 1999. The first data center was opened in Chuo-ku, Osaka in October.
- 2005** ○ **Listed on TSE Mothers**
 Listed on TSE Mothers in October 2005.
- 2011** ○ **Ishikari Data Center opened**
 Japan's largest suburban mega data center opened in Ishikari, Hokkaido in November 2011.
- 2015** ○ **Changed to TSE 1st Section**
 The listing market changed to TSE 1st Section in November 2015.
- 2021** ○ **25th anniversary**
 The Company celebrated its 25th anniversary in December 2021.
- 2022** ○ **Changed to TSE Prime Market**
 Changed to TSE Prime Market, a newly established market category of Tokyo Stock Exchange.

Company Profile

Trade name	SAKURA internet Inc.
Head office location	1-12-12 Umeda, Kita-ku, Osaka City, Osaka
Date of foundation	December 23, 1996 (The company was established on August 17, 1999)
Date of listing	October 12, 2005 (TSE Mothers) November 27, 2015 (Transferred to TSE 1st Section (currently TSE Prime))
Share capital	2,256,920,000 yen
Number of employees	755 (consolidated)

(Note : as of the end of March 2023)



■ IR Contact

IR information inquiry form

<https://www.sakura.ad.jp/corporate/ir/contact/>

E-mail: ir@sakura.ad.jp

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